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It is practically impossible not to resort to Maria Regina’s masterful work when studying Brazil’s contemporary international role. That is why it has become mandatory reading for any and all interested in foreign relations, whether in academia or outside it. Its publication by Funag fulfills a growing demand for analyses on Brazilian diplomacy, since it can help to better understand the Brazilian position in the non-proliferation issues, such as the IAEA Additional Protocol, or the attitude Brazil has towards the themes of the Doha Round, or the difficulties which occasionally resurface with Paraguay over Itaipu. Maria Regina connects theory to practice and to power realities, and does not neglect to make data-supported previsions and judgments on courses of action. It is a book well worth reading.



Maria Regina Soares de Lima

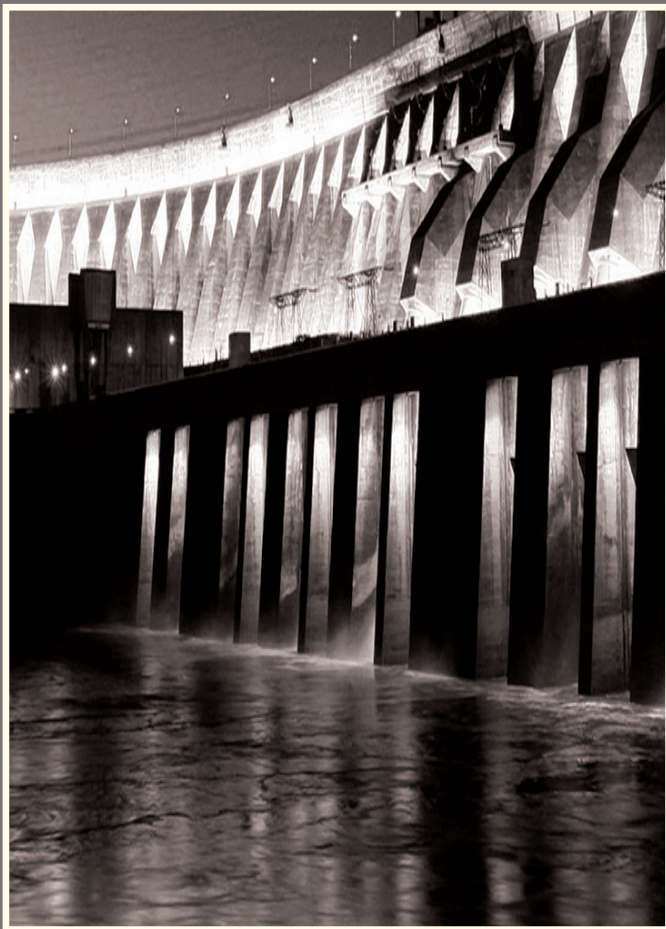
THE POLITICAL ECONOMY OF  
BRAZILIAN FOREIGN POLICY  
NUCLEAR ENERGY, TRADE AND ITAIPU



FUNDAÇÃO ALEXANDRE DE GUSMÃO

This work was originally written as my Doctorate thesis in Political Science at Vanderbilt University, in the United States, defended in 1986. That was a moment of transition in the Brazilian political life. Brazil was taking the first steps towards a return to democratic life in the election of a civilian President and the promulgation of the 1988 Constitutional Charter. The changes taking place in the international scenario, which culminated in the fall of the Berlin Wall and the end of socialism, also implied that Brazil would enter a new cycle, not only in regard to its international insertion, but also to the very course of domestic politics. One of the questions at the time was in what way the relevant national and international changes in the late 1980s influenced the paths of foreign policy from that moment onwards. This work examines the way in which the expansion of capitalism from the 1970s onwards, culminating in its universal practice with the extinction of the socialist bloc in the late 1980s, and its impact on the structural differentiation of the so-called Third World, influenced the foreign policy of a group of industrialized countries in the capitalist periphery, which included Brazil.

Maria Regina Soares de Lima



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MARIA REGINA SOARES DE LIMA

# **THE POLITICAL ECONOMY OF BRAZILIAN FOREIGN POLICY**

NUCLEAR ENERGY, TRADE AND ITAIPU



Brasília – 2013

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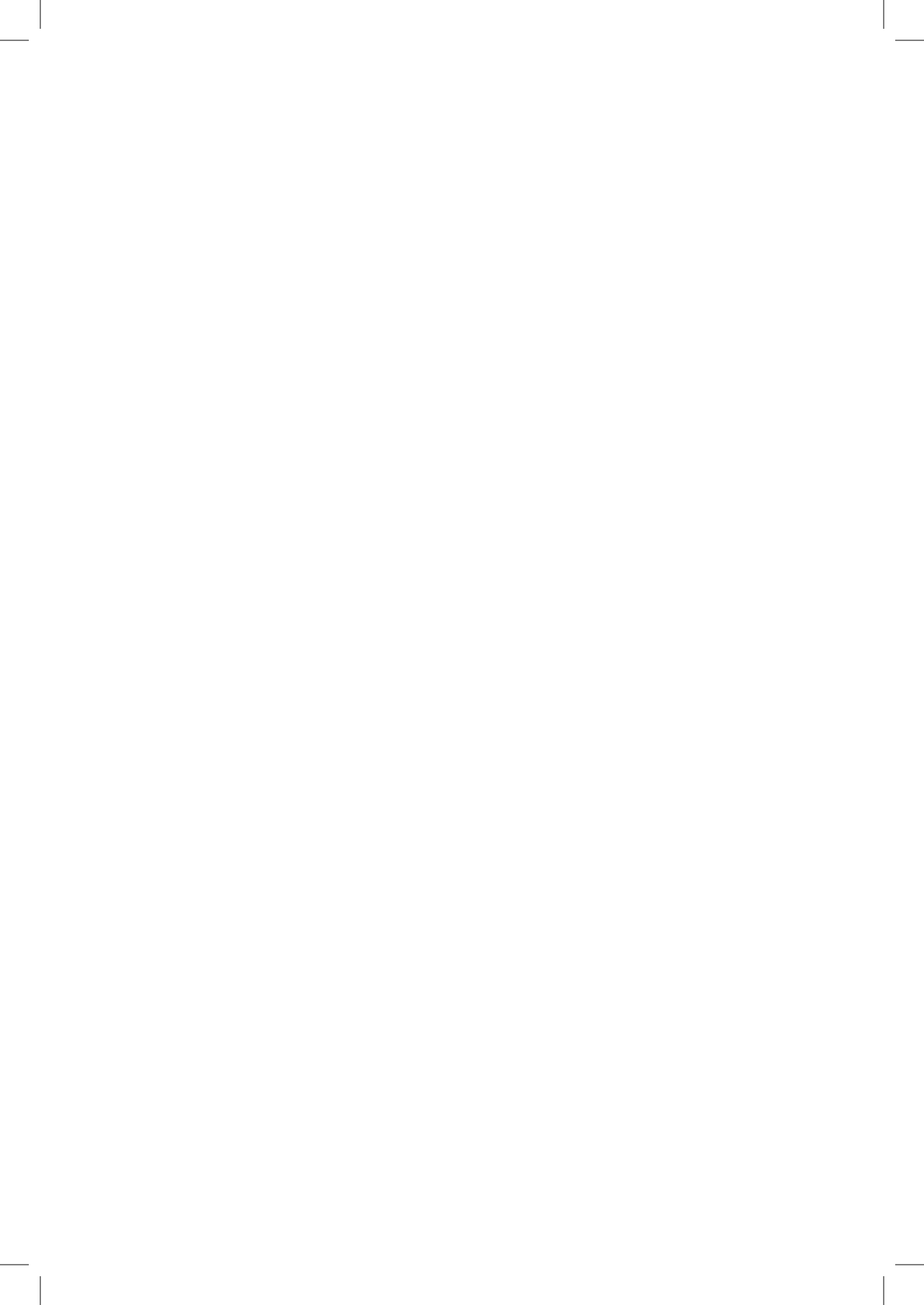
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To the memory of my father



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grant me an extended leave of absence while finishing my degree in the United States, but also managed to resolve all the logistic details that made possible the completion of my work. I would like to thank also Candido Mendes de Almeida, President of the Sociedade Brasileira de Instrução, and Cesar A. Coelho Guimarães, present Executive Director of IUPERJ, for their continued support. My graduate work at Vanderbilt University was supported by the Ford Foundation, which also gave financial assistance for writing the dissertation. For the last two years, I have received a fellowship from the Coordenação de Aperfeiçoamento de Pessoal de Nível Superior (CAPES) for the completion of my degree. Part of my travel expenses to the United States was provided by the Fulbright Commission through the United States Consulate in Rio de Janeiro, Brazil. A great part of the research for the dissertation was done under an institutional grant to IUPERJ from the Financiadora de Estudos e Projetos (FINEP).

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way through, Tema Pechman showed she is a friend of all seasons. Other friends were also supportive throughout my work: Renato Raul Boschi, Zairo Borges Cheibub, Rejane Maria Lamounier França, and Virgílio A. Fernandes Almeida.

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## PRESENTATION

This work was originally written as my doctoral thesis in Political Science at Vanderbilt University in the United States and defended in 1986. It was a moment of transition in Brazil's political life, as the country took the first steps towards a return to democratic life, with the election of a civilian president and the promulgation of the 1988 Constitutional Charter. The changes then taking place in the international scenario, culminating with the fall of the Berlin Wall and the end of socialism, also meant that Brazil would enter a new cycle, not only regarding insertion in the international arena, but also in the course of its own domestic politics. Thus, a question then was how were these relevant domestic and international changes to influence the paths taken in its foreign policy starting in the late 1980s and beyond. This work examines the way in which the expansion of capitalism from the 1970s onwards, culminating in its globalization with the end of the socialist bloc in the late 1980s, and its impact on the structural differentiation of the so-called Third World, influenced the foreign policy of a group of industrialized countries in the capitalist periphery, among them Brazil.

One of the main changes in the participation of the developing countries in the international division of labor was the entry of the so-called New Industrialized Countries (NICs)

into the world market. The novelty was the participation of the peripheral countries in the export of manufactured goods and their penetration into the markets of the North, underselling domestic producers in the textile and steel industries, for instance. Beginning with Japan, and followed by South Korea and the small countries from the Southeast Asia, the world saw what was referred to in the 1980s as the “flying geese”. And here we are reminded that the beginning of the Chinese insertion into the global market dates from the 1970s, although its global consequences and impact in displacing the dynamic axis of Asian growth would only be felt in the 2000s.

The NICs of the 1980s displayed two distinctive characteristics in relation to developing countries: their development model was based on export growth, after initially experimenting with a growth model that focused on the domestic market and import substitution. More significantly, due to the implications for the foreign policy of the NICs, is the fact that they were indeed outside the movement for trade reform led by the G77, with Brazil actively participating. Until the mid-1980s – with the debt crisis and the fiscal crisis of the peripheral States affecting the Latin-American countries the most, and the subsequent hegemony of the Washington Consensus in the 1990s – the Third-World coalition, was one of the main areas of Brazil’s multilateral diplomacy whether acting within UNCTAD or GATT. The country carried out a strong political leadership within these areas, rescuing and reconfiguring the multilateral activism of the 1960s independent foreign policy, in spite of the fact that the military regime was still in force.

What were the available analytic models in the 1970s and 1980s to assess the international leadership role of the capitalist semi-periphery? One of them, coming from Northern international analysts and policy experts, was the growth experience based



on the NICs' export oriented model presented as an example for developing countries that still made use of the import substitution model. Nonetheless, there were some characteristics specific to that model that made applying it in the rest of the semi-periphery quite problematic. The greatest problem for its proper performance analytically was that the example of the NICs did not take into account the growing global activism of some developing countries such as Brazil, India and Mexico, and which had a significant participation in the discussion forums for the North-South agenda.

Other theoretical perspectives were also argued in the intellectual and political struggle over the best policy and most adequate explanation for the foreign policy of the new industrialized Third-World countries. These paradigms also sought to give meaning to the new role of countries such as Brazil, but established a linear relationship among the pattern of international insertion within the international division of labor, the military nature of the political regime and the direction of Brazilian foreign policy. There were three perspectives most frequently discussed in the debate of political ideas and projects in the 1970s. One of them rooted in dependency theory that was then hegemonic in Latin America but deepening the economistic and deterministic components of that paradigm, explained Brazil's foreign policy according to the nature of the political-economic model from the post-1964 military regime. Despite the fact, that its main goal was not explaining foreign policy orientation but the emergence of the regime, it still established a causal relation among the advancement of Brazilian capitalism, via the internationalization of the economy, the military nature of the regime and a sub-imperialist foreign policy.

This concept was used in the sense that, with the rise of the military to power, Brazil, due to its monopolistic economy, participated in the imperialist expansion and behaved as a typical sub-imperial power towards its neighbors. This implied

political-military intervention in domestic affairs and economic penetration in the region; thus performing the role of the *gendarme* for the interests of the hegemonic power. While all the while, concurrently, ensuring the expansion of international capitalism. Consequently, an absolute complementarity was postulated between the economic, political and military interests of Brazil and the United States.

Another version of the sub-imperialist model viewed foreign policy from the standpoint of the military nature of the political regime, and the reconstruction of the geopolitical school of thought and particular world view, especially by its most significant representatives within the Brazilian military sphere. Two important themes came up. One was that of Brazil's "continental projection", in which Brazilian geopolitical theorists defended Latin American shifting balance of power in favor of the country, and the neutralization of Argentinian influence in the region. The other was the priority placed on "national security", involving not only actions for internal integration and contention along the borders, but also a policy of close collaboration in the defense of Western values. The latter represented the political version of sub-imperialism, in which foreign policy was to be aligned with the United States and expansionist towards its neighbors.

Finally, it is worth mentioning another paradigm, different in every aspect from the previous ones, due to its theoretical and epistemological matrix based on realist theories of international relations. Through this focus, Brazil was seen as an "emerging power" given its tangible power resources and the growth of a few economic indicators. From this perspective, the Brazilian material capabilities would allow the country to perform an increasingly more autonomous international role, thus, providing climbing the ladder of the international power stratification. Among several supporters of that school, there was a consensus

that the magnitude and diversification achieved by the Brazilian economy had made the country less vulnerable to external factors, thereby achieving a measure of “autonomy” in relation to the external constraints that would ensure its foreign policy a wide scope of international options. The greater integration within the international economy taking place at the time would be compensated by the diversification of international economic relations, and in this sense, that same diversification was considered to be a power resource in the competition between states within the anarchic interstate system.

The perspectives listed above were clearly insufficient to account for the complexity of Brazilian international politics in the 1970s and 1980s, particularly since it had not only abandoned the previous orientation of unconditional alignment with the USA, which had hitherto been followed since the 1964 coup, but also returned as a full actor in the Third-World G77 coalition. Moreover, one of the analytical problems of the above perspectives was the establishment of an antinomy between the extremes of subordination/dependency, on one side, and autonomy on the other, both seen as mutually exclusive phenomena, and, depending on the theory chosen by the analyst, constitutive of foreign policy. To the contrary, however, relevant contributions from Brazilian scholars in the beginning of the 1980s were precisely the common premise that dependence and autonomy were inherent to Brazilian foreign policy, given its peripheral condition.

Thus, pioneering analyses by Hélio Jaguaribe and Celso Lafer started from the idea that the directions of foreign policy resulted from the joint effect of the need to face the constraints and vulnerabilities generated by integration within the international economy and the attempts to take advantage of occasional space for maneuvering within the international system, aiming to redefine

the country's international insertion<sup>1</sup>. This constitutive duality is also present in the works of Antonio Carlos Peixoto, Gerson Moura and Monica Hirst. All of which, addressing different periods in foreign policy, produced analyses combining the structural dimension of the international asymmetry with the dimension of foreign policy agency, seen as a space for choice of actions and strategies in the international system, formulated according to their self-interests and values<sup>2</sup>.

This doctoral thesis was elaborated in close dialogue with that analytical frame that characterized the emerging epistemic foreign policy community in Brazil in the 80s. Its theoretical development resulted from the realization of the necessity of an integrated framework that encompassed the "hybridism", to use a concept from the contemporary internationalist lexicon, characteristic of countries that, having differentiated themselves from those of smaller relative development, did not belong or were not recognized as belonging to the club of developed countries. From my perspective, this hybridism – resulting from the condition of both dependence and autonomy, was translated into the use of distinctive patterns of external action and strategies. These resulted from the confluence of three elements: the incentives structure within a given issue area; the specific Brazilian capabilities within these areas; and the domestic variables and factors.

From the contributions of the theory of collective action, the elaborated framework suggests five different patterns of international strategy: a unilateral action, in which the occasional

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1 See Hélio Jaguaribe, *Novo Cenário Internacional*. Rio de Janeiro, Ed. Guanabara, 1986; and Celso Lafer, *Paradoxos e Possibilidades*. Rio de Janeiro, Ed. Nova Fronteira, 1982.

2 Cf. Antonio Carlos Peixoto, "La Montée en Puissance du Brésil", *Revue Française de Science Politique*, vol. 30, n. 2, 1980; Gerson Moura, *Autonomia da Dependência: A Política Externa Brasileira de 1935 a 1942*. Rio de Janeiro, Ed. Nova Fronteira, 1980; and Monica Hirst, *Brasil-Estados Unidos: Desencontros e Afinidades*. Rio de Janeiro, FGV Editora, 2009.

costs of its effects on third-party countries are minimized or disregarded; a free-rider behavior, in which the country obtains benefits from the collective actions of other parties without incurring in the costs of their provision; a hegemonic strategy where the country manipulates positive and negative incentives towards other countries for its own benefit; a leadership strategy, in which the country invests in the production of collective goods and in the organization of the collective action, given the existence of benefits that may be appropriated individually, and, finally, a more reactive/defensive pattern, in which the country plays by the rules of the game in a specific international regime, due to coercive instruments manipulated by other states.

A relevant question currently concerns the analytic value of the vulnerability-autonomy duality in the study of contemporary foreign policy. As a first response, I would say that this duality is still of importance, and that it is manifest in the relative hybridism of the directions taken by foreign policy even today. Current literature on Brazil's international politics, however, has abandoned this duality as an explanatory key of foreign policy, emphasizing a concept of autonomy that can assume several gradations, from autonomy through distance, moving on through diversification, and to participation<sup>3</sup>. The disappearance of the counter-concept of dependence might suggest that this condition is no longer viewed as a determinant factor for Brazilian foreign policy, as though the country had attained a level that would in fact differentiate it from the rest of the capitalist periphery. It is doubtful that this has happened fully, especially because the center-periphery relationship, reshaped to take into account ongoing processes of

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3 See, for example, the contributions of Gelson Fonseca Jr., *A Legitimidade e outras Questões Internacionais*. São Paulo, Paz e Terra, 1998; and Tullo Vigevani and Gabriel Cepaluni, *A Política Externa Brasileira: A Busca da Autonomia de Sarney a Lula*. São Paulo, Editora UNESP, 2011.

globalization, is still analytically relevant. Moreover, the global institutional architecture has remained practically frozen since its inception in the post-1945 period, independent of the diffusion of economic power towards the big peripheral countries in the South. On the other hand, one cannot disregard the fact that, after the global financial crisis, problems such as balance of payment crisis and financial vulnerability crossed the borders that had once separated the industrialized North from the periphery in the South. Indeed, what might be happening is that this duality is so wide that it can no longer discriminate or differentiates analytically, the hybrid pattern of some of the peripheral countries foreign policy.

In my understanding, this thesis even though it was conceived in the mid-1980s, contributes to the current discussion by offering an integrated framework that may be useful in the comparative analysis of foreign policy<sup>4</sup>. To what point, for example, are the global strategies of the semi-periphery different from those implemented at the regional level, an issue suggested by the thesis, even if not sufficiently developed? The differentiation between leadership and hegemony strategies was used in current analyses of the modes of behavior of regional powers<sup>5</sup>. What are the analytical differences between leadership, hegemony and sub-imperialism? These are some of the questions that would deserve further development given Brazil's substantial economic presence in the South-American region, in a context of renewed priority assigned to foreign policy with regional scope.

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4 A comparative analysis of Brazil, India and Mexico, as intermediate countries, was conducted by Ricardo Sennes, "Brasil, México e Índia na Rodada Uruguai do GATT e no Conselho de Segurança da ONU: Um Estudo sobre Países Intermediários", Doctorate Thesis in Political Science, USP, São Paulo, 2001.

5 Cf., Sandra Destradi, "Regional Powers and their Strategies: Empire, Hegemony and Leadership", *Review of International Studies*, vol. 36, 2010. For an analysis of the different negotiation strategies used by Brazil, China and India, see Amrita Narlikar, *New Powers: How to Become and How to Manage Them*. New York, Columbia University Press, 2010.

Rereading the thesis from today's viewpoint, I would point out two absences, or at least two areas deserving further development that would add greatly to the model developed in this book. One would be an emphasis on the dimension of ideas and the other, on the role of social actors and political-economic coalitions. The discursive debate has been fundamental to legitimate occasional conceptual innovations in foreign policy. The case studies analyzed in the work, particularly with respect to the nuclear control regime, point towards important changes in the path of foreign policy. In the late 1960s, Brazil and India, notwithstanding their different discourses, expressed similar and critical views on the constitution of the nuclear control regime – having become, in a way, “normative leaderships” in that field within the Third World – by denouncing the unequal nature of the Nuclear Non-Proliferation Treaty<sup>6</sup>. Afterwards, Brazil adhered to the NPT, unlike India, in spite of the latter having become a strategic ally of the United States in the nuclear field. How did each of them rewrite their discourse in face of the changes in their previous orientation? Who would be the current critical non-status quo normative leaders in this field, in contrast to the hegemonic narrative?

Some of the most notable characteristics of current Brazilian foreign policy are the plurality of actors, the complexity of agendas and the diversity of spheres in which the country acts<sup>7</sup>. How is this plurality manifested in terms of the domestic consensus

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6 For the use of the concept of “normative leadership” in the context of cooperation for development of Brazil and India, see Marco Vieira, “Rising States and Distributive Justice: Reforming International Order in the Twenty-First Century”, *Global Society*, vol. 26, n. 3, July 2012.

7 For one of the first analyses of the decision-making process of foreign policy in military governments, see Letícia de Abreu Pinheiro, “Foreign Policy Decision-Making under the Geisel Government: The President, the Military and the Foreign Ministry”, Ph. D. Thesis in International Relations, London School of Economics and Political Science, 1994. For the plurality of actors and agendas, see Letícia Pinheiro and Carlos Milani, organizers, *Política Externa Brasileira: As Práticas da Política e a Política das Práticas*. Rio de Janeiro, Editora FGV, 2012.

and divergences on several international issues, and which political coalitions sustain the occasional innovations in foreign policy? The pluralization of foreign policy makes it imperative to understand who are the supporters and the veto coalitions that influence Brazil's international strategies, particularly because the knowledge of this political dynamic allows us to assess prospective of change and continuity in the directions of foreign policy. At present, Brazil's current epistemic community in foreign relations is not only much more thriving robust in terms of size and scope of its research agendas than it was in the 1980s, when this work was finished, but it continues to hold foreign policy analysis as one of its primary themes. To include myself among pioneers gives me a great satisfaction today.

*Maria Regina Soares de Lima*

Rio de Janeiro, May 2, 2013.



## TABLE OF CONTENTS

List of tables .....	27
Preface .....	29
<i>Ambassador Gelson Fonseca Junior</i>	
1. A Political Economy Framework of Brazilian	
Foreign Policy .....	37
1.1 A Critical Appraisal of the Literature on Brazilian	
Foreign Policy .....	44
1.1.1 Sub-Imperialist Expansionism.....	45
1.1.2 The Emerging Power Paradigm .....	53
1.2 Premises and Assumptions of the Study .....	65
1.3 Collective Goods and International Politics .....	68
1.3.1 The Economic Theory of Alliances.....	73
1.3.2 The Theory of Hegemonic Stability.....	76

1.4 Semi-Periphery's International Strategies: A Framework of Analysis .....	84
<b>2. Brazilian Nuclear Diplomacy and the Non- Proliferation Regime .....</b>	<b>91</b>
2.1 The Politics of Control.....	94
2.1.1 The Baruch Plan .....	94
2.1.2 Brazil and the Baruch Plan .....	102
2.2 The Politics of Cooperation.....	104
2.3 The Non-Proliferation Treaty.....	112
2.3.1 US-USSR: Conflict and Cooperation.....	112
2.3.2 Non-Nuclear Countries and the NPT .....	115
2.3.3 The Negotiations of the NPT .....	116
2.3.4 The NPT Trade-Off.....	119
2.3.5 The Free Rider Problem.....	123
2.4 Brazilian Nuclear Policy .....	130
2.5 Brazilian Nuclear Diplomacy .....	142
2.6 Concluding Remarks.....	161
<b>3. The Nuclear Agreement: "Breaking the Rules Without Quite Getting the Bomb" .....</b>	<b>167</b>
3.1 Brazil and the Non-Proliferation Regime.....	171
3.2 The United States Executive Responses .....	176
3.2.1 The Ford-Kissinger Approach.....	179
3.2.2 The Carter Approach .....	185
3.3 United States Responses and North American Commercial Interests .....	203
3.4 Brazil on the Offensive.....	212

3.5 Brazil's Vulnerabilities .....	222
3.6 Brazil's Strategic-Geopolitical Motivations .....	238
3.7 Concluding Remarks .....	242
4. Trade Diplomacy: Brazil and the "Coalition of the Weak" .....	245
4.1 UNCTAD: "The Coalition of the Weak" .....	246
4.2 From Globalization to Unconditional Alignment .....	255
4.3 Trade Diplomacy and UNCTAD .....	264
4.4 Trade Diplomacy and GATT .....	275
4.5 Concluding Remarks .....	287
5. Trade Diplomacy: The Price of Being Competitive .....	289
5.1 Graduation in Principle and in Practice: The GSP .....	295
5.2 Graduation in Practice: The NTB Codes .....	311
5.3 Brazil, the Subsidies Code, and the Aftermath .....	320
5.4 United States-Brazilian Trade Agenda in the 1980s .....	338
5.5 Concluding Remarks .....	341
6. The Hegemonic Role: The Case of Itaipu .....	343
6.1. The Setting .....	343
6.2 Brazil and Argentina: Divergent Views on the River Plate Basin .....	350
6.3 Geopolitical Rivalry and the Price of the Allies .....	365
6.4 Brazil and Paraguay: In Search of the Good Partnership? .....	369
6.5 Distribution Questions and Brazilian-Paraguayan Bargaining .....	374

6.6 A Negotiated Settlement.....	384
6.7 Concluding Remarks.....	394
7. Conclusions.....	397
Bibliography and Sources Cited.....	407

## LIST OF TABLES

Table 1. Evolution of Brazilian Exports Composition, 1964-1981 (Percentage of Total Exports) .....	280
Table 2. LCDs' Signatories to the GATT Codes on Non- tariff Barriers (as of August 13, 1982) .....	318
Table 3. Economic Indicators of the River Plate Basin Countries .....	346



## PREFACE

Professor Maria Regina Soares de Lima's doctorate thesis was defended in 1986 at Vanderbilt University. Now, almost thirty years later, Funag has taken the initiative to publish what is certainly a masterful work on the Brazilian foreign policy. The recognition of the importance of the thesis is evident, for it is practically impossible not to resort to it when studying Brazil's contemporary international role. The thesis has been read extensively by a wide variety of readers. Regina also knew how to extract from the text, articles which are mandatory reading for any and all interested in foreign relations, whether in academia or outside it. Its publication in book format shall certainly broaden the readers' universe, and fulfill a growing demand for analyses on Brazilian diplomacy, a demand born from the multiplication of the number of courses on international relations in Brazil during the last years, and from the interest that international issues command in the public opinion.

For those who, like me, have learned much from Regina's lessons and with the talks we have had over many years, and

who have an everlasting admiration for her intellectual work, the invitation to write this preface is, first and foremost, an honor. It is also an opportunity to pay homage to a notable career in the magisterium, in the education of so many masters and doctors who have, throughout the country, started to consider and help others consider Brazil's role in the world.

The qualities of Maria Regina's thesis will be evident to the reader. To me, reading the whole text once more after a number of years did nothing but reveal its many qualities. I had perceived some of those as I studied it for the first time; upon reading it again, others became evident, even, and paradoxically, helped by the passing of time. In fact, despite having its roots in important issues of the 1980s, the text remains "new"; it brings us lessons for current challenges; it helps to clarify contemporary events through the intellectual sensibility with which it surveys the past. We shall return to this subject, but let us first call attention to a few aspects of the thesis.

The text is constructed with clarity, and the goal is steadfast: how to understand the external role of a country which does not have a place outside the traditional pairs in the international system, such as hegemons/dominated, developed/underdeveloped, rich/poor; pairs which were one of the core reference in the theory. Brazil hung outside the "analytic standard", and, together with other countries, such as India or Mexico, possessed characteristics of a new category. To Regina, it is *semi-peripheral*, and she explains: "In comparison with their developing peers, they are more integrated into the world economies through trade, investment and financial links, and, therefore, have a greater stake in the diverse international arenas of negotiation of a variety of issues. Like those industrial peers, however, they do not possess enough market power to influence patterns of investment, production, and exchange at the world market. Semi-peripheral countries tend



to exhibit an unbalanced power resource configuration, which means that in some issue areas they may have the capability to act autonomously on the basis of internal choices, whereas in other their choices may be severely constrained" (p. 287). Her precise and revealing characterization is, in itself, a research project.

In fact, reflection on the particularity of the Brazilian identity in the international system shapes the thesis. Regina works from the paradigms which were, at the time, dominant in the analysis of the Brazilian foreign policy, and which presented the country as either sub imperialist or as an emerging power. Regina presents the deficiencies of each of those in understanding the country's external options. The first assumes a rigidity in the international system which fails to perceive the historic variations in the center-periphery relationship; on the other hand, although it accepts the dynamics of the international system and refutes the idea of rigid power structures, the emerging power paradigm simplifies the "ascension" process, reducing the trajectory of the sum of power references. Thus, it fails to take into account that power is not absolute, it exists in contexts and historic frameworks which vary and impose boundaries or facilitate stimuli. There are not, as the model assumes, gains from an accounting system of power elements.

After the critique, Regina defines the theory of "collective goods" as the best instrument for understanding the semi-peripherals' foreign policy and demonstrating that the objectives and formulae to conduct their interests will depend on the ever changing place where they stand on the various issues on their agenda. Thus, a matrix of options is formed for a country which has, from the standpoint of the "classical" analyses, an ambiguous status in the international system. From there, an impeccable case analysis (nuclear and commercial policies in the UNCTAD and the GATT and the negotiation of Itaipu) follows, demonstrating

the variety of diplomatic areas in Brazil. The diplomatic matrix is diversity.

Where does Regina's contribution begin? The first contribution is the very reconstruction of the models which have analytically described the Brazilian foreign policy. It is indeed pioneer work. It is interesting to observe, in chapter I, that Regina mentions very few Brazilian authors when examining the country's foreign policy, simply because there were indeed few authors who wrote with academic standards and analytic care. Another factor would be the prevalence of the theory of dependence in the thought on international issues in Brazil, which, by placing the international "inside" the country, devalued the possibility of a foreign policy with its own logic. Another piece of data: at the time, whoever wrote on international themes inside Brazil suffered natural influence from the context of the Cold War and the discussion on the measures for alignment with the USA. After all, the world was still divided in two blocs and the North-South axis was still the reference for examining the situations of developing countries. What Regina shows is that reality was different, more complex, more contradictory. Rigid models, which predetermined the paths of diplomatic options, were not enough.

There was a lack of rigorous analyses on foreign policy, but the field of theoretic production in Brazilian academia was even more modest. And here we find yet another of Regina's key contributions, when she understands that, to reflect upon data on the Brazilian reality, it was necessary to be very critical when using the theoretical instruments provided by the intellectual market. The need to rewrite theory without perverting it so that it might offer instruments for "another reality" was not a novel challenge for Latin-American social science, and ECLAC, with Prebisch, will be a key example, as were authors such as Celso Furtado, Florestan Fernandes and Helio Jaguaribe for economic science

and sociology. Regina's ambition is different; she did not mean to reinvent theory, but she walked the same path in the field of the international relations. Regina is not alone in this undertaking. In his generation, in the 1970s São Paulo, Celso Lafer had already begun a work which became a constant production, taking into account the theory and the exam of specific issues always in mind. Others from their generation, to cite very few examples, such as Gerson Moura in diplomatic history or Marcelo Abreu in economic history show us, always in academic standard, the nuances of diplomatic options which rejected absolute models and sought to discern movements in apparent opposition, such as an aligned country which could be autonomous and contradict the hegemonic power, or a dependent country that could be hegemonic. In other words, a new field was being built in Brazilian Academia and that is due to the work Regina helped define with her thesis.

As I have said, Regina makes use of a rigorous critical analysis of the theory of "collective goods" to map the object of her study. The theoretic framework is perfect, because it creates the possibility of dealing with a number of places Brazil used to occupy (and still does) within the international system, in fundamental and permanent themes, such as energy supply and market access. There is a perfect attunement between the definition of Brazil as a "semi-peripheral" country and the theoretic framework which will explain the possible strategies in specific areas. It will be a "free rider" in the nuclear safety regime, embodied in the Non-Proliferation Treaty; unilateral behavior is evident in the effort to become self-sufficient in nuclear technology, as in the agreement with Germany in 1975; the active presence in the building of UNCTAD characterizes the possibility of collective gains from leadership, such as G77, the "coalition of the weak"; in the GATT, the position is vulnerable, given that we did not have enough

participation in international trade to secure us relevant bargaining power; finally, the negotiations with Paraguay for the construction of Itaipu reveal the potential for hegemonic behavior, with Brazil offering incentives and using coercion instruments to obtain a regime favorable to its interests. The thesis's greatest merit, defining the variety of strategic solutions, is made complete by the richness and precision with which Regina assesses the "cases".

For this, the fundamental analytic axis requires that, in each case, the limits and potentialities for the country's bargaining power are clarified. Despite the complexity of the task (a pioneer task, it is worth mentioning), Regina fulfills it masterfully, with no reductionisms, because, in all issues, she makes full use of her analytic competences to deal not only with the internal logic of the regimes, but also with their necessary complements, especially the links between internal pressures and diplomatic solutions. A notable example is the assessment of the evolution of the Brazilian attitude towards non-proliferation. On the subject, she organized all the factors with clarity, both international, especially the US's changing positions, and national, such as the attitudes of scientists and the military, which explain historical options. Like Robert Putnam, she practices, in a manner, what has been called a "two level game analysis". Besides that, another notable aspect of the text is the way in which she deals with the connection between economics and politics when discussing the commercial policies of UNCTAD and GATT. The best theory is of little use if not combined with the researcher's sensibility. And, in this aspect, Regina was especially creative. She knew how to choose fundamental issues of the Brazilian foreign policy to demonstrate her thesis, how to reveal their logic and to show the fundamentals upon which they are based. Thus, she creates a matrix for understanding the Brazilian foreign policy, which becomes a necessary reference, even for those proposing a diverging theory.

A word on the current relevance of the thesis. Why read it today? Would it arise a solely historic interest? I do not think so, and for good reasons. Firstly, because of the academic quality of the text. It is a model for other theses, and not only, as I have said, due to the standard of research, but also for what it reveals in terms of sensibility and wisdom in the choice of what is relevant in the analysis of foreign policy issues. High standards and sensibility must walk together for texts to go beyond the mandatory formalities of an academic thesis and to clearly unravel some previously undiscovered or misperceived aspect of reality. Another point of permanent interest in the thesis is the quality of the assessment of the negotiation processes, which Regina will show, despite the scarcity of the primary sources. The way in which she uses journalistic pieces, for instance, to retrace the steps of the Brazilian negotiators on the nuclear issue or on the GATT are exemplary.

Another point to justify the current importance of the thesis is the nature of the reflection Regina makes on the place for Brazil in the world. The reading places back – or better yet, places into a consistent perspective – the theme of the diplomatic identity. Today we admittedly have a more evident international presence, and, without a doubt, more bargaining power. The negotiation arenas have diversified, but the question posed by Regina still goes unanswered: what is the logic of the diplomatic strategy, especially for a semi-peripheral country? In what way does the “emerging” status reconfigure our strengths and vulnerabilities? What is our capacity to influence regimes? On the other hand, the case analyses deserve reading, because, in some way, and presenting themselves differently, the themes persist, and a consistent analysis, such as Regina’s, could help us understand the Brazilian position in the non-proliferation issues, such as the IAEA Additional Protocol, or the more cautious attitude we have towards the themes of the

Doha Round or the difficulties which occasionally resurface with Paraguay over Itaipu. However, more than anything, at a time when theory is so entwined with the language of politics and with meta-theory, reading Regina's thesis reminds us that politics is essentially the option to act. In other words, Regina connects theory and to the concrete, to power realities, and not neglecting to make, whenever she is supported by data, previsions and judgments on courses of action, as is the case with the positions on non-proliferation.

Another permanent piece of data is that the options are limited, and to uncover where limitations lie is fundamental to the diplomatic work. Then, as diplomats, we can only thank Regina for how much she has enlightened us about what we do and how we do it.

*Ambassador Gelson Fonseca Junior*

Brasília, March 2013.

## **1. A POLITICAL ECONOMY FRAMEWORK OF BRAZILIAN FOREIGN POLICY**

The world frontiers of capitalist expansion have widened in the post-1945 period through the internationalization of industrial production and the formation of a transnational monetary network. A group of semi-industrialized countries has emerged as economic differentiation and stratification have grown within the so-called Third World. These countries have a greater ability than the rest of the Third World countries to attract international investment and capital, allowing them to deepen their industrialization process in the direction of the manufacturing and export of industrial goods. Their distinctive feature is a high degree of commercial, industrial, and financial integration into the world economy. Different labels have been used to identify this group of countries: “newly industrializing countries” (NICs), “upwardly mobile powers,” “emerging powers,” “semi-peripheral countries,” “new influential,” and similar terms.

In Latin America, Brazil and Mexico are considered to belong to this category, together with Argentina and Venezuela.<sup>8</sup>

The domestic consequences of this style of capitalist modernization in the periphery have been extensively analyzed, Brazil being considered a most conspicuous case of accelerated growth and social inequality.<sup>9</sup> Much less analytical effort has been devoted to the understanding of the peculiar international role of these industrialized Southern states. Broad reasons for such imbalance between domestic and international focus can be mentioned. In the first place, the traditional emphasis of mainstream international studies has been on hegemonic actors, since those are the ones which can, with more success, shape the international system and influence its nature. Second, even when non-hegemonic actors are a proper concern of analysis, the focus usually rests on the impact of international structures and process upon national entities, rather than the eventual impact of such actors on their external environment. Third, there are particular theoretical and methodological reasons for dependency theory having eschewed a proper analytical concern with foreign policy behavior studies. In Latin America, for example, the dominant paradigm has been dependency theory, which emphasizes the internal aspects of dependency.<sup>10</sup>

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8 For an analysis of the sources of peripheral industrialization, see James A. Caporaso, "Industrialization in the Periphery: The Evolving Global Division of Labor," *International Studies Quarterly* 25 (September 1981): 347-84. For a different perspective, see Immanuel Wallerstein, *The Capitalist World-Economy* (Cambridge: Cambridge University Press, 1979).

9 For the Brazilian case, see, among others, Fernando Henrique Cardoso, *O Modelo Político Brasileiro e Outros Ensaíos* (São Paulo: Difusão Europeia do Livro, 1972); Glaucio Ary Dillon Soares, "Depois do Milagre," *Dados*, n° 19 (1978), pp. 3-26.

10 For a discussion of such reasons, see Alberto van Klaveren, "The Analysis of Latin American Foreign Policies: Theoretical Perspectives," in *Latin American Nations in World Politics*, ed. Heraldo Muñoz and Joseph S. Tulchin (Boulder: Westview Press, 1984), pp. 7-9. According to van Klaveren's survey, there are hardly any studies of Latin American foreign policy within that tradition.



Among those studies that are specifically concerned with the international behavior of the industrialized Third World countries, three different perspectives can be identified, each one of them emphasizing a peculiar international role played by these countries. For one of these perspectives, such a role is a result of their semi-peripheral insertion into the international division of labor; the emergence of this category of Third World states is a manifestation of the unequal development of the international system. Thus, these semi-peripheral countries will tend to constitute themselves as centers of regional hegemony, behaving as “go-betweens” for the strategic, political, and economic interests of the core countries in a region. In exchange for playing a sub-imperial role in the regional sphere, the core acknowledges for them the status of “special ally” in the form of economic and military benefits and concessions. Although the concept is in need of clarification, sub-imperialism implies regional dominance, even though dependence or even subordination to the core countries is maintained. Hence, two features make up the characteristics of a semi-peripheral country under this perspective: an imperialist-like relationship with respect to its neighbors, and a symbiotic relationship between the center states and the elites of the semi-peripheral states. Brazil, South Africa, Israel, and Iran under the Shah are considered exemplary cases of sub-imperial powers in their respective areas of influence. In Johan Galtung’s version of sub-imperialism, the phenomenon is associated with a decline in United States capabilities and disposition to maintain the status quo:

*The US is still the strongest imperialist power, so it has some capability; and it is the most imperialistic power which means that it has most to lose and, hence, presumably the highest motivation. But however strong the motivation,*

*the US is no longer capable, nor willing, to exercise "policing" activities all around the world.*

*... Hence the obvious method is to build on already existing structures, making use of somebody else's imperialism or aspiration in that direction-in other words sub-imperialism. The formula is simple: establish a bilateral relation between the US on the one hand and a region on the other; select a "favorite country" which can support local forces in exercising control so as to maintain a status quo, a law and order pattern compatible with capitalist types of "development."<sup>11</sup>*

From a different perspective, however, the decline in the dominant world position of the United States and the ensuing diffusion of power in the international system are not associated with the emergence of a layer of mediators in the periphery, but quite the contrary. Under what has been called a "complex neo-realist" perspective, those conditions are in fact propelling some middle-sized states to a more assertive international role. Third World countries with a broad and diversified industrial base, such as Brazil and India, are seen as capable of pursuing their own interests within their own regions and even beyond. Some no hegemonic Northern countries which historically have not played a major power role but which possess excess and specialized capabilities also have enhanced opportunities for autonomous external initiatives. The principal characteristic of the international behavior of those middle-sized states is a:

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11 Johan Galtung, "Conflict on a Global Scale: Social Imperialism and Sub-Imperialism – Continuities in the Structural Theory of Imperialism," *World Development* 4 (March 1976): 163 (emphasis in the original). For the characteristics of sub-imperialist states, see Timothy M. Shaw, "Kenya and South Africa: 'Sub imperialist' States," *Orbis* 21 (Summer 1977): 375-94; Kenneth W. Grundy, *International Studies Quarterly* 20 (December 1976): 553-79; and Raimo Väyrynen, "Economic and Military Position of the Regional Power Centers," *Journal of Peace Research* 16, n° 4 (1979): 349-69. According to Wallerstein, *The Capitalist World-Economy* (chap. 1, pp. 21-23), the semi-periphery performs a basic political stability function in the capitalist world-economy.

*Tendency towards global, interest-based, bilateral activity ... Supplemented by associative behavior characterized by a set of competitive orientations: a predisposition towards unilateral initiatives, a divergence in policy commitment, and a diversification of focus away from any associated imperial state.*<sup>12</sup>

Finally, another analytical vantage point for looking at industrialized Third World countries centers on their impact upon the trade system arising from a shifting in patterns of comparative advantages. The reference now is to the largest exporters of manufactures within the developing world, a category labeled the “newly industrializing countries.” Studies of such a category of states have been mostly concerned with macro-economic policies in pursuing an export-oriented growth strategy, the consequences of NICs’ emergence to the established framework of international trade, and the ensuing responses from the advanced industrialized countries.<sup>13</sup> Different from Wallerstein’s world system perspective or Galtung’s sub-imperialism, both of which emphasize the symbiotic relationship between core and semi-peripheral states, the thrust of the literature on NICs is on the not so smooth

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12 David B. Dewitt and John J. Kirton, *Canada as a Principal Power* (Toronto: John Wiley & Sons, 1983), p. 42. The complex neo-realist perspective is presented in pp. 36-46. For a similar perspective in examining the international relations of industrialized Third World countries, see Michael A. Morris, *Brazil and India as Third World Middle Power*, ed. Wayne A. Selcher (Boulder: Westview Press, 1981), pp. 219-45. According to Michael Handel, *Weak States in the International System* (London: Frank Cass & Co., 1981), p. 23, middle powers can be divided into two main types: (1) “those with relatively small populations but highly developed and efficient economies,” a category that includes countries with large territories endowed with vast reserves of natural resources, such as Canada and Australia, and countries with advanced economies but declining in relative power, as for example, Italy and Spain; and (2) Third World countries “with large and rapidly growing populations and sizable territories,” such as Brazil, India, and Mexico. The idea that concentration of power in the international system curtails the freedom of action of middle powers is explored by Carsten Holbraad, “The Role of Middle Powers,” *Cooperation and Conflict* 6 (1971): 77-90.

13 See, for example, Béla Balassa, *The Newly Industrializing Countries in the World Economy* (New York: Pergamon Press, 1981); and Louis Turner and Neil McMullen, eds., *The Newly Industrializing Countries: Trade and Adjustment* (London: George Allen & Unwin, 1982).

accommodation of the advanced economies to the rise in the share of the world manufactured exports by middle-income developing countries. Indeed, the success of the NICs coincided with a period of economic downturn and high oil prices which fueled a pressure for protection of those industries in the industrialized world where NICs' exports have risen sharply. Hence, instances of trade conflicts between the NICs and the industrialized countries have become more frequent since the seventies.<sup>14</sup> Finally, NICs have been regarded as eschewing a leading role in the Third World's efforts to restructure the international economic order, exhibiting a low profile in North-South forums. In fact, they have been seen as "free riders" in both the Northern and the Southern coalitions. Because of their most-favored-nation status in the trade regime, they profit passively from tariff concessions exchanged among the industrialized countries; they get some benefits from the growing economic interdependence without paying the costs for its maintenance. On the other hand, NICs are the chief potential beneficiaries of the restructuring of international regimes, although they are not in the forefront of the Third World movement for a New International Economic Order (NIEO).<sup>15</sup>

These different perspectives from which to look at the international role of middle-income developing countries, though based on distinctive theoretical and methodological orientations,

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14 David B. Yoffie, *Power and Protectionism-Strategies of the Newly Industrializing Countries* (New York: Columbia University Press, 1983); John S. Odell, "Latin American Industrial Exports and Trade Negotiations with the United States," in *Economic Issues and Political Conflict: US-Latin American Relations*, ed. Jorge I. Domínguez (Boston: Butterworth Scientific, 1982), pp. 142-67; and idem, "The Outcomes of International Trade Conflicts: The US and South Korea, 1960-1981," *International Studies Quarterly* 29 (September 1985): 263-86.

15 Charles Lipson, "The Transformation of Trade: The Sources and Effects of Regime Change," *International Organization* 36 (Spring 1982): 427; and Robert L. Rothstein, *Global Bargaining-UNCTAD and the Quest for a New International Economic Order* (Princeton: Princeton University Press, 1979), p. 253. Also, see Stephen D. Krasner, "Transforming International Regimes: What the Third World Wants and Why," *International Studies Quarterly* 25 (March 1981): 136-37.

converge, none the less, in pointing out the lack of homogeneity within the Third World. With such differentiation, it might be misleading to treat regions in the periphery as a proper unit of analysis, although countries in the same geographic area may share similar cultural backgrounds and historical experiences. The most promising feature of the theoretical perspectives reviewed above is that they free the analyst from the constraints of geography, focusing instead on the international role of middle-income developing states. Thus, it might be more rewarding to compare the foreign policies of countries such as India and Brazil, than to analyze the unique characteristics of international relations of specific regional sub-systems.<sup>16</sup> By the same token, some analysts argue against efforts to develop a new and specific theoretical framework, applicable to the particular context of developing or Third World countries, while others disregard existing approaches simply because they have originated and been used in the industrialized countries. As in other fields of inquiry, international relations studies have much to gain from the cross-fertilization of different theoretical orientations and the insights of diverse area specialists.<sup>17</sup>

There are shortcomings, however, in the perspectives presented above in that each one of them emphasizes a particular aspect of a middle-income developing country's international

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16 The latter orientation is dominant in the literature, nevertheless. Attempts to develop a comparative framework for the analysis of foreign policy of no hegemonic countries in general focus on a particular regional sub-system. Two recent examples of such endeavor in the case of Latin America are: Elizabeth G. Ferris and Jennie K. Lincoln, eds., *Latin American Foreign Policies: Global and Regional Dimensions* (Boulder: Westview Press, 1981); and idem, *The Dynamics of Latin American Foreign Policies: Challenges for the 1980s* (Boulder: Westview, 1984).

17 An argument against "theoretical ethnocentrism," as he terms it, is presented in van Klaveren, "The Analysis of Latin American Foreign Policies," pp. 2-3. A successful example of interdisciplinary scholarship on the role of the state in developing and industrialized countries is Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985).

behavior. For example, in a continuum going from strength to weakness in terms of actual power in the international system, those working with the perspective of sub-imperialism would place the industrialized Third World states at the right side of that hypothetical line, whereas from a vantage point of complex neo-realism they would be placed at the left pole. The possibility that the international behavior of this category of states might exhibit elements of both strength and weakness is thus ruled out in both perspectives. The present study purports to develop an alternative approach that not only attempts to integrate in the same analytical framework the different types of international behavior postulated by the above mentioned perspectives, but also is founded in a theoretical orientation not found in the studies of international relations of non-hegemonic countries. Before going into that, however, an assessment of the literature on Brazil's current international role is in order.

### **1.1 A Critical Appraisal of the Literature on Brazilian Foreign Policy**

Since the late 1960s and early 1970s, Brazil has experienced a growing dynamism of its inter-state relations with the diversification of economic, political, and military relationships. In the same period, the internationalization of the economy has accelerated, through the crucial role of financial and industrial transnational capital in the productive structure. Most analyses of Brazilian foreign policy have focused on either one or the other of these two processes, to arrive at quite distinct outcomes as far as Brazil's international behavior is concerned. Therefore, two polar interpretations can be identified in the literature, one derived from a world system perspective or dependence theory and the other from complex neo-realism. We call them the sub-imperialist expansionism model or privileged dependence and the emerging power perspective, respectively.

### 1.1.1 Sub-Imperialist Expansionism

According to this approach, Brazil's international role and the nature of the political and economic model of development of the military regime are closely interwoven. The hypothesis of sub-imperialism is part of a general interpretation of capitalist development in dependent societies, in which the domestic accumulation process is possible only at the expense of a regressive distribution of incomes and consequent marginalization of the masses from consumption. Because of the repressive characteristics of authoritarian regimes they are seen as indispensable tools to guarantee the continuity of capitalist accumulation.<sup>18</sup> Responding to the interests of "big capital," the policies of the Brazilian military regime sought to increase the concentration of the income and the productive structure with the effect of worsening the "domestic realization crisis." The military regime presented a three-fold solution to this crisis: (1) export of manufactured goods, (2) increase of public expenditures in infrastructure and military-related sectors, and (3) unrestricted alliance with transnational capital.<sup>19</sup>

The alliance with foreign capital would result in the opening of the economy to the transnational capital and, simultaneously, in the opening of the markets abroad to goods produced in Brazil.<sup>20</sup> In the sub-imperialist scheme, Brazil would participate

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18 Accordingly, military dictatorship is regarded as a response to the economic crisis in Brazil in the early 1960s. For a critical review of this and other "economicist" interpretations of the emergence of authoritarian regimes, see José Serra, "As Desventuras do Economicismo: Três Teses Equivocadas sobre a Conexão entre Autoritarismo e Desenvolvimento," *Dados*, nº 20 (1979), pp. 3-44.

19 Ruy Mauro Marini, "Brazilian Sub-Imperialism," *Monthly Review* 23 (February 1972): 16-17.

20 Critics of the strategy of export-led industrialization, when multinational corporations play a major role, suggest that the impact of protectionism will be felt less on Third World goods produced under international subcontracting – which includes transnational foreign affiliate production, joint venture, or independent Third World production – once "the parent firm uses its political power to prevent any domestic protectionism movement from threatening the trade." Martin Landsberg, "Export-Led Industrialization in the Third World: Manufacturing Imperialism," *Review of Radical Political Economics* 11 (Winter 1979): 61.

in the imperialist expansion by playing the gendarme role for such interests at the regional level; an example of this is the support given by the first military government to the intervention of the United States in the Dominican Republic in 1965. Thus, this perspective assumes that the economic, political, and military interests of the metropole and its regional surrogate are complementary, although the sub-imperial power is expected to have some leeway in its own regional sphere of influence, and in general the metropole will not apply resistance to the expansionist policy of the former. In distinguishing the foreign policy under the military regime from previous civilian governments in Brazil and current civilian regimes in Latin America, an analyst observed: "It is not a question of passively accepting North American power (although the actual correlation of forces often leads to that result), but rather of collaborating actively with imperialist expansion, assuming in this expansion the position of a key nation."<sup>21</sup>

Regional expansionism is a key aspect of the sub-imperialist scheme. Foreign expansion responds not only to the geopolitical interests of the military rulers, but principally to the institutional needs of Brazilian dependent development and the ensuing realization problems that it creates. Because of the overexploitation of labor and the resulting underconsumption of the masses, domestic markets are insufficient to absorb increases in production resulting from the influx of foreign capital and the consequent intensification of industrial modernization. Exports thus become a precondition for continued accumulation. As observed by an analyst, "there remains no alternative but to attempt foreign expansion, and it therefore becomes necessary to guarantee

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21 Ruy Mauro Marini, "Brazilian 'Interdependence' and Imperialist Integration," *Monthly Review* 17 (December 1965): 22. Also, see Väyrynen, "Economic and Military Position of the Regional Power Centers," pp. 367-68.



foreign markets for its products.”<sup>22</sup> Besides regional economic expansion, the militarization of Brazilian capitalism, through the fusion of interest between the military elite and foreign capital, generates a pattern of behavior towards neighboring countries of a militaristic and bellicose nature.<sup>23</sup>

In a critical examination of the sub-imperialist hypothesis, Peixoto argues that the volume of capital flows of Brazilian origin during the years of 1974-1977 was too insignificant to characterize the country as a sub-imperial power.<sup>24</sup> On the other hand, the volume of credits and loans from Brazil to the other countries in that same period was slightly higher, but they corresponded mainly to export credits – an indication, according to the author, of an effort to increase exports to face balance of payments constraints.<sup>25</sup> In fact, the explanation of Brazilian export expansion lies more in the need to earn foreign exchange than in the necessity to create a demand for the domestic industries. As Brazil chose to adjust to the new economic conditions brought about by the two oil shocks of the 1970s by adopting a strategy of external indebtedness, it could not escape the necessity of continuously increasing foreign earnings through exports. Furthermore, for a net oil importer such as Brazil, increases in oil prices put a heavy burden on the country’s trade balance and were a further reason to expand exports.

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22 Marini, “Brazilian ‘Interdependence’ and Imperialist Integration,” p. 23. In accounting for the expansionist forces in the semi-periphery, Väyrynen, “Economic and Military Position of the Regional Power Centers,” gives emphasis to the existence of what he calls a “doctrine of expansion,” which is a “combination of geopolitical realities as well as political, economic, and military aspirations,” p. 355.

23 Marini, “Brazilian Sub-Imperialism,” pp. 22-23.

24 As a percentage of GNP in those years, Brazilian investments abroad amounted to 0,05%, 0,08%, 0,12%, and 0,06%, respectively. Antonio Carlos Peixoto, “La Montée en Puissance du Brésil: Concepts et Realités,” *Revue Française de Science Politique* 30 (April 1980): 333.

25 Ibid., p. 334.

There is evidence that in general Brazilian export policy has not targeted any particular region, its chief concern being to increase the volume of exports on a worldwide basis. In examining Brazilian policies affecting export behavior, Tyler concluded that “Brazil has done little to intentionally increase its exports to Third World countries vis-à-vis other countries,” with the exception of the export promotional efforts of the Ministry of Foreign Relations that show a clear Third World emphasis, since such policies have not been “product market or region specific.”<sup>26</sup> With economic recession hitting the industrialized countries, the idea of a tradeoff between the opening up of international markets in return for services rendered by surrogate states becomes difficult to sustain in the face of growing protectionism. Access of manufactured exports from Brazil and other middle-income developing countries into Northern markets, as well as competition between these two groups of exporters in third-country’s markets have emerged as quite contentious issues in bilateral and multilateral North-South agendas. Indeed, the expansion of Brazilian commerce in Latin America and Africa can be explained in a greater degree by the acceleration of protectionism in the developed market economies in the seventies.

The sub-imperialism model assumes a direct causal link between the internationalization of the semi-periphery’s economy and a gendarme-like political behavior in the regional context. What we observe in the Brazilian case, however, is a lack of temporal link between these two phenomena, or, to put it more precisely, a different timing for their occurrence. The analysis of the economic policy of the military governments suggests it was

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26 William G. Tyler, *Advanced Developing Countries as Export Competitors in Third World Markets: The Brazilian Experience* (Washington, D.C.: The Center for Strategic and International Studies, Georgetown University, Significant Issues Series, vol. 2, n° 8, 1980), p. 32.

only after 1974 that the “deepening” of Brazilian industrialization in the direction of the production of valued-added goods with a high capital-labor coefficient and technological requirements became the chief axis of economic policy making.<sup>27</sup> It was also from then on that the integration of the Brazilian economy into the world economy has accelerated still further via the increase in the stock of foreign capital in the economy and the growing links to the international private financial markets. It was from the mid-1970s, notwithstanding, that Brazilian foreign policy underwent significant modifications, mainly the attempt to redefine the relations with the United States and to increase political and economic ties with Western Europe and the Third World, particularly in Latin America and Africa. There does appear to exist a close link between the diplomatic effort to draw near the Third World, on the hand, and the redefinition of relationships with the United States, on the other. Indeed, Brazilian potential for political and economic influence in these latter countries would have been severely curtailed had Brazil continued to be perceived as a preferential ally of the United States and a mere surrogate of the metropole’s goals in those areas.

It is true, however, that at an early juncture, the concept of “ideological frontiers” had constituted the key guiding principle of Brazilian foreign policy, when, in the late 1960s and early 1970s particularly, the security forces of the regime collaborated in the destabilization of democratic regimes in South America.<sup>28</sup> With the concept of ideological frontiers, the Brazilian doctrine of national security extended the traditional concept of territorial frontiers,

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27 Serra, “As Desventuras do Economicismo,” pp. 10-23.

28 Thomas E. Skidmore, “Brazil’s Changing Role in the International System: Implications for U.S. Policy,” in *Brazil in the Seventies*, ed. Riordan Roett (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1976), p. 34.

as the core of a country's national sovereignty, to encompass the ideological frontiers of the Western world. At first sight, Brazilian conduct in Latin America at that time might be regarded as performing a kind of gendarme role for North American interests in the region. From our vantage point, such conduct responded rather to the definitions of security of the military establishment and to a sort of survival instinct in view of the potential domestic political consequences of changes in the correlation of forces in the regional context, than either to a delegation of power from the United States or to the logic of expansion of transnational capital, albeit, in the last analysis, both state and corporate interests would benefit from such behavior. In the aftermath of the military coup in 1964, the chief tenet of the new government's foreign policy was continental interdependence, which asserts the desirability of strengthening the inter-American alliance binding Brazil tightly to the United States on hemispheric issues. Thus, Brazil participated in sending troops in the United States' intervention in the Dominican Republic in 1965 and supported the creation of a permanent inter-American army.<sup>29</sup> Those actions represented a vivid rupture with the principles of self-determination and non-intervention that informed previous civilian governments' foreign policy. Such behavior was not externally induced but domestically propelled. Thus, "anti-communism" in domestic and foreign affairs constituted a significant element in the system of legitimacy of the military regime. Analysts of the first military government's foreign policy suggest that the vision of the international system as segmented by ideological frontiers represented an essential component of the regime's legitimizing ideology, once the "revolution of 1964" was justified by its makers as a defensive reaction against the "international communist aggression." Such

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29 Marini, "Brazilian 'Interdependence' and Imperialist Integration," p. 21.

a definition of the international context worked to enhance the institutional stability and the credibility of the new military rule.<sup>30</sup>

Therefore, in those instances referred above, Brazilian behavior was triggered by its own political and ideological domestic reasons, rather than by an eventual delegation of power from the United States. Furthermore, such conduct in the regional context occurred in a period previous to the verticalization of the industrial sector, when the concept of “non-automatic alignment” superseded the former paradigm of tight bipolarity as the guiding principle for Brazil to operate internationally. These modifications of foreign policy orientation are difficult to accommodate within the sub-imperialist argument because of its rigid economic determinism.

Implicit in the argument of those who analyze the phenomenon of sub-imperialism from either the perspective of the metropole or that of the semi-periphery are the following two assumptions: (1) that the semi-periphery is willing to be co-opted to perform certain functions for the metropole, and (2) that the center is willing to grant preferential status to the semi-periphery. There is ample evidence that a special relationship with the United States has been sought over and over by certain segments of the Brazilian civilian and military elites in different historical contexts. Because Brazil could not escape United States influence, it was argued, it should accept the status of an associated power providing diplomatic support for North American positions on Western Hemispheric issues. In exchange, the United States would recognize Brazilian economic and military primacy in South America and would provide economic support for the country's

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30 Carlos Estevam Martins, “A Evolução da Política Externa Brasileira na Década 64/74,” *Estudos CEBRAP* 12 (April/May/June 1975): 68. Also, see Peixoto, “La Montée en Puissance du Brésil,” p. 334.

development projects.<sup>31</sup> If part of the Brazilian elite praised the “special relationship,” believing Brazil would derive tangible benefits from its alleged status of a special ally, United States actions in the post-war era indicate that the assumption of Brazil’s preferential status hardly fit with actual United States policies and behavior in the region. Mentioning a series of instances when the United States did not behave according to Brazilian expectations, and pointing to the limiting nature of such association for Brazil to play “a larger role in international affairs,” Ronald Schneider concludes, “indeed, the appropriate question is not why it came to an end with the short-lived, acrimonious confrontation of 1977-1978, but rather how it lasted so long in the face of repeated abuses on the part of the United States.”<sup>32</sup> A missing element in the assumption that the United States would grant preferential status to certain countries is the consideration of the strategic value of a country, or the region where it is located, for United States global policies and objectives. Because South America does not belong to the category of strategically significant regions for the United States, it is quite improbable that any of the countries in the area are likely to be chosen for preferential treatment by the latter. In fact, it was only during World War II and in the aftermath of the Cuban revolution that United States foreign policy formation targeted the region for special treatment. Significantly in these two junctures, regional affairs intermingled with United States overall strategic concerns.

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31 For such elite views in different junctures of Brazilian history, see Gerson Moura, “Brazilian Foreign Relations, 1939-1950” (Ph.D. dissertation, University College London, 1982), chap. 5; Helio Jaguaribe, *O Nacionalismo na Atualidade Brasileira* (Rio de Janeiro: ISEB, 1958); and Bradford E. Burns, “Tradition and Variation in Brazilian Foreign Policy,” *Journal of Inter-American Studies* 9 (April 1967): 195-212. This version is expounded in more detail in the writings of General Golbery do Couto e Silva, Brazil’s leading geopolitician and a most influential individual during the period of military rule.

32 Ronald M. Schneider, Foreword to *Brazil in the International System: The Rise of a Middle Power*, ed. Wayne A. Selcher (Boulder: Westview Press, 1981), p. xv.

To conclude, the political implications derived from the sub-imperialist model in the case of Brazil either exist in the minds of those who would like to see the United States conferring a special status to the country, or are assumed by those who work with a very rigid deterministic scheme of politics. As Brazil became more integrated into the world economy via transnational links, a special relationship with the United States came to be perceived by the decision makers more as a hindrance than as a help to the country's economic objectives in international affairs. The guiding paradigm for foreign policy behavior from the late 1960s on became that of a "freezing world power," a paradigm which was rooted in the process of detente among the super-powers. Through the eyes of Brazilian decision makers, such a process was leading to a sort of great power condominium, particularly in the nuclear issue area, to the detriment of those middle powers which aspired to develop nuclear capability. A similar rigidity was acknowledged with reference to the North-South confrontation: In the areas of trade, technology transfer, and ocean resources, among others, Brazil was placed within the ranks of the Third World.<sup>33</sup>

### 1.1.2 The Emerging Power Paradigm

A distinct assessment of Brazilian foreign policy is offered by those who work with the emerging power paradigm. In this perspective, Brazil is regarded as an upward mobile middle-power state in the international stratification system, with a potential for achieving major power status. Although not all of the studies which fall under this perspective analyze systematically those tangible power resources possessed by Brazil – such as

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33 The thesis of the "freezing of world power structure" was developed in several writings of Ambassador Araújo Castro. See, particularly, "O Congelamento do Poder Mundial," in Araújo Castro, ed. Rodrigo Amado (Brasília: Editora Universidade de Brasília, 1982), pp. 197-212.

population, territorial size, natural resources base, and size of gross national product (GNP) – in line with conventional power capability analysis, the great majority place a great emphasis on the rapidly growing economy and expanding foreign trade to indicate a potential for a more independent international role. The most outstanding characteristics of Brazil's emergence are seen as the abilities to develop new foreign relationships and to take an increasingly independent path in its foreign policy. Besides capabilities, another element taken into account in the assessment of Brazil's potentialities is the long-standing aspiration among Brazilian elites for the attainment of an international status commensurate with the country's economic and demographic potential. In addition, the consolidation of Brazilian influence in South America is regarded as a key element in the country's upward mobility strategy guided by the following objectives: neutralization of Argentine influence in the area, establishment of economic and political regional primacy, and securing a sea outlet to the Pacific Ocean. Finally, Brazil's emergence is facilitated by changes in the environment, mainly the diffusion of power as the international system moved from a bipolar order to a multipolar one. There are differences, however, in the projections of the time required for achieving major power status. Thus, earlier studies, influenced by the period of economic growth of the late 1960s and early 1970s, tend to be highly optimistic with respect to the likelihood of Brazil entering the developed world. Others, more cautions, point to possible obstacles to major power status such as Brazil's energy dependence and balance of payments constraints.<sup>34</sup>

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34 Norman A. Bailey and Ronald M. Schneider, "Brazil's Foreign Policy: A Case Study in Upward Mobility," *Inter-American Economic Affairs* 27 (Spring 1974): 3-25; G. A. Fiechter, "Le Brésil Bientôt Grande Puissance," *Relations Internationales* 17 (Spring 1979): 87-100; Lincoln Gordon, "Brazil's Future World Role," *Orbis* 16 (Fall 1972): 621-31; David M. Landry, "Brazil's New Regional and Global Roles," *Orbis* 16 (Fall 1972): 621-31; David M. Landry, "Brazil's New Regional and Global Roles," *World Affairs* 137 (Summer 1974): 23-37; William Perry, *Contemporary Brazilian Foreign Policy: The International*



The argument that Brazil was on the verge of becoming a major power was developed by means of two methodological approaches. Attempts to assess the relative position of the country in the international hierarchy using national capability measures comprise the first category of studies. A ranking configuration of that sort was performed by Wayne Selcher who, along with a broad range of measures of national capabilities, also includes measures of diplomatic status and indicators of social welfare and integration. Selcher is careful enough to observe that he is dealing with political potential or potential power, not actual power; thus, qualitative analysis of case-specific interaction is recommended to assess how these power resources affect outcomes. Considering the period of 1970 to 1976, the study shows Brazil had increased its relative position in “bulk” indicators of potential power, but little progress was achieved in its relative rank when per capita measures are considered. The author concludes that Brazil “has a long way to go to achieve major power status in capabilities,” but in his assessment, “Brazil is clearly becoming a more significant actor and more important middle power, and that it has the strong potential through the 1980s to be one of the most important middle powers.”<sup>35</sup> The assessment of the country’s military capabilities is

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*Strategy of an Emerging Power*, Foreign Policy Papers, vol. 2, n° 6 (Beverly Hills: Sage Pub., 1976); Riordan Roett, “Brazil Ascendant: International Relations and Geopolitics in the Late 20<sup>th</sup> Century,” *Journal of International Affairs* 29 (Fall 1975): 139-54; H. Jon Rosenbaum, “Brazil’s Foreign Policy: Developmentalism and Beyond,” *Orbis* 16 (Spring 1972): 58-84; Ronald M. Schneider, *Brazil – Foreign Policy of a Future World Power* (Boulder: Westview Press, 1976); Wayne A. Selcher, “Brazil’s Candidacy for Major Power Status: Short-Term Problems and Long-Term Optimism,” *Intellect* 105 (June 1977): 400-5; James Theberge, “Brazil’s Future Position in the Hemisphere and the World,” *World Affairs* 132 (June 1969): 39-47; and Jordan M. Young, “Brazil: World Power 2000?” *Intellect* 105 (June 1977): 406-9.

- 35 Wayne A. Selcher, “Brazil in the World: A Ranking Analysis of Capability and Status Measures,” in *Brazil in the International System: The Rise of a Middle Power*, pp. 56, 59. In Ray Cline’s assessment of perceived national power, Brazil was ranked as number six. Ray S. Cline, *World Power Assessment: A Calculus of Strategic Drift* (Boulder: Westview Press, 1975), p. 130. Brazil is classified as belonging to a category of “second-order power contender” in Saul B. Cohen, “The Emergence of a New Second Order of Powers in the International System,” in *Nuclear Proliferation and the Near-Nuclear Countries*, eds. Onkar Marwah and Ann Schulz (Cambridge: Ballinger Pub. Co., 1975), pp. 22, 24, 28.

also of concern for those who dealt with the thesis that Brazil was a candidate for major power status. The analysis of Brazil's relative position in several indicators of military capability indicates that it increased the strength and reach of its armed forces, but it lags behind other developing countries with respect to "financial commitment to its armed forces and capacity to extract resources from the society [which] severely limit the scope of its military capabilities."<sup>36</sup>

Another line of investigation in probing the thesis of Brazil as an emerging power deals with qualitative analysis of foreign policy decisions. In a comprehensive study of Brazilian foreign policy orientations, Ronald Schneider classified Brazil in the 1970s as "one of the most upwardly mobile actors in the current international system, moving from a policy of engagement toward one of expansion in international affairs."<sup>37</sup> The central argument of Schneider, a viewpoint shared by other emerging power studies, consists in demonstrating how Brazil's economic weight contributes to make the country less vulnerable to external factors and constraints. Although the author does not rule out the importance of external factors, he suggests that in the present situation foreign pressures are less of a constraining factor upon foreign policy options than they have been in the past. His assessment of the effect of a country's tighter integration into the world economy upon its foreign and domestic choices is in fact a reversal of mainstream dependency theory. Thus, according to him, a "deeper involvement in the international economy does not necessarily mean increased vulnerability, at least when

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36 Max G. Manwaring, "Brazilian Military Power: A Capability Analysis," in *Brazil in the International System: The Rise of a Middle Power*, pp. 95-96.

37 Schneider, *Brazil – Foreign Policy of a Future World Power*, p. 1. Engagement refers to the "tendency to move from relative international insularity to increasing involvement in less-than-global patterns of interaction in which control over such situations is shared with other nations," whereas expansion implies attempts "to extend over international situations." *Ibid.*, p. 25.

international economic relationships are becoming progressively more diversified.”<sup>38</sup> The prospects for Brazil’s future international role are stated in quite optimistic terms, as the following quotation reveals:

*Brazilian progress toward major-power status is almost certain to continue through the rest of the 1970s and into the 1980s. The fundamental question in the short run is one of rate, while in the longer run the question centers on the extent of this upward international mobility. Although developments in the external environment will continue to be important – probably more as constraints than as facilitating factors – Brazil’s movement toward joining the select circle of global powers will depend most heavily on greater internal development and its ability to achieve a preeminent position among the nations of Latin America.*<sup>39</sup>

In developing his argument, the author seems to neglect the necessary link between developments on the domestic front and the prevailing conditions in the external environment, since, as he argues, Brazil’s upward mobility prospects are closely related to its ability to maintain high rates of economic growth. However, in a situation of tight integration into the world economy, such as is the case of Brazil, for the latter condition to obtain it would be necessary for the world economy to be undergoing an expansionist trend too. Indeed, the Brazilian “economic miracle” during the 1968-1973 period, when the rate of growth exceeded 10 percent annually, was less the result of “correct” economic policies followed in that period, than of favorable conditions in the international

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38 Ibid., p. 31.

39 Ibid., p. 165.

economy.<sup>40</sup> Nevertheless, the emerging power perspective neglects the condition of the world economy as a significant contextual variable. More emphasis is given to domestic variables such as economic and military capabilities and elite aspiration for major power status, to the detriment of the impact of external factors.

According to Robert Keohane and Joseph Nye, there are two distinct dimensions of interdependence: sensitivity and vulnerability. Sensitivity refers to the mutual responsiveness of one country to events occurring in another. Vulnerability, on the other hand, refers to a country's inability to insulate itself from external effects and changes. "Vulnerability dependence can be measured only by the costliness of making effective adjustments to a changed environment over a period of time."<sup>41</sup> Not only are sensitivity and vulnerability effects of interdependence neglected in this kind of analysis, but the difficulty with the emerging power perspective, to quote a critic, lies in making "straight-line projections from the present to the future, assuming implicitly that the favorable political and economic trends of the mid-1970s would continue."<sup>42</sup> In that respect, a slightly different picture emerges from quantitative and qualitative approaches in the assessment of Brazil's current and future role in world affairs. Analyses of Brazil's ranking in measures of national capabilities warn "against unwarranted extrapolation beyond the period under examination."<sup>43</sup> Their findings indicate that while Brazil has more economic and political clout than the great majority of the Third

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40 Pedro S. Malan and Regis Bonelli, "The Brazilian Economy in the Seventies: Old and New Developments," *World Development* 5 (January/February 1977): 19-45.

41 Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown & Co., 1977), p. 13. For an extended discussion of interdependence, sensitivity, and vulnerability, see *ibid.*, pp. 8-19.

42 Robert D. Bond, "Brazil's Relations with the Northern Tier Countries of South America," in *Brazil in the International System: The Rise of a Middle Power*, p. 134.

43 Selcher, "Brazil in the World: A Ranking Analysis," p. 27.

World countries, the current gap in levels of capability between the former and the established major power is of such a magnitude as to caution against overestimating Brazil's potential. From the combined use of a quantitative assessment of tangible attributes and a relational approach to power emerges the suggestion that Brazil's actual effect on international outcomes might be less than its resource base would warrant. In accounting for the discrepancy between potential and actual power the following factors have been singled out: the peculiarities of Brazil's international position – “middle power status in a continent of marginal strategic importance” – in combination with internal weaknesses derived from dependence on the international system for factors such as capital, energy, technology and trade, and uneven development. Because of such weaknesses, argues a student of Brazilian foreign policy, Brazil “is still largely inner-directed and building infrastructure rather than being concerned with (or being really capable of) exerting influence abroad.” Brazilian diplomatic style is guided by a sort of “conservative statecraft” restraining the country from involvement and leadership in issues that are not of immediate concern to its interests and attempting to preserve “maximum political maneuvering.” In that analyst's assessment:

*Restraint is quite understandable for a middle power in Brazil's position... This... matches well the cautious interim approach to influence that Brazil has adopted, without abandonment of the aspiration to future greater significance but with the belief that this enhanced influence is best cultivated gradually over the long run without concomitant and troublesome startle effects from neighbors or the top dog states, which Brazil may not yet be in a position to overcome.<sup>44</sup>*

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44 Wayne A. Selcher, “Brazil in the Global Power System,” Occasional Papers Series, nº 11, Center of Brazilian Studies, School of Advanced International Studies, The Johns Hopkins University (November

The link between capability and strategy suggested by the emerging power paradigm is worth discussing, as it offers a contribution to theorizing about middle powers' foreign policy behavior. This perspective suggests a relationship between the Brazilian position in the international hierarchy as an upwardly mobile middle-power state and its diplomatic style of "cautious interim approach to influence" in Selcher's terms, in which the key features are "bilateral intensification without multilateral commitment," and no automatic alignment with either the South or the North.<sup>45</sup> Thus, a study of Brazilian multilateral diplomacy points to the differential weight assigned to bilateral as opposed to multilateral relations. With the exception of trade, commodity, and financial matters, Brazil, according to the author, "estimates conservatively the amount of practical benefit and status which institutionalized multilateral relations can yield for its efforts."<sup>46</sup> Brazilian diplomats regard the country's presence in multilateral arenas "as valuable for informational purposes, to expand contacts for bilateral follow-up, and to promote... international projection." Therefore, multilateral diplomacy is "carried out primarily as support for the main modality, bilateral relations" at which level Brazil expects the "major payoff in multilateral diplomacy." This approach to multilateral politics is seen as an outcome of Brazil's status as "an aspiring major power, trying to remain unfettered by international obligations or international consensus unfavorable to its interests, while at the same time seeking to avoid isolation."<sup>47</sup>

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1979), pp. 27-29; and idem, "Brazil in the World: Multipolarity as Seen by a Peripheral ADC Middle Power," in *Latin American Foreign Policies: Global and Regional Dimensions*, pp. 98-101.

45 Selcher, "Brazil in the Global Power System," p. 29.

46 Wayne A. Selcher, *Brazil's Multilateral Relations – Between First and Third Worlds* (Boulder: Westview Press, 1981), p. 279.

47 Ibid.

A similar argument is found in those studies that relate Brazil's ascendant intermediate position to a sort of pendulum-style foreign policy behavior in the defense of goals and objectives either of the South or of the North. For Wolf Grabendorff such behavior is typical of an upward middle-class state in the international stratification, that would seek the alliance of the Third World when pressing for concessions from the industrialized nations but would go along with the latter when-ever pressures from the bottom could undermine privileges and benefits it already has. The same reasoning informs a study of Brazil's multilateral maritime diplomacy where it has followed the Third World consensus as to the revision of the current maritime world order, but because of its emerging power status in ocean affairs it values a more predictable and open maritime order.<sup>48</sup>

Two sets of evidence can be presented that challenge the proposition that Brazil's dual alignment foreign policy behavior can be explained by its drive to attain major power status. In the first place, there is much historical evidence to suggest that bilateral intensification without multilateral commitment, rather than being an interim approach of a would-be major power, has historically constituted the predominant style of Brazilian conduct in Latin America. The preference for bilateral undertakings over multilateral agreements dates back to the nineteenth century when negotiations of its frontiers took place. Because of fears of an eventual alliance among Spanish-speaking countries against Brazilian interests, Brazilian diplomacy followed the rule of separate, bilateral negotiations with each one of its neighbors.

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48 Wolf Grabendorff, "La Política Exterior Brasileña entre el Primer y el Tercer Mundo," *Revista Argentina de Relaciones Internacionales* 5 (September/October 1979): 41-42; Michael Morris, "Brazil at the Third United Nations Conference on the Law of the Sea," *Ocean Development and International Law* 7, n°s 1/2 (1979): 131-77; and idem, *International Politics and the Sea* (Boulder: Westview Press, 1979), pp. 113-68.

A corollary of such rule was the value attached to the alliance with the United States, “to offset potential isolation among the Spanish-speakers.”<sup>49</sup> Other evidence that makes such a link tenuous at least comes from analyses of Third World multilateral politics. What is presented as a singularity of an aspirant major power’s foreign policy conduct does in fact constitute a fairly common pattern of behavior among Third World countries. Thus, it is shown that these countries do behave differently depending on the setting and the objectives they are pursuing. Global multilateral politics pursued under those “weak forums” that carry large voting power but hardly any decision-making power:

*generally concerns the status of developing countries in the international economic system and the long-term structural change they seek... More immediate and instrumental objectives tend to be pursued regionally and especially bilaterally, and are often guided by considerations of economic vulnerability.*<sup>50</sup>

When specific economic interests are at stake, a country may pursue a pragmatic approach and even behave contrary to the overall goals of the group, while simultaneously joining the Third World consensus when dealing with institutional structures, norms, and principles for reforming international regimes and even taking a leading role in global multilateral politics. As Krasner notes, “the pursuit of different goals in different forums is not

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49 Frank D. McCann, “Brazilian Foreign Relations in the Twentieth Century,” in *Brazil in the International System: The Rise of a Middle Power*, p. 2; and Bradford E. Burns, “As Relações Internacionais do Brasil Durante a Primeira República,” in *História Geral da Civilização Brasileira*, ed. Boris Fausto, vol. 9 (São Paulo: Difel, 1977), p. 385.

50 Branislav Gosovic and John G. Ruggie, “On the Creation of a New International Economic Order: Issue Linkage and the Seventh Special Session of the UN General Assembly,” *International Organization* 30 (Spring 1976): 312.



inconsistent or incoherent... Third World strategies manifest a variety of objectives.”<sup>51</sup>

In concluding this section, the major methodological and empirical shortcomings of these two perspectives can be summed up as follows.

The main assumption of the sub-imperialism model is the basic rigidity of the international power structure. However, core-periphery relationships can change somewhat depending on whether or not the world economy is in a phase of expansion or contraction; semi-periphery expansion becomes much easier when the latter condition obtains. As such, this perspective tends to be both reductionist and static. First, international politics and foreign policy are seen as a by-product of processes working at the world market level. Second, and this applies mostly to Galtung’s version of sub-imperialism, the implications of the decline of the United States from its dominant world position are not fully worked out in the sub-imperialist scheme. In Galtung’s version, sub-imperialism can be seen as a less costly solution for a “declining” imperialist power to maintain the status quo. As the former’s capability wanes, it will get others to “police” the world. Thus, we may infer that the imperialist power’s need for surrogate states is higher during the phase of decline than of dominance. The price of would-be surrogates, therefore, tends to increase. If we can represent the essence of sub-imperialism as a tradeoff – payments for services – a likely outcome is that the value of those payments could exceed the value attached by the core to the services rendered, which would undermine the usefulness

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51 Krasner, “Transforming International Regimes,” p. 124. The variety of Third World goals and strategies is discussed in pp. 121-25. For a similar pattern of Third World politics in international commodity negotiations, see Jock Finlayson and Mark Zacher, “The Third World and the Management of International Commodity Trade: Accord and Discord,” in *An International Political Economy*, eds. W. Ladd Hollist and F. LaMond Tullis (Boulder: Westview Press, 1985), pp. 199-222.

of such an arrangement from the standpoint of the metropole. On the other hand, the decline of the United States from its former primacy, and the ensuing diffusion of power, would contribute to widen the choices of the semi-periphery and, therefore, also undermine the usefulness of a surrogate relationship for the latter. Finally, this perspective supposes the uniformity of the semi-periphery's international behavior. Different types of behavior are regarded as minor deviations from the principal mediational role.

The emerging power paradigm works with an opposite assumption on the nature of the international system. Power structures are not frozen; upward mobility in the international hierarchy is continuously changing prevailing power configurations. Actually, most empirical studies of Brazilian foreign policy under this perspective have either minimized the impact of external constraints, or else have taken for granted that present favorable economic conditions would continue in the future.<sup>52</sup> Instead, they have been concerned with the impact of Brazil's growing domestic capabilities upon its current foreign strategy and future international role. As such, these studies tend to incur the same methodological problems as do other conventional power capability analyses in either treating power resources as actual power, or failing to specify questions of scope, weight, and domain of power.<sup>53</sup> Furthermore, those using the emerging power perspective manifest an implicit normative bias when considering the dual-alignment strategy of upward middle powers. The strategy of non-permanent commitment either to the South is regarded as an example of "opportunistic" behavior in taking advantage of the existing global economy, and irrational

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52 There are exceptions, cf. Selcher, "Brazil in the Global Power System."

53 For a critical view of conventional power analysis, see David A. Baldwin, "Power Analysis and World Politics: New Trends Versus Old Tendencies," *World Politics* 31 (January 1979): 163-75.

from the standpoint of its long-term interests. If inconsistent behavior is regarded as a peculiarity of countries moving faster in the international stratification ladder, the implication is that at the top and at the bottom of the hierarchy countries exhibit a more uniform and predictable behavior. In international relations studies, opportunistic behavior can be translated as behavior according to one's definition of self-interest. This means that only the category of upward middle power countries behave according to a definition of self-interest! That is an assumption most difficult to sustain, all the more so when it is recalled that the pursuit of national self-interest is at the core of realism, the paradigm upon which the emerging power perspective is founded.

Finally, although grounded in distinct theoretical and methodological traditions, both perspectives converge in their respective systemic implications. In both, the emergence of an intermediate layer would contribute to increase the degree of stability of the international system. In the sub-imperialist scheme the constitution of semi-peripheral structures would cushion against the social and political destabilization effects of the inherent trend of capitalist expansion towards center-periphery polarization. In the same vein, the emerging power's pendulum-style behavior would weaken the mobilization potential of the Third World and, simultaneously, would hinder the crystallization of North-South divergences within multilateral arenas. The conclusion that a certain amount of diffusion of power leads to stability is at odds with the formulations of the hegemonic stability theory to be examined below.

## **1.2. Premises and Assumptions of the Study**

The more diversified and broad the scope of a country's interests in the international system, the greater the number

and the more diversified and broad the nature of its interactions in the world economy and the arenas where it has a stake. The principal features of semi-peripheral countries, as opposed to the rest of the developing world, are a more advanced stage of their industrialization process and a higher degree of integration into the world economy through trade, investment, and financial links. Thus, they tend to pursue a diversified set of goals and the scope of their interests is also diversified. By contrast, a different picture emerges when we consider a country whose chief links to the international system are restricted to selling a sole commodity and receiving foreign aid. On the other hand, although the domestic economic structures of the semi-periphery are more complex and advanced than that of their developing peers, they are plagued by the same distortions that have characterized the industrialization process in all the periphery: a high degree of structural heterogeneity that manifests itself in sharp imbalances in productivity, technological development, and wage levels among sectors of the economy and geographical regions. Albeit Brazilian gross national product might be approaching that of the industrialized countries, it does not possess the necessary purchasing or selling power to influence the patterns of investment, production, and exchange at the world level. It is this duality of strength and weakness that is at the core of Gilberto Mathias and Pierre Salama's analysis of the contradictory nature of the semi-periphery's economic foreign policy. According to them, this contradictory nature expresses the constraints imposed by the international division of labor, and, at the same time, it represents the expression of the semi-periphery's effort to change this division of labor.<sup>54</sup> The unevenness of a semi-

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54 Gilberto Mathias and Pierre Salama, *O Estado Superdesenvolvido: Ensaio sobre a Intervenção Estatal e sobre as Formas de Dominação no Capitalismo Contemporâneo* (São Paulo: Editora Brasiliense, 1983), pp. 40-43. For an analysis of how the strength-weakness duality impacts upon Brazilian foreign policy

peripheral country's existing capabilities thus account for its pursuing simultaneously what Barbara Haskel terms expansive and distributive bargaining strategies.<sup>55</sup> Therefore, differently from the sub-imperialist perspective, which precludes variability of behavior patterns, and the emerging power framework, which considers it as a transitory and incoherent pattern of behavior, we regard multiplicity of international strategies as a likely outcome of the semi-periphery's international relations because of the countervailing pressures that emerge from the multiplicity of goals and interests at stake in the international system and their unbalanced power resources configuration.

Second, following Baldwin's plea for a contextual approach to power, we treat power resources as situationally specific. Because power resources do not approach the degree of fungibility of money, questions of scope, weight, and domain of power are necessary in assessing capabilities. A power resource that is effective in one issue area, or in a policy-contingency framework, in Baldwin's terminology, may be irrelevant in another. Power resources and vulnerabilities vary from one issue area to another and "power relationships in one policy-contingency framework are likely to differ from those in another."<sup>56</sup> The assumption that power is issue-specific calls into question the notion of "a single

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behavior, see Peixoto, "La Montée en Puissance du Brésil", pp. 328-55; and Selcher, "Brazil in the Global Power System", pp. 1-36.

55 In an expansive strategy, a party is concerned with expanding shares of the parties." Barbara G. Haskel, "Disparities, Strategies, and Opportunity Costs – The Example of Scandinavian Economic Market Negotiations," *International Studies Quarterly* 18 (March 1974): 4-11. The relationship between international and domestic weakness of Third World states and emphasis upon distributive bargaining strategies, "global bargaining over the restructuring of international regimes," is explored in Krasner, "Transforming International Regimes," who adds two other factors in accounting for such behavior: "the systemic opportunities offered by the international institutions which were created by a hegemonic power now in decline; and the pervasive acceptance of a belief system embodying a dependency orientation," p. 120.

56 Baldwin, "Power Analysis and World Politics," p. 178.

overall international power structure unrelated to any particular issue area.”<sup>57</sup> To quote an analyst:

*Instead of talking about the distribution of power resources underlying the international power structure, students of world politics could more profitably focus on the multiple distributional patterns of a wide variety of resources related to a number of significant issue-areas.*<sup>58</sup>

Finally, we hope to show that variability of behavioral patterns of the same actor in a same period of time can be analyzed from the vantage point of models based on the assumption that an actor’s action is motivated by self-interest. The assumption of rationality in the sense used here is analogous to Russell Hardin’s concept of “narrow rationality” to mean “efficient in securing one’s self-interest.”<sup>59</sup> Using a collective good approach we develop a framework that encompasses the likely pattern of international behavior of semi-peripheral countries. The next section presents briefly the concept of public goods from which the theory of collective action is derived and examines the contributions of such an approach to international relations studies.

### 1.3. Collective Goods and International Politics

The literature on public goods generally identifies two characteristics such goods must have: jointness of supply and non-exclusion. Jointness means that one person’s consumption of any unit of the good does not diminish the amount available to anyone

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57 Ibid., p. 193. Also, see Keohane and Nye, *Power and Interdependence*, pp. 38-60; Dale P. Dean, Jr. and John A. Vasquez, “From Power Politics to Issue Politics: Bipolarity and Multipolarity in Light of a New Paradigm,” *Western Political Quarterly* 29 (March 1976): 7-28; and Donald E. Lampert, Lawrence S. Falkowski, and Richard W. Mansbach, “Is There an International System?” *International Studies Quarterly* 22 (March 1978): 143-66.

58 Baldwin, “Power Analysis and World Politics,” p. 193 (emphasis in the original).

59 Russell Hardin, *Collective Action* (Baltimore: The Johns Hopkins University Press, 1983), p. 10.

else. If a good is non-excludable, once it has been provided it is not possible or economically feasible to exclude anyone from its enjoyment. Private goods lack both of these two properties. In the real world it is difficult to find goods that fulfill simultaneously both conditions as strictly defined. Not only are these two properties conceptually distinct but they can vary independently of each other. Pure cases of public goods are rare, for in most cases it is not possible to provide a public good without also providing a private good. The tendency in the literature is to consider private and public goods as “two opposite corners of a two-dimensional space, defined by variations of each of these two properties [jointness and non-exclusion]. Most non-private goods... probably lie somewhere within this two-dimensional space.”<sup>60</sup> The latter are usually referred to as impure public goods or mixed goods. The relevant literature in political science has been concerned with the provision of collective goods by groups, military alliances, regimes, and organizations; more generally, it is concerned with the conditions for successful cooperation towards common goals, or in other words, with the problem of collective action. Since most of these goods do not fully meet the technical conditions of pure public goods, the term collective goods should be preferred. But because some goods may exhibit some element of publicness the notion of public goods helps to clarify the problems of collective action.<sup>61</sup>

A pioneer in such endeavor is Mancur Olson’s theory of collective action. Olson argues that voluntarily, “rational, self-interested individuals will not act to achieve their common

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60 R. Harrison Wagner, “National Defense as a Collective Good,” in *Comparative Public Policy: Issues, Theories, and Methods*, eds. Craig Liske, William Loehr, and John McCamant (New York: Halsted Press, 1975), p. 204. Also, see Michael Taylor, *Community, Anarchy, and Liberty* (Cambridge: Cambridge University Press, 1982), pp. 40-44; and John Gerard Ruggie, “Collective Goods and Future International Collaboration,” *The American Political Science Review* 66 (September 1972): 886-92.

61 Hardin, *Collective Action*, pp. 18-20.

or group interests.”<sup>62</sup> His argument is that services provided by associations are analogous to the collective goods provided by governments: once provided to anyone, they go to everyone in the group. Since the benefits of any action an individual takes to provide a collective good also go to others, and since those who contribute nothing to the provision of the good receive the same benefit as those who do, an individual will try to make as small a contribution as possible or no contribution at all to the cost of providing the good in the hope of benefiting from the contributions of others. Since every member of the group makes the same calculation, the good will be undersupplied or not provided at all. Because of this “free rider” problem, unless coercion is applied or selective incentives are available to induce contribution, large groups will not provide themselves with collective goods, or individuals will not act in the group interest. Thus, “if there is only voluntary and rational individual behavior, then for the most part neither government nor lobbies and cartels will exist, unless individuals support them for some reason *other* than the collective goods they provide.”<sup>63</sup> States cannot support themselves by voluntary contributions and have to rely on compulsory taxation. Groups and organizations that provide collective goods to their members have to rely on selective incentives. These incentives apply not indiscriminately but “selectively to the individuals depending on whether they do or do not contribute to the provision of the collective good.”<sup>64</sup> These selective incentives can be either negative or positive, “in that they can either coerce by punishing those who fail to bear an allocated share of the costs of the group action, or they can be positive

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62 Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1971), p. 2 (emphasis in the original).

63 Idem, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982), pp. 19-20 (emphasis in the original).

64 Ibid., p. 21.



inducements offered to those who act in the group interest.”<sup>65</sup> Thus, in large groups, individual action towards collective ends will occur only if non-contributors can be prevented from benefiting from the collective goods or private goods can be made available to contributors.

The model of choice used to analyze the collective good problem is analogous to the one-shot Prisoner’s Dilemma, in which the dominant strategy is non-cooperation or free riding. The Prisoner’s Dilemma game is characterized by a choice dilemma for two players, in a situation where there is no communication between them and the players have no control over the other’s choice. It is a mixed-motive game in which the interests of the parties are not strictly opposed. Although the players could enjoy mutual benefit by choosing to cooperate, the logic of the game forces them to compete. In the standard example of the game, if player A chooses the cooperative strategy, his possible payoffs are 5 (if player B also cooperates) or -10 (if B chooses to compete); if A chooses the competitive strategy, his possible payoffs are 10 (if B cooperates) or -5 (if B competes). Assuming both actors to be rational, and that they behave according to their self-interest, each player will select the competitive, minimax, strategy. Since A prefers 10 to 5, and -5 to -10, the minimax strategy dictates that A selects the least damaging of the worst possible outcomes. Thus, he necessarily chooses to compete, which guarantees he will be better off regardless of what B chooses. Since B makes the same rational calculation, the competitive strategy dominates the game and they both end up with a payoff of -5. Had they chosen to cooperate, however, both would have received a payoff of 5.<sup>66</sup> Both

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65 Idem, *The Logic of Collective Action*, p. 51.

66 Robert J. Lieber, *Theory and World Politics* (Cambridge, England: Winthrop Pub., 1972), pp. 28-32; and Glenn H. Snyder, “Prisoner’s Dilemma’ and ‘Chicken’ Models in International Politics,” *International Studies Quarterly* 15 (March 1971): 66-103.

the Prisoner's Dilemma game and the logic of collective action point to a situation in which what is rational at the micro level is not necessarily rational at the macro level, the so-called fallacy of composition.<sup>67</sup>

Small groups, argues Olson, are more likely to supply themselves voluntarily with collective goods. The chief reason for this is that the larger the size of the group, the smaller the share of the total benefit that goes to an individual from the additional amount of the collective good provided out of his contribution, so that in large groups the cost of his contribution is likely to exceed the benefit he derives from the collective good. The converse is likely to happen in a small group, "where each member gets a substantial proportion of the total gain simply because there are few others in the group." But even in small groups, "the collective good will not ordinarily be provided on an optimal scale," since its supply will be regulated by the satisfaction of the individual.<sup>68</sup> Suboptimality can be lessened when the group is "privileged" – "a group such that each of its members, or at least some one of them, has an incentive to see that the collective good is provided, even if he has to bear the full burden of providing it himself."<sup>69</sup> In a privileged group there is a presumption that the collective good will be provided, because "one or more members get such a large fraction of the total benefit that they find it worthwhile to see that the collective good is provided, even if they have to pay the entire cost."<sup>70</sup> There are further reasons, according to Olson, why collective action is

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67 For the logical similarity between Prisoner's Dilemma and the collective good problem, see Hardin, *Collective Action*, pp. 16-37; Stephen M. Shaffer, "Alliance Politics: A Model Based on Divisibility of Payoffs," in *Public Goods and Public Policy*, eds. William Loehr and Todd Sandler (Beverly Hills: Sage, 1978), pp. 160-62; and Carlisle Ford Runge, "Institutions and the Free Rider: The Assurance Problem in Collective Action," *Journal of Politics* 46 (February 1984): 156-58.

68 Olson, *The Logic of Collective Action*, p. 34.

69 Ibid., p. 50.

70 Ibid., p. 46.

more likely to succeed in small groups. First, because such groups can more easily rely on social pressures and social incentives to induce cooperation, and second, because members can resort to bargaining and agree on collective action.<sup>71</sup> In an important qualification to Olson's argument, Hardin demonstrates that what matters for the supply of collective goods is not the size of the overall group but the ratio of benefits to costs: "If that ratio is very large, then a relatively small fraction of the whole group would already stand to benefit, even if that fractional subgroup alone paid the full cost of the group good."<sup>72</sup> He designates  $k$  the minimum-size subgroup that can be effective in collective action, that is the one whose fraction of the benefit exceeds the cost of provision. Thus, as long as there is an efficacious  $k$ , collective goods can be supplied regardless of the number of individuals in the group.<sup>73</sup>

The economic theory of alliances and the theory of hegemonic stability, to be examined next, are two examples of the application of the collective good paradigm to the study of international politics.

### 1.3.1. The Economic Theory of Alliances

Two related implications are derived from the Olson-Zeckhauser public good approach to alliance formation: a tendency for alliances to supply suboptimal amounts of the collective good and a tendency "for the 'exploitation' of the great by the small."<sup>74</sup> Their model treats defense as a pure public good, both within and

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71 Ibid., pp. 60-65; and idem, *The Rise and Decline of Nations*, pp. 23-30.

72 Hardin, *Collective Action*, pp. 40-41.

73 Ibid., pp. 38-49.

74 Olson, *The Logic of Collective Action*, p. 35; and Mancur Olson and Richard Zeckhauser, "An Economic Theory of Alliances," in *Economic Theories of International Politics*, ed. Bruce M. Russett (Chicago: Markham Pub. Co., 1968), pp. 25-45.

between allied nations, and assumes that defense is produced at constant costs for all members of the alliance. A further assumption is that no strategic bargaining interaction occurs within the alliance.<sup>75</sup> The latter is at the core of Olson's pessimistic implications with respect to voluntary cooperation in the provision of collective goods. By retaining the rational choice assumption that individual decisions are unaffected by others' choice, Olson's theory has been charged with being founded on an analytical model that is entirely static, ignoring the impact of time, bargaining, and negotiation. A dynamic analysis of collective action, in which cooperation can succeed, works with the presumption of state behavior according to the principle of "strategic rationality," "which takes into account the likely reactions of other states as well as the pursuit of interests across a wide range of issues and through time."<sup>76</sup>

The tendency towards suboptimality is a resultant of the non-excludable nature of the deterrence from outside attack provided by a military alliance to its members. Thus, nations will try to make as small a contribution as possible to the defense burden in the expectation of benefiting from other nations' contributions. The "free rider" problem, but not necessarily the question of optimality of supply, is likely to be particularly acute in alliances composed of nations of "greatly different size or interest in the collective good." In such alliances, there is a tendency towards disproportionality in burden sharing, once "the 'larger' nation – the one that places the higher absolute

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75 Olson and Zeckhauser, "An Economic Theory of Alliances," pp. 33-38.

76 Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization* 39 (Autumn 1985): 594. Also, see Taylor, *Community, Anarchy, and Liberty*, pp. 52-53; Richard Kimber, "Collective Action and the Fallacy of the Liberal Fallacy," *World Politics* 33 (January 1981): 178-96; and Runge, "Institutions and the Free Rider," pp. 154-81. An out-standing treatment of both static and dynamic analyses of the problem of collective action is Hardin, *Collective Action*.

value on the alliance good – will bear a *disproportionately* large share of the common burden.”<sup>77</sup> The smaller nations, on the other hand, “who get smaller shares of the total benefits accruing from the good... find that they have little or no incentive to provide additional amounts of the collective good once the larger members have provided the amounts they want for themselves.”<sup>78</sup> Suboptimality and disproportionality in burden sharing can be attenuated somewhat if the alliance can enforce cost-sharing arrangements such that each member of the alliance “pays an appropriate percentage of the cost of any additional units of the alliance good.” Such an arrangement exists, for example, with respect to the infrastructure costs of the alliance, that “unlike the costs of providing the main alliance forces, are shared according to percentages worked out in a negotiated agreement.” In addition, incentives to cooperate in the defense burden can also be obtained when the alliance provides private goods alongside the collective good.<sup>79</sup>

Further extensions of the collective good approach to the study of alliances introduced some qualifications to the Olson-Zeckhauser model’s original assumptions. An important one is the consideration of common defense as mixed good. Hence the bulk of alliance products can be spelled out in terms of their public and private components. It has been argued that deterrence at the national level meets the definition of a pure public good, since an attack on one part of a country will be considered an attack against all parts. Within military alliances, deterrence, however, might not meet the non-exclusiveness criterion, and would thus

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77 Olson and Zeckhauser, “An Economic Theory of Alliances,” p. 30 (emphasis in the original). Also, see Olson, *The Logic of Collective Action*, pp. 34-35.

78 Olson and Zeckhauser, “An Economic Theory of Alliances,” pp. 43-44.

79 Ibid., p. 41.

qualify as an impure public good. The state providing the bulk of deterrent expenditures may want to regulate its limits and hence the security provided by the deterrent forces may vary among members of the alliance. Finally, defense, as the actual use of military resources, exhibits even less elements of publicness than deterrence. Not only do most defense expenditures not meet the requirements of jointness and non-exclusion, but some of them are private goods to specific allied members.<sup>80</sup> Questions related to optimality of supply, burden sharing, free riding, and the stability of an alliance are likely to differ across alliances depending on how each defense system combines different amounts of pure public, impure public, and private joint products.<sup>81</sup> Furthermore, defense burdens may be more equally shared when two other assumptions of the Olson-Zeckhauser model are dropped: that no strategic bargaining interaction occurs within the alliance and that the members of the alliance are entirely free to set their own alliance policy. Thus, cooperation in the burden sharing can be upgraded either through bargaining among allied members, or the nature of intra-alliance relations can be such that the dominant power can coerce the other members to pay their tolls.<sup>82</sup>

### 1.3.2. The Theory of Hegemonic Stability

The role of hegemony in international politics has also been approached from a collective good perspective. The so-called

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80 Bruce M. Russett, *What Price Vigilance? The Burdens of National Defense* (New Haven: Yale University Press, 1970), pp. 94-100; and Raimo Väyrynen, "The Theory of Collective Goods, Military Alliances, and International Security," *International Social Science Journal* 28 (1976): 290-93.

81 Todd Sandler and Jon Cauley, "On the Economic Theory of Alliances," *The Journal of Conflict Resolution* 19 (June 1975): 330-48; Todd Sandler, "Impurity of Defense: An Application to the Economics of Alliances," *Kyklos* 30, Fasc. 3 (1977): 443-60; and Shaffer, "Alliance Politics," pp. 145-72.

82 Shaffer, "Alliance Politics," pp. 158-63; Russett, *What Price Vigilance?*, p. 100; and William M. Reisinger, "East European Military Expenditures in the 1970s: Collective Good or Bargaining Offer?" *International Organization* 37 (Winter 1983): 143-55.

theory of hegemonic stability posits that concentration of power or asymmetry leads to greater stability in the international system; conversely, fragmentation of power is associated with a decline in the strength of international regimes. There are two major variants of the hegemonic stability theory. The first, associated with the work of Charles Kindleberger, put more emphasis on the decentralized provision of the collective good by the hegemon, whereas in the other variant, associated with the writings of Robert Gilpin and Stephen Krasner, the latter can enforce contributions from other states.<sup>83</sup>

Kindleberger treats stability as a collective good and assumes the market system to be inherently unstable. He conceives the international economic and monetary system as a non-zero-sum game, analogous to the Prisoner's Dilemma, in which each nation will try to maximize its own gain at the expense of others, but all will end up in a worse position than they would have, had each foregone opportunities for immediate gains, and cooperated. Kindleberger argues:

*In these circumstances the international economic and monetary system needs leadership, a country which is prepared, consciously or unconsciously, under some system of*

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83 Snidal terms them the "benevolent" and "coercive" strands of the hegemonic stability theory, respectively. See his "The Limits of Hegemonic Stability Theory," pp. 579-95, for a comprehensive critical revision of the theory. Also, see David A. Lake, "Beneath the Commerce of Nations: A Theory of International Economic Structures," *International Studies Quarterly* 28 (June 1984): 144-45; and Timothy J. McKeown, "Hegemonic Stability Theory and 19<sup>th</sup> Century Tariff Levels in Europe," *International Organization* 37 (Winter 1983): 74-75. The phrase "theory of hegemonic stability" was coined by Robert O. Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967-1977," in *Change in the International System*, eds. Ole R. Holsti, Randolph M. Siverson, and Alexander L. George (Boulder: Westview Press, 1980), pp. 131-62. Without reliance on a collective good framework, the relationship between hegemony, on the one hand, and stability and openness on the other, has been suggested by Christopher K. Chase-Dunn, "International Economic Policy in a Declining Core State," and George Modelski, "Long Cycles and the Strategy of U.S. International Economic Policy," in *America in a Changing World Political Economy*, eds. William P. Avery and David R. Rapkin (New York: Longman, 1982), pp. 77-96 and 97-116, respectively.

*rules that it has internalized, to set standards of conduct for other countries; and to seek to get others to follow them, to take on an undue share of the burdens of the system, and in particular to take on its support in adversity by accepting its redundant commodities, maintaining a flow of investment capital, and discounting its paper. Britain performed this role in the century to 1913; the United States in the period after the Second World War to, say, the Interest Equalization Tax in 1963... part of the reason for the length, and most of the explanation for the depth of the world depression, was the inability of the British to continue their role of underwriter to the system and the reluctance of the United States to take it on until 1936.<sup>84</sup>*

Kindleberger emphasizes that preponderance of power is not in itself sufficient to assure a stable regime, but the hegemon must be willing to accept responsibility in the provision of collective goods. Hence, a measure of farsightedness is required from the hegemon. Like Olson's privileged groups, the larger country, whose fraction of the benefit of the collective good of global stability is expected to exceed the entire cost of supplying it, will be willing to bear the full burden of its provision. Thus, Kindleberger distinguishes leadership from dominance, since in providing the good for itself the hegemon is providing it at no cost to the other members of the system. But a system based on a "benevolent leadership" is, according to Kindleberger, "unstable over time." The hegemonic country may want to refrain from bearing a growing burden of the collective good, "as more and more free riders seek more luxurious free rides." Or, "the leader can be overthrown by

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84 Charles P. Kindleberger, *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973), p. 28; and idem, "Systems of International Economic Organization," in *Money and the Coming World Order*, ed. David P. Calleo (New York: New York University Press, 1976), pp. 31-38.



the refusal of followers to submit to what they have come to think of as exploitation.”<sup>85</sup>

Snidal suggests that one of the implications of Kindleberger’s model of hegemonic leadership is that “although the dominant leader benefits from this situation (i.e., it turns a net ‘profit’ from providing the good), smaller states gain even more. They bear none of the costs of provision and yet share fully in the benefits.”<sup>86</sup> He argues that, “once the public goods formulation is invoked to explain the emergence of regimes under hegemony, the distributional argument follows as a logical conclusion.”<sup>87</sup> Where we depart from Snidal’s observation is that the implication that distribution is necessarily in favor of smaller countries, specifically that they benefit more than larger ones, can be logically derived from the model of provision of collective goods in privileged groups. The implication of Olson’s argument is that in a privileged group all benefit from the provision of the good; the problem of the relative gains of each member, however, is more likely an empirical question than a logical one. In fact, the incentive for the hegemon to bear the full burden of supplying the good is the expectation that its share of the benefits will be greater than the cost of provision. Thus, a comparison of benefits across countries would have to take into account not the opportunity costs for the hegemon of supplying the good, or what is being forsaken to pay for the good, but what can be lost for not having the good provided at all. Once the hegemon values the collective good more than the smaller members, it may lose more from not having the good provided than the latter, but this is an empirical question. In

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85 Idem, “Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Riders,” *International Studies Quarterly* 25 (June 1981): 251.

86 Snidal, “The Limits of Hegemonic Stability Theory,” p. 581 (emphasis mine).

87 Ibid.

empirical terms, the benefits of the collective good of free trade, for example, tend to be greater for the largest and most competitive sectors of the economy and nations in the trade system.

The focus of both Gilpin and Krasner is on the impact of hegemony on the nature and substance of international economic regimes. From their vantage point, the hegemonic country has both the interest and the capability to structure international regimes with characteristics it favors. Concentration of power is associated with an open trading order, since the hegemonic state has the most to gain from free trade. The latter has enough resources to offer selective benefits to reward those who cooperate, or to force recalcitrant states to conform to the regime rules.<sup>88</sup> As the capability of the hegemon declines relative to other states, its ability to reward and to punish would be reduced and hence the regime organized under its leadership would lose strength.<sup>89</sup>

Gilpin also points to the hegemonic state's ability to extract contributions from other states in organizing a liberal economic order, an order in which the hegemon is the main beneficiary but from which other states benefit as well.<sup>90</sup> In a later work, Gilpin posits that hegemony is essential for the preservation of peace in the international system. He elaborates the concept of an hegemonic order, by bringing into focus the question of legitimacy of such order. According to him, this is based upon three factors: the capacity of the hegemonic state "to enforce its

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88 "In terms of positive incentives," argues Krasner, the hegemonic state "can offer access to its large domestic market and to its relatively cheap exports. In terms of negative ones, it can withhold foreign grants and engage in competition, potentially ruinous for the weaker state, in third-country markets." In some circumstances, the hegemonic state might use its military power to open markets in "backward areas." Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (April 1976): 322-23 and 335-36.

89 Keohane, "The Theory of Hegemonic Stability," p. 136.

90 Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975), pp. 48, 85, 99-112.

will on other states,” its ability to provide certain collective goods that are beneficial to other states, and the existence of common ideological values among the states in the international system.<sup>91</sup> Such a dual-nature conception of hegemony – a combination of force and consensus in Gramscian terms – is elaborated further by other scholars.<sup>92</sup> In a similar vein, Bruce Russett stresses the importance of “cultural hegemony,” a crucial asset to the hegemon in maintaining its world leadership position. Cultural hegemony allows the hegemonic state “to retain substantial control over essential outcomes without having to exert power over others overtly.”<sup>93</sup>

A recurrent theme in the literature is that of the financial burden of hegemony. The hegemon, as Krasner puts it, pursues “a policy of *investment rather than consumption*.”<sup>94</sup> Although providing private goods for its own benefits, collective goods are provided at almost no cost to the other states. Thus, the costs of investing in an open and stable economic order are borne disproportionately by the hegemon. The issue of disproportionality in burden sharing is treated in the hegemonic stability literature either as an outcome of the unfeasibility of excluding others from the consumption of the good, or as resultant of an intentional policy followed by the hegemonic state. In the latter case, even if the hegemon might have the ability to enforce contributions from other states, because

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91 Idem, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981), p. 34.

92 Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984), pp. 44-45, 136-37; and David D. Laitin, “Capitalism and Hegemony: Yorubaland and the International Economy,” *International Organization* 36 (Autumn 1982): 708-11.

93 Bruce Russett, “The Mysterious Case of Vanishing Hegemony; or, Is Mark Twain Really Dead?” *International Organization* 39 (Spring 1985): 229. Also, see Fred H. Lawson, “Hegemony and the Structure of International Trade Reassessed: A View from Arabia,” *International Organization* 37 (Spring 1983): 355.

94 Stephen D. Krasner, “American Policy and Global Economic Stability,” in *America in a Changing World Political Economy*, p. 33 (emphasis in original).

it pursues long-term political objectives, it may allow some other states to free ride on its own contributions by tolerating various forms of discriminatory and mercantilistic policies. Writing on the post-war era of the *Pax Americana*, Krasner observes: “Free riders in the economic sphere were accepted, for American policy makers were most concerned with political objectives. The international economic regime was stable because one state willingly accepted most of the costs.”<sup>95</sup> In some circumstances, however, the hegemon will provide private goods to increase the incentives to other states to conform to its preferences in an explicit strategy intended “to avoid rewarding free riders.”<sup>96</sup> As power diffuses throughout the international system, and the capabilities of the hegemonic state relative to others decline, the hegemon’s willingness to sacrifice short-term interests for long-term goals wanes. It will begin to behave more like an “ordinary power” as Krasner terms it, when “specific national goals” take precedence over wide systemic objectives. At that juncture, the burden of hegemonic leadership takes its toll on the hegemon:

*As the hegemonial state’s margin of resource superiority over its partners declines, the costs of leadership will become more burdensome. Enforcement of rules will be more difficult and side payments will seem less justifiable. Should other states – now increasingly strong economic rivals – not have to contribute their “fair shares” to the collective enterprise? The hegemon (or former hegemon) is likely to seek to place additional burdens on its allies.<sup>97</sup>*

95 Ibid., p. 38. For a longer discussion, see *ibid.*, pp. 32–38. Also, see Gilpin, *U.S. Power and the Multinational Corporation*, pp. 106–11, 150–52; and Keohane, *After Hegemony*, pp. 146, 178.

96 Keohane, *After Hegemony*, p. 180.

97 Idem, “The Theory of Hegemonic Stability,” pp. 136–37; and Krasner, “American Policy and Global Economic Stability,” pp. 38–47. For the systemic consequences of diffusion of power, see Gilpin, *U.S. Power and the Multinational Corporation*, pp. 215–19, 253–62.

The empirical evidence of the relationship between hegemony and openness or hegemonic decline and closure is weak as suggested by studies of the world trading system and tariff levels in the nineteenth and twentieth centuries, and of the trading structures of peripheral areas linked to a hegemon.<sup>98</sup> The ability of the theory to account for changes in different international economic regimes was put to a test by Robert Keohane. He examined the relationship between changes in the distribution of economic power resources in the areas of trade, money, and petroleum in the period of 1967 to 1977, and changes in international regimes in these three issue areas. On the basis of the evidence, he concludes that “on the whole the hegemonic stability theory [specifically, that concentration of power is associated with strong regimes, and accordingly, a decline in relative capability will lead to their weakness] does not explain recent changes in international trade regimes as well as it explains changes in money or oil.”<sup>99</sup> These weak empirical results have led scholars to challenge the claim that hegemony is both necessary and sufficient for the existence of an open world economic order or strong international regimes. “As applied to the last century and a half,” the hegemonic stability theory, argues Keohane, “does well at identifying apparently necessary conditions for strong international economic regimes, but poorly at establishing sufficient conditions.”<sup>100</sup>

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98 McKeown, “Hegemonic Stability Theory,” pp. 80-89; Arthur A. Stein, “The Hegemon’s Dilemma: Great Britain, the United States, and the International Economic Order,” *International Organization* 38 (Spring 1984): 355-86; Krasner, “State Power and the Structure of International Trade,” pp. 338-41; Lawson, “Hegemony and the Structure of International Trade,” pp. 338-41; Lawson, “Hegemony and the Structure of International Trade Reassessed,” pp. 317-37; and Laitin, “Capitalism and Hegemony,” pp. 687-713.

99 Keohane, “The Theory of Hegemonic Stability,” p. 154.

100 *Ibid.*, p. 137. Lake, “Beneath the Commerce of Nations,” develops a game-theoretical interpretation of international economic structures in which no axiomatic relationship is found between hegemonic structures and open trade and non-hegemonic structures and closure, pp. 145-59.

Alternative ways of accounting for trends in relative openness and closure have taken into consideration the impact of domestic-level factors. The consideration of domestic-level factors in amending the theory of hegemonic stability intends to overcome a limitation inherent to all systemic and structural-level arguments: the lack of an adequate explanation of the process whereby outcomes predicted by the theory come about.<sup>101</sup> The line of argumentation developed by Krasner suggests that structural-level and domestic-level factors can be combined to explain changes in the contemporary trade-regime – compared with the 1950s and the 1960s, a “more fragile” trade regime, with more departures from established regime’s norms. A decline in relative capability increases the domestic interests constraints for the hegemon to continue to pay for the operating costs of an open trading regime. One of these costs is the tolerance of other countries’ trade barriers while keeping its own relatively open.<sup>102</sup>

#### 1.4. Semi-Periphery’s International Strategies: A Framework of Analysis

In the performance of a task countries can act unilaterally or their behavior may exhibit collective characteristics. A unilateral behavior means that a country brings about the action and

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101 For this and other conceptual difficulties of the theory, see McKeown, “Hegemonic Stability Theory,” pp. 75-80; Keohane, “The Theory of Hegemonic Stability,” pp. 137-38; idem, *After Hegemony*, pp. 32-39; and Stein, “The Hegemon’s Dilemma,” pp. 357-60. McKeown, “Hegemonic Stability Theory,” suggests an explanation of changes in tariff levels based on a “political business cycle” in which governmental policy is driven by national and international business cycles, pp. 89-91.

102 Cf. Krasner’s “U.S. Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness,” *International Organization* 31 (Autumn 1977): 635-71; “The Tokyo Round: Particularistic Interests and Prospects for Stability in the Global Trading System,” *International Studies Quarterly* 23 (December 1979): 491-500, 525-28; and “American Policy and Global Economic Stability,” pp. 38-47. Stein, “The Hegemon’s Dilemma,” argues: “The relative decline of the hegemon’s position threatens the trading order only when the hegemon stops accepting others’ departures from free trade and retaliates against them,” pp. 384-85.

stands to incur whatever consequences may follow from its action even though its behavior may negatively affect another country. The other class of behavior refers to actions performed for the achievement of collective or common goals of a group of countries. The collective good framework and its application to international politics suggests that large and small countries will tend to follow different strategies in the presence of collective goods. For the largest country whose fraction of the benefit is expected to exceed the cost of provision, the most likely strategy is that of a supplier of the collective good. As to the smaller country, on the other hand, the most likely strategy is that of the free rider, since it will try to make as small a contribution as possible in the expectation of benefiting from the contributions of the larger one.

The next step in the argument consists of asserting the range of likely behavioral patterns for countries A and B, when A has a preponderance of economic resources vis-à-vis B. In the performance of a task, given the unipolar power configuration in a hypothetical issue area, country A will either act unilaterally or provide leadership for the emergence of an international regime in that issue area. In the current literature, regime is defined as “sets of implicit or explicit principles, norms, rules and decision-making procedures around which actors’ expectations converge in a given area of international relations.”<sup>103</sup> Assuming this hypothetical regime to exhibit some element of publicness, country A will attempt to deal with the free rider problem by providing positive selective incentives to B or by coercing B to comply with regime rules. In the first case, private goods are supplied to induce cooperation, and in the second, country A can withdraw or threaten to withdraw something valuable to B, such

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103 Stephen D. Krasner, “Structural Causes and Regime Consequences: Regimes as Intervening Variables,” *International Organization* 36 (Spring 1982): 186.

as access to its market, supply of a commodity, or foreign aid.<sup>104</sup> Country B, on the other hand, will participate in the collective endeavor if private benefits are provided alongside the collective good or if coerced to contribute to the collective endeavor. If neither inducement nor coercion are present or the nature of the good is such that it is not feasible to exclude non-contributors from benefiting from the collective good, country B will free ride on the goods provided by the regime.<sup>105</sup> Given country A's higher stake in the provision of the good, a free rider strategy is most unlikely. On the other hand, country B's limited power resources preclude it from acting unilaterally, once it cannot afford the costs of its action's effect upon country A. The other behaviors are symmetrical.

For the sake of clarity of the argument developed so far, the figure below presents the range of likely behavioral patterns for countries A and B, in a given issue area:

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104 Klaus Knorr, "International Economic Leverage and Its Uses," in *Economic Issues and National Security*, eds. Klaus Knorr and Frank N. Trager (Lawrence: Regents Press of Kansas, 1977), p. 99. According to McKeown, "Hegemonic Stability," pp. 77-78: "There is... a much more potent and historically relevant weapon of economic 'power' available to the hegemonic state: it can threaten to cut off one nation's access to its rich home market while allowing other nations continued access to that market. Threatening to raise tariffs unless the target state lowers its own is clearly a coercive policy, even when it is coupled to the 'carrot' of preferential access to the hegemonic state's own market in exchange for the target state's tariff concessions... The selective awarding of access to the home market husbands the hegemonic state's 'bargaining chips' and precludes speculators from taking a free ride on the target country's concessions to the hegemonic state (obtaining access to the hegemonic state's home market on the same favorable terms without having to pay any 'price' in the form of tariff reductions)." The classical analysis of trade as an instrument of foreign policy is Albert O. Hirschman, *National Power and the Structure of Foreign Trade*, expanded ed. With a new preface by the author (Berkeley and Los Angeles: University of California Press, 1980), especially chap. 2.

105 Even if the hegemon might have the ability to enforce contributions, in some collective goods, "the process of exclusion itself interferes with provision of the good." Snidal, "The Limits of Hegemonic Stability Theory," p. 592.



	I	II	III
Country A	Unilateral action	Positive incentives (providing)	Coercion (providing)
	IV	V	VI
Country B	Free rider	Positive incentives (receiving)	Coercion (receiving)

From 1945 to the mid-sixties the United States was the dominant economic, political, and military partner of most Latin American countries. In that period, in most “Western hemispherical” issues the United States behaved according to pattern I and a combination of patterns II and III, whereas Latin American countries followed patterns V and VI. In the post-war period, Japan, getting a free ride on the Western defense system, illustrates pattern IV.

Let us suppose that B stands for a group of similar countries and that developments within group members tend to increase differentiation among them. The same reasoning could be applied to pole A. The outcome of differentiation within both poles is a trend away from a unipolar power configuration to a multipolar one. Economic, political, and military developments of the post-war order have led increasingly to multipolarity in a series of issue areas. Thus, internal developments of both the Eastern and the Western alliance systems have decreased the costs of defection and increased the costs of carrying out the leadership role. In political and military matters, the rigid bipolar system of the 1950s gave rise to a much more flexible alliance system. In the economic order established after World War II, the United States

enjoyed an indisputable primacy in the areas of trade, investment, and finance. Further developments, such as European economic recovery, the emergence of Japan as a powerful economic actor, and the Third World decolonization process, have eroded United States global hegemony. The United States has retained its former primacy in some sectors of the world economy and some issue areas while faltering in others.<sup>106</sup> The weakening of the United States' former position has not, however, led to the vanishing of the regimes it once provided the leadership to exist. In some areas, an "oligopolistic" order superseded the previous hegemonic one. The main feature of such an oligopolistic system is that "a number of countries are capable of affecting the course of international relations, but none is capable of unilaterally supplying the public good of a 'new international system.'"<sup>107</sup> In such an order, "equals" can agree to cooperate in supplying collective goods through regimes, but simultaneously they will try to pursue "nationalistic goals that, in a situation of reduced agreements and rules of the game, are implicitly obtained at a disadvantage to the remaining countries."<sup>108</sup> The emergence of new centers of economic power has transformed post-war unipolar economic structure into a multipolar economic order.

Multipolarity can be conceived as a network of relationships in which there is an unknown probability (but different from zero) of a group of countries to behave in a pattern similar to a type A

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106 The notion of a major decline of United States global hegemony is challenged by Russett, "The Mysterious Case of Vanishing Hegemony," pp. 207-31.

107 Paolo Guerrieri and Pier Carlo Padoan, "Neomercantilism and International Economic Stability," *International Organization* 40 (Winter 1986): 35.

108 *Ibid.*, p. 36. For axiomatic and empirical models of how "cooperation among equals" can succeed in the absence of an hegemon, see Snidal, "The Limits of Hegemonic Stability," pp. 597-614; Lake, "Beneath the Commerce of Nations," pp. 149-59; and Keohane, *After Hegemony*, particularly chaps. 5, 6, 7, 10, and 11.

country (although with a slight emphasis on pattern I of behavior and more collective attempts to enforce contributions from other states); of another group of countries to behave in a type B country pattern (with a slight emphasis on behavioral pattern IV); and of a third group – type C country – to behave simultaneously as types A and B. In some issues, country C will behave like A towards B and in others, like B towards A. Thus, a typical country C will exhibit all the six modalities of behavioral patterns. It might behave according to a pure power logic (unilateral action) in one issue area, and in another, it might be coerced to comply with the rules of the game. This “schizophrenic” pattern of international behavior is predicated on country C’s unbalanced power resources configuration. There is thus a structural component, and such “incoherence” cannot be attributed to a faulty rationality of its decision makers. The present framework goes beyond the sub-imperialism and the emerging power paradigms, in that behavioral patterns not predicted by these two are accounted for. It also allows the incorporation of the basic strength-weakness duality that characterizes the semi-periphery’s international behavior.

To assess the empirical fitness of the framework advanced in this dissertation, the next step consists of demonstrating whether Brazil’s international behavior falls under a type C country pattern. Empirical evidence will be drawn from two of the chief economic objectives of Brazil in international affairs: access to foreign markets and energy supply. Both have constituted major external constraints to the country’s economic growth since the early 1970s and as such have been important priorities of Brazil’s foreign policy agenda ever since. The following chapters consist of case studies of Brazil’s international conduct in three issue areas: nuclear energy, trade, and hydroelectric development of the Paraná River Basin. Brazil followed different strategies in each one of these issues, for each of them differs from the others in the following respects:

the structure of incentives (international regime characteristics), Brazil's specific power resources, and domestic-level constraints.

The analysis of these different issues will show how Brazil exhibited each one of all the six modalities of type C country pattern. Thus, in the nuclear field Brazil has been a free rider on the non-proliferation regime and acted unilaterally when it sought to attain self-sufficiency in all aspects of the nuclear fuel cycle (chapters II and III). Its multilateral trade diplomacy, to be examined in chapters IV and V, illustrates patterns V and VI, respectively. Finally, chapter VI examines the development of a regime for the utilization of the Plate River Basin's hydroelectric potential, when Brazil played the hegemon's role, providing special incentives to its junior partner (Paraguay) and negative inducements against the "uncooperative" partner (Argentina).

## **2. BRAZILIAN NUCLEAR DIPLOMACY AND THE NON-PROLIFERATION REGIME**

This chapter analyzes the Brazilian stance on the Non-Proliferation Treaty (NPT), as a case study of Brazil's international conduct that exemplifies a behavioral pattern of the free rider type. In examining this modality of international behavior we must deal with the international system and the nation-state levels of analysis simultaneously, thus focusing on the structure and process of the non-proliferation regime and on the particular characteristics of Brazilian domestic nuclear choices and diplomacy.

International regimes are understood as bilateral or multilateral systems of rules and procedures to regulate behavior and control its effects on international affairs. With both the capability and the motivation for doing so, the United States has been the major force behind succeeding efforts at the non-proliferation regime formation. Actually, with the exception of its first multilateral initiative – the Baruch Plan – the principal norms and procedures of the regime mirror, at least up to the early 1970s, major United States non-proliferation interests and objectives.

With the diffusion of nuclear technology, however, this country has been less successful in raising its interests to the level of a general principle and, accordingly, in monitoring the evolution of the regime in a direction that is completely satisfactory to its non-proliferation objectives. The loss of overwhelming preponderance of United States influence, as a consequence of the gradual erosion of its virtual monopoly in the world nuclear market, has been seen as the main cause of regime instability.<sup>109</sup>

Diffusion of nuclear technology has also highlighted another important feature of the non-proliferation regime: the perennial tension between the economic value of nuclear energy and the prevention of nuclear weapons proliferation. Pierre Lellouche suggests that the existence of a coincidence between the interests of the nuclear industry and non-proliferation objectives is the key “to the successful implementation of a state’s foreign nuclear policy.”<sup>110</sup> This coincidence provided the basic rationale for the United States Atoms for Peace program. Atoms for Peace was conceived under the premise that if the spread of nuclear technology was inevitable, it was preferable to have the United States leading the process in such a way that it could influence other countries’ nuclear options. By making the supply of technical cooperation in the nuclear field contingent on the acceptance of an international inspection system, the United States hoped to control the recipient’s military uses of nuclear technology. As Steven Baker puts it:

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109 For a consideration along these lines, see Paul L. Joskow, “The International Nuclear Industry Today: The End of the American Monopoly,” *Foreign Affairs* 54 (July 1976): 788-803. The argument that concentration of power contributes to the stability of an international regime was advanced in works such as Charles P. Kindleberger, *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973); Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975); and Stephen D. Krasner, “State Power and the Structure of International Trade,” *World Politics* 28 (April 1976): 317-47.

110 Pierre Lellouche, “Giscard’s Legacy: French Nuclear Policy and Non-Proliferation, 1974-81,” in *Nuclear Exports and World Politics: Policy and Regime*, eds. Robert Boardman and James F. Keeley (New York: St. Martin’s Press, 1983), p. 43.

*Atoms-for-Peace was designed to spread American controls internationally by means of spreading American nuclear technology and hardware. The political support generated for the proposal in America rested on the capability of the government's international political objectives with the nuclear industry's commercial interests.*<sup>111</sup>

The trade-off-nuclear weapons control for nuclear cooperation was the core of the NPT proposal. By that time, however, diffusion of nuclear technology had put additional burdens on the regime's sponsor: an increase in the number of the meaningful actors whose acquiescence was essential for the effectiveness of the regime, and a more complex balance of non-proliferation objectives against other security and economic interests.

We will argue in this chapter that the basic trade-off of the NPT, and the predominance of security and economic interests over non-proliferation objectives, create a free rider problem for the regime. Therefore, the incentives for a non-nuclear country to free ride the regime will be higher for those countries that place a high value on the attainment of a nuclear capability. The next two sections deal with the pre-NPT stage of the regime: the Baruch Plan and the Atoms for Peace program. In section three, we analyze the main features of the NPT and its negotiating process. The last two sections focus on Brazil's nuclear energy options. First, we examine the characteristics of its nuclear policy over time and then the nuclear diplomacy of the military regime.

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111 Steven J. Baker, "Commercial Nuclear Power and Nuclear Proliferation," in U.S., Congress, Senate, Committee on Government Operations, *Export Reorganization Act of 1976, Hearings before the Committee on Government Operations on S. 1439*, 94<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1976, p. 1878. The emphasis of Baker's study is on the interplay between the commercial promotion of nuclear energy and the proliferation of nuclear weapons.

## 2.1 The Politics of Control

The creation of a special United Nations commission to deal with the problems raised by the discovery of atomic energy was the outcome of an earlier meeting of Heads of Government of the United States, the United Kingdom, and Canada in Washington in November 1945, followed by the Conference of the Foreign Ministers of the first two countries plus the Soviet Union in Moscow in December 1945.<sup>112</sup> The establishment of the Atomic Energy Commission was agreed upon by the fifty-one members of the United Nations, in a unanimous General Assembly vote on January 24, 1946. The Commission was created as a special organ of the Security Council and it was composed of all the members of the Security Council, and Canada.<sup>113</sup> The Commission thus has six permanent members – the five permanent members of the Security Council and Canada – plus the six other nonpermanent members of the Council.

### 2.1.1 The Baruch Plan

The first United States multilateral proposal to establish a non-proliferation regime was presented by the United States representative, Bernard Baruch, at the first meeting of the Atomic Energy Commission, on 14 June 1946. Developed previously in the Acheson-Lilienthal Report, the Baruch Plan, as it became known, proposed the creation of an International Atomic Development

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112 United Nations, Department of Political and Security Council Affairs, *The United Nations and Disarmament, 1945-1970* (New York, 1970), p. 11 (hereafter cited as *United Nations and Disarmament*). For the text of the agreement on atomic energy, signed by the three heads of State after the Washington meeting, see *U.S. Department of State Bulletin* 13 (18 November 1945): 781-82.

113 Unless otherwise mentioned, data on the workings of the Commission come from *United Nations and Disarmament*, pp. 11-24; United Nations, Department of Public Information, *Yearbook of the United Nations, 1946-1947-48* (New York, 1947), pp. 444-51; idem, *Yearbook of the United Nations, 1947-48* (New York, 1949), pp. 461-76; and idem, *Yearbook of the United Nations, 1948-49* (New York, 1950), pp. 344-61.



Authority, to which would be granted managerial control or ownership of all nuclear energy activities “potentially dangerous to world security.”<sup>114</sup> Following the conclusions of the Acheson-Lilienthal Report, the proposal rejected Report, the proposal rejected reliance only on international systems of inspection as defective, as far as non-proliferation objectives were concerned. Instead, ownership and control over “dangerous” activities should be required. Thus, the powers to be given to the Authority were extensive, including such things as responsibility for conducting continuous surveys on world supplies of uranium and thorium and monopoly over the production of these raw materials, and the exclusive right both to conduct research in the field of atomic explosives and to produce and own fissionable material. States would have control only of “safe” civilian activities, but the Authority would be entrusted with the “power to control, inspect and license” these national activities. For these activities, it would lease, under safeguards, denatured fissionable materials. All states were to grant the freedom of inspection deemed necessary by the Authority. And above all, no Security Council veto would exist to protect those countries violating any one of the Plan’s prohibited activities. The Authority was expected to have a leading role in “fostering the beneficial uses of atomic energy.”<sup>115</sup>

The workings of the Acheson-Lilienthal commission were conducted under the premise that the temporary United States advantage would erode over time, despite the initial United

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114 The major proposal of the Acheson-Lilienthal Report, of March 1946, was the creation of an international agency to be given monopoly control over all dangerous activities, those that could lead to the manufacture of explosives, leaving the non-dangerous ones open to nations. The agency would release only denatured uranium to individual nations, for scientific and industrial use. For excerpts from the text of the Report, see *U.S. Department of State Bulletin* 14 (7 April 1946): 553-60. For background information, see *Time*, 8 April 1946, p. 27.

115 *United Nations and Disarmament*, pp. 12-13. See also, *Time*, 24 June 1946, p. 25.

States monopoly of the production of nuclear weapons. Thus, the proposals advanced in the Baruch Plan were “intended to secure effective controls over access to nuclear technology and to prevent the acquisition of nuclear weapons by other states by appropriate action *while the US monopoly existed*.”<sup>116</sup> The United States was willing to turn its know-how over to the Authority gradually, provided that the Soviet Union would not extend the veto power to atomic control: “If Russia stalls, the U.S. will stall in the commission – and keep right on making bombs at Oak Ridge.”<sup>117</sup> Meanwhile, domestic legislation was being prepared. Enacted on 30 July of that year, the Atomic Energy Act of 1946 – or the “McMahon Act” – was highly restrictive as regards nuclear cooperation. The 1946 Act established exclusive governmental control over fissionable materials and precluded any interchange of nuclear information, unless and until the United States Congress decided that effective safeguards existed.<sup>118</sup> It was clear that the United States government was not willing to take any chance on nuclear matters.

The Soviet Union strongly objected to the Baruch Plan.<sup>119</sup> From then to mid-1949 the workings of the Commission were devoted unsuccessfully to the herculean task of reconciling the opposing US-USSR viewpoints on the appropriate measures for controlling nuclear energy. Divergences between the two countries concerned the stage at which nuclear weapons should be prohibited and

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116 James F. Keeley, “Containing the Blast: Some Problems of the Non-Proliferation Regime,” in *Nuclear Exports and World Politics*, eds. Boardman and Keeley, p. 205 (emphasis added).

117 *Time*, 27 May 1946, p. 27.

118 Keeley, “Containing the Blast,” p. 207.

119 At the Atomic Energy Commission’s second meeting, in June 1946, the USSR’s representative, A. Gromyko, submitted a draft convention “prohibiting the production and use of atomic weapons and providing that within three months from its entry into force all atomic weapons were to be destroyed.” *United Nations and Disarmament*, p. 13.

international control established, the principle of international ownership or control of all phases of nuclear energy activities, and the application of the principle of unanimity in the Security Council in cases of violations of agreed non-proliferation norms.

The USSR contended that the primary task of the Commission was the prohibition of atomic weapons, and thus the first measure to be adopted should be the conclusion of an international agreement to prohibit the production and use of such weapons.<sup>120</sup> The Soviet Union further rejected the proposed functions and powers to be granted to the Authority, on the grounds they would lead to interference in the internal life of states and constituted a violation of national sovereignty. According to the Soviet Union's counterproposal, inspection, supervision, and management by an international agency should apply to all existing nuclear plants immediately after the entry into force of an appropriate convention and any nuclear energy international system of control should be set up "within the framework of the Security Council." On the issue of the so-called veto power of the Security Council's permanent members, the USSR's posture was straightforward: the international agency would merely make recommendations to the Security Council in respect to violations. Punishment for such offenses should be subject to the Security Council's unanimity rule.<sup>121</sup>

After more than three years of unsuccessful negotiations, in January 1950 the Soviet Union withdrew from the negotiations, after being defeated in its proposal to exclude the representative of China from the consultations. The Atomic Energy Commission was

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120 It must be noted that the linkage between disarmament and non-proliferation, opposed by the United States, was to be remade some years later, when the NPT, a joint US-USSR proposal, was discussed at the United Nations. At this later time, however, the Soviet Union joined the United States in opposing such a linkage.

121 For the USSR's counterproposals and amendments, see *ibid.*, pp. 17-19; and *Yearbook of the United Nations*, 1947-48, pp. 466-71.

dissolved in January 1952, when the Disarmament Commission was established. By that time the USSR was already a nuclear power, having exploded its first atomic bomb in 1949, as announced by the United States President during the General Assembly's fourth session.

In retrospect, the short-lived Atomic Energy Commission experience highlighted a new element to be taken into consideration in any further United States effort at regime creation. The new element was the Soviet Union's support, or at least the neutralization of its veto power. Furthermore, the USSR was now a nuclear power and this constant changed completely the non-proliferation equation. Although the United States would have expected the Soviet Union's objections to the Baruch Plan, apparently it did not anticipate a Soviet veto to block the proposal. If this contingency was seriously considered in the first place, the United States would not have proceeded with the Plan. It is not reasonable to think that the United States would have attached its international prestige to a project beforehand sentenced to death. The precise understanding of United States motives and negotiating objectives would involve intensive research into the United States nuclear decision-making process and into the inner workings of the Commission, tasks beyond the scope of this dissertation.

Media coverage of that period, however, suggests that at least up to early 1947 the United States had proceeded on "the assumption that Russia, lacking The Bomb now and the industrial capacity to compete with the U.S. in future manufacture of it, would find control preferable to inferiority."<sup>122</sup> That assumption proved to be false.

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<sup>122</sup> *Time*, 17 March 1947, p. 27.

From the perspective of the Soviet Union, the Baruch Plan was nonnegotiable since it would have the effect of preventing USSR's development of nuclear weapons. The Soviet nuclear explosion a little later demonstrated that the country was fully committed to produce its own atomic weapons. Furthermore, the Baruch Plan "would have left the United States with at least the theoretical knowledge necessary to produce them should the need arise."<sup>123</sup> The Acheson-Lilienthal Report was no guarantee that this could not happen – quite the contrary. According to Keeley, the Report did not require the United States to destroy its nuclear weapons or to stop their production, "either as soon as it presented the plan, or as soon as the Authority had been created."<sup>124</sup> Thus, supporting the Baruch Plan would have prematurely frozen USSR nuclear inferiority vis-à-vis the United States.

From a theoretical point of view the problem of the Soviet veto seems, at first sight, to raise doubts as to the validity of the hegemonic stability framework for explaining the non-proliferation regime outcome. Actually, this theoretical perspective found its most successful application in areas such as trade and finance. In contrast to the non-proliferation issue, in those two areas the United States had been able, just after World War II, to establish a strong and open regime much akin to its original objectives.<sup>125</sup>

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<sup>123</sup> Keeley, "Containing the Blast," p. 206.

<sup>124</sup> Ibid.

<sup>125</sup> For an analysis of the role of the United States as the "maker" of the post-World War II international economic order, see Stephen D. Krasner, "US Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness," *International Organization* 31 (Autumn 1977): 635-71. Robert O. Keohane, "Hegemonic Leadership and U.S. Foreign Economic Policy in the 'Long Decade' of the 1950s," in *America in a Changing World Political Economy*, eds. William P. Avery and David P. Rapkin (New York: Longman, 1982), pp. 49-76, examines in depth three cases of US hegemonic leadership in the international petroleum arena. The rise and decline of United States leadership in trade and monetary issue areas is examined in Stephen D. Krasner, "American Policy and Global Economic Stability," in *America in a Changing World Political Economy*, eds. Avery and Rapkin, pp. 29-48.

Also different from trade and finance, where the Soviet Union kept aloof from regime creation, the security characteristic of the nuclear question meant that it had to be discussed in an arena where decisions follow unanimity rule.

The hegemonic stability framework can be useful, however, in explaining the non-proliferation regime outcome, not in terms of its success, but in terms of its failure. According to the theory, besides capabilities and motivation, a fundamental element of successful hegemony is the determination by the hegemonic state to absorb many of the costs associated with the creation and maintenance of the regime in order to obtain a regime with characteristics it favors.<sup>126</sup> Analyses of the evolution of the trade regime have pointed out that the United States has done just that to maintain a stable and open regime. More significantly, it has allowed its major industrialized partners to follow less-than-open trade policies, while benefiting from United States efforts in maintaining the regime.<sup>127</sup> In other words, a hegemonic country should be willing to compromise its short-term interests for its long-term objectives.

The precise meaning of what is being said is expressed in a crystalline statement by United States Senator Abraham Ribicoff, from whom we quote extensively. Formulated at a later stage of the non-proliferation regime, when competition among nuclear suppliers was already threatening its stability, it reads:

*I propose that at the suppliers meeting the United States, in order to help overcome these commercial obstacles, offer*

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126 An analysis of hegemony or leadership along these lines is found in Charles P. Kindleberger, "Systems of International Economic Organizations," in *Money and the Coming World Order*, ed. David P. Calleo (New York: New York University Press, 1976), pp. 31-37; and idem, "Dominance and Leadership in the International Economy," *International Studies Quarterly* 25 (June 1981): 242-54.

127 Idem, "Systems of International Economic Organization," p. 32; and Krasner, "American Policy and Global Economic Stability," pp. 33-35.

*to enter into positive arrangements to share the world reactor market on an equitable basis. Unless the United States is prepared to enter into such an arrangement – and implicitly to accept a smaller share of the world reactor market as the price of achieving non-proliferation objectives – the other suppliers will continue to suspect that our non-proliferation proposals are designed to promote the sale of American reactors and to preserve American domination of the nuclear marketplace... If the United States is prepared to make commercial concessions... and if the other suppliers, particularly Germany, are prepared to forego some of the fruits of unrestricted competition in the interest of curbing the spread of nuclear weapons, I believe that the negotiation of an equitable market-sharing system can be achieved.*<sup>128</sup>

From this angle, it might be argued that the United States did not play a genuine hegemonic role in the Baruch affair. The United States decision-makers' expressed behavior had demonstrated that they lacked a correct assessment of the Soviet Union as the potential regime challenger. Thus, they did not perceive the necessity to accommodate major Soviet objections, as for example, on the issue of abolishing the veto power.<sup>129</sup> While this compromise

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128 Senator Abraham A. Ribicoff, "A Market-Sharing Approach to the World Nuclear Sales Problem," *Foreign Affairs* 54 (July 1976): 775, 779. In the same article Senator Ribicoff suggests that if economic incentives are not enough to win other suppliers' participation in a United States market-sharing arrangement, his country should use "other forms of leverage... namely a cutoff of enriched uranium fuel to supplier nations that refuse to join in meeting basic non-proliferation objectives." *Ibid.*, p. 785. If the carrots are no good it might as well use the sticks.

129 For a journalistic account of United States representative Bernard Baruch's inflexibility during the negotiations, see *Time*, 30 December 1946, p. 20. From a theoretical point of view, the necessity of the hegemon to make important concessions to the other countries in order to establish a regime is emphasized by Arthur A. Stein, "The Hegemon's Dilemma: Great Britain, the United States, and the International Economic Order," *International Organization* 38 (Spring 1984): 355-86. "Without agreements, there can be no regime." *Ibid.*, p. 358.

would lead to a less effective control regime, as was argued by the United States, it would have been better to have an imperfect regime than none.

Accordingly, the Baruch Plan foundered on the inflexible negotiating posture of both the USSR and the United States. A Soviet written statement, as of May 1948, anticipated an argument to be presented more than twenty years later by Western European countries in the context of United States non-proliferation policies. Thus, to the Soviet Union, “the problem was essentially political and therefore the tendency to subordinate the political tasks of control to technical considerations threatened the whole establishment of such control.”<sup>130</sup>

### 2.1.2 Brazil and the Baruch Plan

For a period of time, Brazil was a member of the Atomic Energy Commission. Elected as one of the Security Council’s nonpermanent members in January 1946, for a two-year term, the country’s seat at the Commission formally would have to end on 31 December 1947, the date on which its Security Council term was due to expire.<sup>131</sup> The Brazilian delegation at the Commission was headed by Álvaro Alberto, a man who later became a symbol of initial efforts to set an autonomous orientation for Brazilian nuclear energy policy. According to Brazilian standards, he was

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130 *United Nations and Disarmament*, p. 21.

131 This point is worth mentioning since some historical accounts of Brazilian nuclear energy policy have suggested that Brazil was invited to participate in the UN Atomic Energy Commission because of its large reserves of fissionable raw materials. Considerations along these lines can be found, for example, in Carlos de Meira Mattos, *Brasil – Geopolítica e Destino* (Rio de Janeiro: Livraria José Olympio Editora, 1975), pp. 92-93; and Ronald M. Schneider, *Brazil – Foreign Policy of a Future World Power* (Boulder: Westview Press, 1976), p. 48. For Brazil’s election as a non-permanent member of the UN Security Council, see *Yearbook of the United Nations*, 1946-47, pp. 59-60. For the list of the Atomic Energy Commission members, from 1946 to 1949, see, respectively, *Yearbook of the United Nations*, 1946-47, p. 454; *Yearbook of the United Nations*, 1947-48, p. 498; and *Yearbook of the United Nations*, 1948-49, p. 87.



well qualified for the position. A Navy officer with professional training in physics and chemistry, he had been involved in research on uranium fission and its use for the production of energy since the early 1940s.<sup>132</sup>

Whatever his personal misgivings – and they were many – as regards the United States’ proposed nuclear Authority, instructions from the Brazilian government were clear: strongly and unconditionally support the Baruch Plan.<sup>133</sup> It could not be different. The foreign policy of the Dutra administration (1945-1950) had been framed on the principle of unconditional alliance with the United States. The Brazilian position, thus, would not pose any objection to the United States’ proposal, especially given the high value attached by the United States to the issue. As a matter of fact, the alliances in the context of the Commission negotiations – expressed in the actual voting of its members – followed a strict East-West cleavage. The Brazilian government, however, much through the influence of Álvaro Alberto, manifested its concern with the future of the country’s own supplies of nuclear energy source raw materials, in the event of approval of the Baruch Plan. During the General Assembly’s third session, Brazil, El Salvador, and South Africa, countries with considerable reserves of these raw materials, “referred to the possible difficulties arising from any effort to transfer ownership to an international agency.”<sup>134</sup>

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132 J. Costa Ribeiro, “Utilização da Energia Atômica no Brasil,” *Ciência e Cultura* 8, nº 1 (1956): 22-23; and Eduardo Pinto, “Energia Atômica, uma Velha História do Brasil,” in “Energia Atômica um Problema sem Resposta,” *Jornal do Brasil*, reportagens, 1976, p. 27.

133 See Álvaro Alberto’s testimony before the Brazilian Congress some years later, at the Congressional hearings on Atomic Energy in Brazil, in 1956. The final report of the 1956 hearings is reprinted in Brazil, Câmara dos Deputados, *Documentos Parlamentares, Energia Nuclear*, vol. 3 (XCIV-1963). Although Álvaro Alberto objected to the internationalization of world supplies of fissionable raw materials, being the representative of the Brazilian government he had to follow the instructions from the Brazilian Foreign Ministry to support the Baruch Plan. Olympio Guilherme, *O Brasil e a Era Atômica* (Rio de Janeiro: Vitória, 1957), pp. 86-92.

134 *United Nations and Disarmament*, p. 22.

Despite Brazilian governmental support for the Baruch Plan, the outcome of the country's participation in the Commission was quite favorable to Álvaro Alberto's nuclear energy projects. Returning to Brazil, he had assembled enough arguments to convince the Dutra administration of the pertinence of governmental action in the field. To be examined later in this chapter, the National Research Council (CNPq or Conselho Nacional de Pesquisas) – a major Álvaro Alberto initiative, created in 1951 – was originally conceived to promote scientific and technological development, to project domestic supplies of nuclear energy raw materials, and to foster nuclear energy development in Brazil. The Brazilian experience was not an isolated phenomenon. The first initiative in non-proliferation regime formation also stimulated national nuclear energy developments in countries such as India and Argentina.<sup>135</sup>

## 2.2 The Politics of Cooperation

The Atoms for Peace program and the creation of the International Atomic Energy Agency (IAEA) were the subsequent United States initiatives at regime formation. This time, however, not only did the United States approach the problem in political terms, but it also demonstrated a willingness to compromise some of its original objectives to get the proposal under way. Proposed by the United States was the international cooperation in the development of nuclear energy for peaceful purposes. Therefore, in President Eisenhower's address to the United Nations – as of 8 December 1953 – the peaceful uses of the atom received more

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135 The impact of the Baruch Plan on Indian nuclear energy development is referred to by Ashok Kapur, "Nuclear Energy, *Nuclear Exports and World Politics*, eds. Boardman and Keeley, p. 180. In Argentina, the National Atomic Energy Commission was created in 1950. C. H. Waisman, "Incentives for Nuclear Proliferation: The Case of Argentina," in *Nuclear Proliferation and the Near-Nuclear Countries*, eds. Onkar Marwah and Ann Schulz (Cambridge, England: Ballinger Pub. Co., 1975), p. 282.

emphasis than its destructive potential. The “United States knows that peaceful power from atomic energy is no dream of the future,” stated the President’s address. It called for the creation of an International Atomic Energy Agency that would stockpile fissionable materials, and in turn, allocate this material, “to serve the peaceful pursuits of mankind.”<sup>136</sup>

We have already mentioned the Atoms for Peace’s dual objective. North American analysts have been eager to point to the flaws and ambivalence of the Atoms for Peace arms control approach.<sup>137</sup> The United States had changed its previous control policy because the policy of nuclear secrecy was deemed to be self-defeating and detrimental in the face of other countries’ nuclear progress. In 1952 Britain became the third nuclear power and France had already begun its nuclear military program. Furthermore, Britain was well ahead in the commercialization of nuclear energy, Canada had established a strong peaceful nuclear program, and other countries might follow suit. According to Steven Baker, the dominant preoccupation of United States policy makers was “British, not Soviet, nuclear exports.”<sup>138</sup> He then argues:

*By 1952-3 the British seemed a step ahead of the American nuclear industry – and were aggressively seeking commercial outlets overseas. American industry opposed the policy of nuclear secrecy as the major obstacle to commercial nuclear power in the United States, and as*

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136 “Address by President Eisenhower to the United Nations – December 3, 1953,” *Atoms for Peace Manual*, 84<sup>th</sup> Congress, 1<sup>st</sup> sess., Senate Document n° 55, quoted in Bernhard G. Bechhoefer, “Negotiating the Statute of the International Atomic Energy Agency,” *International Organization* 13 (Winter 1959): 40-41.

137 See Baker, “Commercial Nuclear Power and Nuclear Proliferation,” pp. 1875-85; and Albert Wohlstetter, “Spreading the Bomb Without Quite Breaking the Rules,” *Foreign Policy* 25 (Winter 1976-77): 96, 145.

138 Baker, “Commercial Nuclear Power and Nuclear Proliferation,” p. 1880.

*an impediment to meeting foreign competition. This was the commercial challenge to which the Atoms-for-Peace proposal was designed to respond.*<sup>139</sup>

Two features of the Atoms for Peace approach were to be carried into the next stage of regime formation. The first constituted the prime regime substantive norm proposed at that time. The other was a procedural rule, but with substantive consequences for non-proliferation regime dynamics. Thus, they are worth mentioning.

The core of the United States proposal was that countries would be assisted in developing their peaceful nuclear programs in return for their acceptance of a system of safeguards and inspections. Although it took some time for the principle of safeguards to be fully accepted by the major actors of the regime, this trade-off would provide the foundation for the establishment of the NPT some years later. Since the Atoms for Peace, this approach has also constituted the mainstream of United States non-proliferation policy.

The efficacy of the trade-off of nuclear cooperation safeguards as a non-proliferation norm depended on the market power of a nuclear supplier to require safeguards as a condition of supply, and its willingness to do so. The United States as the regime definer fulfilled both conditions. In the early 1950s, however, the worldwide nuclear scene was different from the days of the Baruch Plan, since technology had diffused. Therefore, acceptance of the safeguard norm by other actual and potential suppliers was crucial. This preliminary consideration conditioned the conduct of the negotiations and as such constituted the procedural rule alluded to before.

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<sup>139</sup> Ibid. In addition, Baker suggests that the Atoms for Peace proposal performed also a legitimizing function, helping “to render politically acceptable in America and the world the government’s decision to go ahead with the H-bomb.” Ibid., p. 1877.

While the statute of the IAEA was being negotiated among the principal actors, the United States went ahead and changed its domestic legislation, with the enactment of the Atomic Energy Act of 1954. The 1954 Act was much less restrictive than the “McMahon Act” in order to allow the development of a domestic nuclear industry and to permit the implementation of bilateral nuclear cooperation agreements, under procedural and substantive controls.<sup>140</sup> Between 1955 and 1958, these bilateral agreements were concluded with forty-three countries. With varied contents, these agreements involved technology and personnel exchanges, in addition to transfers of research and power reactors, the latter being financed mainly through the United States Import-Export Bank.<sup>141</sup>

On the occasion of the Atomic Energy Act’s enactment, in August 1954, President Eisenhower’s press release referred to the proposed IAEA and sent a straightforward message to the Soviet Union: “Although progress in this plan has been impeded by Soviet obstruction and delay, we intend to proceed – *with* the cooperation and participation of the Soviet Union if possible, *without* it if necessary.”<sup>142</sup>

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140 The Atomic Energy Act of 1954 required that United States agreements for cooperation contain a guarantee by the other party that the materials and equipment supplied by the United States would not be used for any military purpose. These agreements also contain safeguards provisions, “which allow independent verification of the undertaking that material and equipment will not be diverted to military use, through broad rights of inspection in the territory of the cooperating country.” Statement by Myron B. Kratzer, former Acting Assisting Secretary of State for Oceans and International Environmental and Scientific Affairs, in U.S., Congress, House, Committee on Interior and Insular Affairs, *Oversight Hearings on Nuclear Energy-International Proliferation of Nuclear Technology (Part 3), Hearings before the Subcommittee on Energy and the Environment of the Committee on Interior and Insular Affairs*. 94<sup>th</sup> Cong., 1<sup>st</sup> sess., 1975, p. 4.

141 Baker, “Commercial Nuclear Power and Nuclear Proliferation,” pp. 1881, 1921.

142 “Statement of President Dwight D. Eisenhower, Press Release by James C. Hagerty, Press Secretary to the President, August 30, 1954,” *Atoms for Peace Manual*, 84<sup>th</sup> Cong., 1<sup>st</sup> sess., Senate Document n° 55, quoted in Bechhoefer, “Negotiating the Statute of the International Atomic Energy Agency,” p. 44 (emphasis in the original).

Despite Eisenhower's strong remarks, the evidence from IAEA negotiations suggests that the United States did not intend to proceed unilaterally with the Atoms for Peace. The timing for United States launching of its program was designed to create a *fait accompli* for the USSR and thus to speed up negotiations. This behavior has to be understood, however, as a tactical move for the accomplishment of a major strategical objective, which was the acceptance of the basic regime norm by the other nuclear powers. Without their explicit support, the arms control objectives of Atoms for Peace would be successful only in the short run. That is to say, the predominant role of the United States in the nuclear market was sufficient to make this rule binding on most nuclear exchanges. In the long run, as soon as other suppliers started to promote bilateral nuclear agreements without safeguard controls, the United States' competitive edge would be lost, and safeguard norm would become meaningless. Atoms for Peace without IAEA would be as self-defeating as the "McMahon Act" was without the Authority.

From this point of view, the following United States behavior becomes understandable: the speed put in United States efforts to encourage "as many states as possible" to enter into bilateral nuclear agreements, while IAEA negotiations were still going on, and the careful and skillful way in which the United States policy makers conducted these same negotiations.<sup>143</sup> Developed in the context of IAEA negotiations, the procedural rule points to the necessity of securing previous agreement among major regime actors for United States initiatives to succeed.

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143 According to Bechhoefer, United States haste was due to the particular US legislative procedures to be followed in such cases, and the Executive desire to secure congressional approval of those agreements already in the year of 1955. *Ibid.*, p. 52. The following section on the negotiating process to establish IAEA is amply based on Bechhoefer's work.

Playing the leading role in the IAEA negotiations, the United States first attempted to obtain the agreement on those states “principally involved” before the matter was considered in a wide forum. United States policy makers now recognized the need to secure the Soviet Union’s agreement if the IAEA was to be created.<sup>144</sup> On the other hand, the Soviet Union was ready to cooperate, since as a nuclear power it now shared with the United States an objective interest in preventing nuclear weapons proliferation.

As the regime definer, the United States managed to include in the initial talks the principal regime challenger and other states with sufficient capabilities to make the rules meaningful.<sup>145</sup> Thus in January 1954, private conversations were initiated between the United States and the USSR, where the former “purposely avoided rigid solutions at this early stage.”<sup>146</sup> Meanwhile, the United States had initiated discussions with a group of countries to conduct the next phase of the negotiations. The composition of this “eight-state” ad hoc group was determined by the United States, and it included countries well ahead in nuclear development – Britain and France; suppliers or potential suppliers of uranium – Belgium, South Africa, Portugal, and Australia; or both – and Canada.

Negotiations with the Soviet Union were complex and difficult, reaching an impasse in mid-1954, since the USSR insisted on linking IAEA negotiations to disarmament proposals. When the United Nations General Assembly considered the matter in late 1954, however, the Soviet Union had changed its position and demonstrated willingness to resume negotiations.

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144 The phrase “principally involved” was mentioned in President Eisenhower’s address to the United Nations, in an explicit reference to the Soviet Union. For this section of Eisenhower’s speech, see *ibid.*, p. 42.

145 A characterization of regime membership along these lines can be found in Keeley, “Containing the Blast,” pp. 198-99.

146 Bechhoefer, “Negotiating the Statute of the International Atomic Energy Agency,” p. 43.

Foreseeably, all major Soviet objections centered on issues of national sovereignty. The principal Soviet concerns related to the scope of the IAEA's functions, and the principle of safeguards. According to the Soviet Union's view, if the Agency were given control over the international transfer of all fissionable materials, this would mean granting the IAEA control over states' nuclear plans for peaceful uses. The United States representative's response tranquilized Soviet qualms by arguing that IAEA would not have control over the use of all fissionable material, but only those "materials specifically earmarked for Agency projects by the contributing states."<sup>147</sup>

A precise definition of IAEA's regulatory power had already appeared in the first IAEA statute proposal. This proposal was the outcome of the eight-state discussions, on the basis of an initial draft presented by the United States. It was later submitted to the Soviet Union in July 1955, and to all United Nations members in August 1955. The IAEA statute established a distinction between Agency membership and project participation as regards safeguard obligations. Safeguards requirements would affect only states which applied for Agency assistance. In practical terms this implied that major suppliers such as the United States, the Soviet Union, and Britain, which did not have to rely on Agency assistance for their nuclear development programs, would not be subject to the Agency safeguard system. According to Bechhoefer, this decision was crucial for the establishment of IAEA. Furthermore, the issue did not constitute a unique Soviet concern, being also shared by the United States and Britain. The three nuclear weapons states, as he puts it, "would never have adhered to the agency if their association subjected their weapons programs to agency scrutiny."<sup>148</sup>

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147 United Nations, General Assembly, First Committee, 9<sup>th</sup> Session, *Official Records*, 717<sup>th</sup> Meeting, 15 November 1954, quoted in *ibid.*, p. 48.

148 *Ibid.*, p. 50.



The proposed statute elaborated only partially an international safeguard system. Safeguards described in the statute were presented as a starting point for further negotiation, since they “would have to be greatly enlarged in order to provide an adequate system.”<sup>149</sup> The issue was brought up for discussion at the “twelve-state working level meetings,” an extension of the eight-state group, with the inclusion of the Soviet Union, Czechoslovakia, India, and Brazil. Because of Soviet objections, no agreement was reached on an adequate safeguard system at the concluding stage of the negotiations. The USSR’s representative, however, despite some reservations, declared its willingness to approve the statute as a whole.

The IAEA statute was adopted in October 1956, by a unanimous vote of United Nations members. The safeguard issue, notwithstanding, was only partially resolved. The first IAEA safeguard system was approved in 1961, and in 1965 the Soviet Union dropped its opposition to international safeguards. After the USSR became a full supporter of the safeguard norm, international political conditions were then amenable for the next effort at regime formation: a joint US-USSR proposal for a non-proliferation treaty.

Securing major nuclear actors’ support had been the crucial political issue for the success of the United States’ Atoms for Peace initiative. At this stage of the regime, consensus among those actors was obtained by creating different sets of rules for nuclear weapons states and for all the other countries. With the NPT this principle of inequality among states was institutionalized in the same treaty body. Thus, non-nuclear weapons states questioned the legitimacy of such a proposal on the basis of its discriminatory character. The problem of a more balanced set of rights and obligations in the

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<sup>149</sup> Ibid., p. 51.

NPT became its principal political issue and set the dynamics of treaty negotiations. In the process some concessions were made. Naturally none of the non-nuclear weapons states could be defined as a regime challenger. Individually a country could defy some of the rules, although it could not impede the NPT in coming through. But they counted as a group, since the degree of legitimacy of the Treaty ultimately rested on the number of countries adhering to it.

## **2.3 The Non-Proliferation Treaty**

Discussions of an international agreement to prevent the spread of nuclear weapons dated back to the late 1950s, when the issue was brought to the consideration of the United Nations General Assembly, by means of an Irish draft resolution on the “Prevention of the wider dissemination of nuclear weapons,” submitted in October 1959.<sup>150</sup> The timing of that resolution reflected the particular importance attached to problems of disarmament and dissemination of nuclear weapons by the so-called non-aligned countries. Two distinctive cleavages permeated the United Nations discussions.

### **2.3.1 US-USSR: Conflict and Cooperation**

The first concerned divergent US-USSR approaches to the problem of nuclear weapons proliferation, for reasons which had to do with the security interests of both countries in Europe. US-USSR divergence characterized the early phase of the discussions, but by the mid-sixties they were able to accommodate their respective security interests and adopt a common non-proliferation approach. At an early stage, the Soviet Union opposed any non-proliferation agreement that would not strictly prohibit the access to nuclear

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<sup>150</sup> United Nations, Office of Public Information, *Yearbook of the United Nations*, 1959 (New York, 1960), pp. 17-19.

weapons through military alliances. The USSR's principal concern was that the United States' plans for the creation of North Atlantic Treaty Organization (NATO) multilateral nuclear force (MLF) would give access to nuclear weapons to the Federal Republic of Germany. On this ground, the Soviet Union opposed a United States draft treaty to prevent the spread of nuclear weapons submitted to the Conference of the Eighteen-Nation Committee on Disarmament (ENDC), in August 1965. The Soviet Union made it clear that it would not sign a non-proliferation treaty which did not rule out all forms of West German participation in the control of a NATO nuclear deterrent.<sup>151</sup> For its part, the United States was against any proposal to prevent nuclear weapons dissemination that could encroach on its military alliance policy and impinge on its flexibility in giving its allies the military support deemed necessary for collective self-defense. In responding to Soviet objections to its proposed draft treaty, the United States objected to the inclusion of its NATO nuclear arrangements in the agenda of those negotiations, but affirmed they were not disseminatory.<sup>152</sup>

As long as both countries did not compromise their European security concerns, little progress was made on treaty negotiation. In the mid-1960s, however, conditions were more favorable for that to occur. In 1960 France had become a nuclear power, followed by the People's Republic of China in 1964. The actual dissemination

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151 *United Nations and Disarmament*, pp. 259, 272, 281. ENDC was established in 1961. It added to the original Ten-Nation Committee on Disarmament – composed of Bulgaria, Czechoslovakia, Poland, Romania, the Soviet Union, Canada, France, Italy, the United Kingdom, and the United States – eight members not belonging to either of the two major military alliances in Europe. The eight nonaligned members were: Brazil, Burma, Ethiopia, India, Mexico, Nigeria, Sweden, and the United Arab Republic. After 1969, the ENDC was enlarged to include eight additional members: Japan, Mongolia, Argentina, Hungary, Morocco, the Netherlands, Pakistan, and Yugoslavia. The Conference's name was changed to Conference of the Committee on Disarmament (CCD). *Ibid.*, pp. 4-5.

152 *Ibid.*, pp. 261, 264, 271.

of nuclear weapons therefore provided a propitious environment for US-USSR understanding. The Soviet Union became a full supporter of the principle of international safeguards and accepted a EURATOM special status of “self-policing” as an alternative to IAEA safeguards. On the other hand, the United States dropped its plan for a NATO multilateral nuclear force, but retained the right to station North American-controlled nuclear arms in Europe.<sup>153</sup> Apparently, the Soviet Union received some tacit understanding that West Germany would sign the NPT.<sup>154</sup> In August 1967, the two countries submitted, to the ENDC, separate but identical drafts of a non-proliferation treaty.

The US-USSR conflict-cooperation relationship in the context of the non-proliferation regime furnishes an empirical example of a choice situation when both players are caught in a typical Prisoner’s Dilemma game, when the dominant strategy for each player is non-cooperation regardless of what he thinks the other will do. The outcome of both being rational – that is to say, each player wanting to maximize his individual gain and thus choosing not to cooperate – is mutual loss, since “both will end up with fewer payoffs than if they had cooperated with each other.”<sup>155</sup> In any one-shot play of Prisoner’s Dilemma, the competitive strategy dominates the game. Cooperation tends to occur when plays are reiterated many times. In iterative (dynamic) games one player’s choice is sensitive both to changes in the pay-offs of the game and to the other’s choice.<sup>156</sup>

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153 Keeley, “Containing the Blast,” p. 211.

154 “Nuclear Proliferation: To Bell the Cats or Catch the Mice?” (Introduction) in *Nuclear Proliferation and the Near-Nuclear Countries*, eds. Marwah and Schulz, p. 7.

155 Stephen M. Shaffer, “Alliance Politics: A Model Based on Divisibility of Payoffs,” in *Public Goods and Public Policy*, eds. William Loehr and Todd Sandler (Beverly Hills: Sage, 1978), p. 158.

156 *Ibid.*, p. 159.

The US-USSR pattern of interaction from the late forties up to the NPT phase provides an analogy for the Prisoner's Dilemma in its iterated version. The first initiative in regime creation failed because both selected the competitive strategy. Following that, rewards for cooperation increased for the United States, which later showed a willingness to adopt a competitive strategy in face of the Soviet Union's non-cooperative behavior. The dissemination of nuclear weapons, however, increased the pay-off for the Soviet Union to cooperate, leading to mutually cooperative responses. In the context of potential nuclear weapons proliferation, the outcome for both choosing a strategy maximizing each one's individual gain would be worse than if they had cooperated with each other.

### **2.3.2 Non-Nuclear Countries and the NPT**

Another divisive issue during the negotiations referred to a balance of obligations and responsibilities between nuclear weapon states (NWS) and non-nuclear weapon states (NNWS) as regards the latter's security and economic needs. On the security aspect, the NNWS proposed a link between disarmament and the prohibition of nuclear weapons, questioning the advisability of considering the matter of banning the use of nuclear arms as a separate issue. Nuclear powers, however, objected to such a linkage and insisted on the two issues being dealt with separately. The question was raised by the non-aligned countries in the context of ENDC discussions in 1965, before the United States and the USSR had surmounted their differences and agreed to a joint draft treaty. With India in the forefront, the non-aligned members of the ENDC claimed that a non-proliferation treaty should bind the NWS to cease production and reduce their stockpiles of nuclear weapons, and the NNWS to refrain from acquiring nuclear weapons. A major concern of the latter was the extent to which their commitment under the Treaty would weaken their self-defense capability in the eventuality of a nuclear attack.

As to the economic aspect, the NNWS felt that no non-proliferation arrangement should be a hindrance to their “legitimate right” to develop peaceful nuclear technology for economic reasons. Non-nuclear countries’ concerns centered on the possibility that by restricting the international exchange of nuclear technology the Treaty might retard their nuclear development. Although security matters received more emphasis in the first discussions of the ENDC, the economic component of a hypothetical bargain between NWS and NNWS was also suggested during those negotiations. Thus, the Brazilian representative observed that an acceptable formula should regard non-dissemination not as an end in itself, but should take into account the effective security of the NNWS and the economic and social needs of the less developed countries.<sup>157</sup> Fears that the nuclear powers might be pursuing their economic advantages in the guise of nuclear weapons control were felt not only by the non-aligned members of the ENDC, but also by countries such as Italy, West Germany, and Japan.

### 2.3.3 The Negotiations of the NPT

Economic and security side-benefits thus constituted a major *quid pro quo* for non-nuclear countries’ accession to the Treaty. Although the nuclear powers objected to most of the demands of the NNWS – particularly those that involved any form of nuclear transfer at less than market cost – some assurances were included in the Treaty’s final version to soften its explicit discriminatory content.<sup>158</sup>

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157 United Nations, Office of Public Information, *Yearbook of the United Nations, 1965* (New York, 1967), p. 53. For the ENDC discussions in 1965 and 1966, and the viewpoint of the non-nuclear countries during those negotiations, see *ibid.*, pp. 48-54; *idem*, *Yearbook of the United Nations, 1966* (New York, 1968), pp. 4-6; and *United Nations and Disarmament*, pp. 270-75, 280-82.

158 In August 1967 the Soviet Union and the United States submitted for consideration of the ENDC identical but separate and still incomplete drafts of a non-proliferation treaty. The ENDC reconvened in January 1968 to examine a revised Soviet Union-United States treaty draft. With some minor

The NPT final draft expanded on the issue of the peaceful uses of nuclear energy. Thus, a changing of language in article IV gave additional emphasis to the right of parties to the Treaty to unhampered access to nuclear technology, materials, and equipment. Furthermore, a new article was included whereby the potential benefits from peaceful nuclear explosives would be made available to the NNWS parties on a non-discriminatory basis (article V). Nuclear powers, however, rejected any binding commitment on their part to transfer peaceful nuclear technology to non-nuclear states, the undertaking being only to cooperate.

The United States and the Soviet Union were also in agreement in opposing the linkage of other measures to a non-proliferation arrangement. Much to the dissatisfaction of the NNWS, specific binding measures of disarmament were omitted from the draft treaty, but it did include a loose pledge on the part of nuclear powers to pursue negotiations on disarmament and to end the nuclear arms race (article VI). Security guarantees to non-nuclear countries, as demanded by countries such as India, were given by means of a relatively innocuous Security Council resolution as of June 1968. By that resolution, any “aggression with nuclear weapons... against a non-nuclear-weapon State” would call for immediate action by the Security Council, and “above all [by] its nuclear-weapon State permanent members.”<sup>159</sup> The three nuclear powers’ resolution intended mainly to appease India’s concern that its accession to the NPT would leave the country prey to a

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modifications, this revised version was submitted to the UN General Assembly, on 12 June 1968. United Nations, Office of Public Information, *Yearbook of the United Nations*, 1967 (New York, 1969), pp. 4-9; idem, *Yearbook of the United Nations*, 1968 (New York, 1971), pp. 3-19; and *United Nations and Disarmament*, pp. 286-300.

159 *United Nations and Disarmament*, p. 302. The draft of the Security Council resolution on security assurances was introduced at the 1968 meeting of the ENDC, by the USSR, the US, and Britain, in connection with the non-proliferation treaty. Ibid., pp. 292-93.

hypothetical nuclear aggression from the People's Republic of China.<sup>160</sup> This measure, notwithstanding, fell short of what India and many non-nuclear countries thought necessary. From their point of view, the Security Council resolution created no new commitment on the part of the nuclear powers beyond what was already contained in the United Nations Charter. Some of them would have preferred a "non-use agreement" whereby nuclear countries would make a pledge not to use nuclear weapons against non-nuclear states.<sup>161</sup>

On 12 June 1968, the United Nations General Assembly approved a resolution commending the Treaty on the Non-Proliferation of Nuclear Weapons, the text of which was annexed to the resolution. Resolution 2373 (XXII) – whereby the General Assembly would endorse the Treaty and express the hope for the widest adherence to it by both NWS and NNWS – was adopted by ninety-five votes to four, with twenty-one abstentions.<sup>162</sup> Following that, on 19 June 1968, the resolution on security assurances, sponsored by the USSR, the United States, and Britain was adopted by the Security Council, by ten votes to none with five

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160 See statement by Adrian Fisher who participated in the negotiations leading to the NPT, in U.S., Congress, Senate, Committee on Foreign Relations, *Non-proliferation Issues, Hearings before the Subcommittee on Arms Control, International Organizations and Security Agreements of the Committee on Foreign Relations*. 94<sup>th</sup> Cong., 1<sup>st</sup> and 2<sup>nd</sup> sess., 1977, pp. 7-8.

161 *Ibid.*, p. 8. See the recommendations and conclusions of the Divonne Conference, "NPT: Paradoxes and Problems," reprinted in *ibid.*, pp. 17-22. On "nonuse agreement," see pp. 18-19. For a similar suggestion, see statement by Lewis A. Dunn of the Hudson Institute at the U.S. Senate hearings on S. 897. U.S. Congress, Senate, Committee on Governmental Affairs, Nuclear Non-proliferation Act of 1977, *Hearings before the Subcommittee on Energy, Nuclear Proliferation, and Federal Services of the Committee on Governmental Affairs on S. 897*. 9<sup>th</sup> Cong., 1<sup>st</sup> sess., 1977, p. 220.

162 Voting against: Albania, Cuba, United Republic of Tanzania, and Zambia. Abstentions: Algeria, Argentina, Brazil, Burma, Burundi, Central African Republic, Congo (Brazzaville), France, Gabon, Guinea, India, Malawi, Mali, Mauritania, Niger, Portugal, Rwanda, Saudi Arabia, Sierra Leone, Spain, and Uganda. *Yearbook of the United Nations*, 1968, p. 16. The text of the resolution 2373 (XXII) is reprinted in *ibid.*, p. 16.



abstentions.<sup>163</sup> The NPT became open for signature in July 1968, and entered into force in March 1970, after the three nuclear power parties to the Treaty and the required number of countries had completed the process of its ratification. As of July 1982, 114 non-nuclear states had ratified the Treaty, and four had signed but not ratified.<sup>164</sup>

France and the People's Republic of China, the two other nuclear powers at the time of the NPT negotiation, had not become parties to the Treaty. On the occasion of voting the resolution commending the NPT, France's representative asserted that the French government would not sign the Treaty, but would behave as a state adhering to it.<sup>165</sup> India and Brazil – the two most vocal objectors to the US-USSR treaty draft, among the non-aligned members of the ENDC – have refused to sign, as have Pakistan and Argentina. Other near-nuclear countries such as Israel and South Africa have not become NPT parties as well.

### 2.3.4 The NPT Trade-Off

The NPT established different sets of rules and obligations for nuclear and non-nuclear countries. The former were those that had manufactured and exploded a nuclear device prior to 1 January 1967. According to the Treaty's first article, those states would bind themselves not to transfer nuclear weapons or nuclear explosives to any state, nor to "assist, encourage, or induce any

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163 Abstentions: Algeria, Brazil, France, India, and Pakistan. *Ibid.*, p. 21. For the discussion in the Security Council and the text of the resolution on security assurances, see *ibid.*, pp. 19-22. See also *United Nations and Disarmament*, pp. 300-2.

164 Benjamin N. Schiff, *International Nuclear Technology Transfer: Dilemmas of Dissemination and Control* (Totowa, NJ: Rowman & Allanheld, 1984), pp. 86-88.

165 According to Lellouche, "Giscard's Legacy," p. 38, the French attitude towards non-proliferation has been characterized by a "fundamental ambiguity." While "defending the right of every state to build its own nuclear weapons," France has opposed a further dissemination of nuclear weapons. *Ibid.*, p. 38.

non-nuclear-weapon State to manufacture or... acquire nuclear weapons or other nuclear explosive devices.”<sup>166</sup> Nuclear powers kept their obligations to a minimum. Non-nuclear countries, on the other hand, would bind themselves to remain weaponless (article II). Moreover, they would agree to accept international safeguards on all peaceful nuclear activities whether the result of an international transfer or indigenously produced (article III). It should be noted that the NPT safeguard provisions, to be negotiated with IAEA, expanded safeguard coverage to include the entire set of peaceful activities pursued by a state, instead of only those using international or bilateral assistance, as was the case of the previous safeguard system, before the NPT came into force.

For those countries acceding to the Treaty, the trade-off being offered was good enough. In exchange for relinquishing their sovereign right to acquire nuclear weapons and accepting the implementation of control and verification measures, the NPT confirmed the right of the NNWS to develop peaceful nuclear programs, to enjoy the “fullest possible” cooperation from the countries capable of providing nuclear assistance (article IV), and to share in the potential benefits of the peaceful applications of nuclear explosions (article V). The inclusion of article IV was crucial for NPT effectiveness, since it represented the most tangible counterpart to non-nuclear countries’ renunciation of nuclear weapons. Without such a provision, it would be doubtful that the latter would have accepted the principle of inequality of treatment crystallized in the NPT. A statement by the Belgian representative synthesized the feelings of the non-nuclear countries, developed and developing alike:

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<sup>166</sup> For the text of the NPT, see *Yearbook of the United Nations*, 1968, pp. 17-19.

*The needs of industrial and scientific development make this cooperation imperative if we want to avoid introducing into the civilian area the distinction accepted in the military area, which would be unacceptable and would inevitably lead to the calling into question of the treaty.*<sup>167</sup>

In the context of NPT and IAEA safeguard negotiations, the adherence of key advanced industrialized countries, such as West Germany and Japan, was obtained upon a clear commitment from the United States that NNWS would be equally free to develop nuclear energy for civilian purposes.<sup>168</sup> Moreover, the United States and the United Kingdom governments offered to place their peaceful nuclear activities subject to IAEA safeguards. Since nuclear countries were exempted from that obligation, the offer was intended to mitigate NNWS concern that the safeguard provisions would interfere with the development of their civilian nuclear programs, therefore giving an unfair advantage to the NWS.<sup>169</sup>

Afterthoughts that the NPT offered less than nothing to its non-nuclear parties occurred to various less developed countries party to the Treaty. They were concerned with the slow pace in halting the nuclear arms race and with the lack of concrete

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167 Quoted in Mohamed I. Shaker, *The Nuclear Non-Proliferation Treaty – Origin and Implementation, 1959-1979*, vol. 1 (New York: Oceana Publications, 1980), p. 330.

168 In April 1967, West German Foreign Minister, Willy Brandt, declared to the German Parliament that his country would not accept anything at all which restrained the peaceful uses of nuclear energy, a principle vital, according to Brandt, to the future of Germany as a modern industrial state. Ibid., p. 294.

169 The NPT safeguards system – as called for in Treaty article III – took a little longer to be approved by the relevant actors. The final safeguards document (INFCIRC/153) reflected a compromise among these actors' competing interests: the US, the USSR, and Canada advocating tighter safeguard controls, West Germany and Japan wanting less control, and Britain mediating between these two positions. Robert Pendley and Lawrence Scheinman, "International Safeguarding as Institutionalized Collective Behavior," *International Organization* 29 (Summer 1975): 585-616. At the NPT safeguards negotiations an attempt was made "to minimize the major asymmetrical costs that this implied, and particularly to meet the objections of major non-nuclear weapon states." Ibid., p. 585.

economic and technical rewards for accession to the Treaty. These matters constituted the bulk of NNWS proposals in the post-NPT meetings, such as the Conference of Non-Nuclear-Weapon States in 1968 and the two successive NPT Review Conferences in 1975 and 1980. The nuclear powers have tended to dismiss such proposals because of their allegedly “political” nature and kept the discussions limited to the technical problems of NPT implementation. On the other hand, less developed countries have considered proposals by the nuclear powers as serving the latter’s economic interests rather than non-proliferation goals.<sup>170</sup>

Although some concessions would have secured a wider adherence to the Treaty, apparently strong economic considerations precluded the nuclear powers, and particularly the United States, from taking on additional commitments with respect to peaceful nuclear transfers to NNWS. The fate of an Italian proposal – that would commit the nuclear weapon states to transfer to non-nuclear countries certain amounts of fissionable material, to be taken from military stockpiles – was decided on those grounds.<sup>171</sup> Ironically, the Italian proposal was identical to the Atoms for Peace proposal for the creation of a pool of fissionable material withdrawn from the weapons stocks of the nuclear countries. According to Baker, the United States’ refusal to assume the burden of guaranteeing enriched uranium fuel supplies to non-

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170 William Epstein, “Nuclear Proliferation in the Third World,” *Journal of International Affairs* 29 (Fall 1975): 187-91. For the Conference of Non-Nuclear Weapon States in 1968, see *Yearbook of the United Nations*, 1968, pp. 31-40; and U.S., Congress, Senate, Committee on Foreign Relations, *Non-proliferation Treaty (Part 2), Hearings before the Committee on Foreign Relations*. 91<sup>st</sup> Cong., 1<sup>st</sup> sess., 1969, pp. 450-61. An account of the Third World countries’ point of view at the Second NPT Review Conference in 1980 can be found in Jozef Goldblat and Macha Levinson, “The Second NPT Review Conference,” reprinted from *SIPRI Yearbook 1981* (Solna, Sweden: Stockholm International Peace Research Institute, 1981), pp. 297-336 passim. For an analysis of the dynamics of the non-proliferation regime in the context of the North-South debate, see Schiff, *International Nuclear Technology Transfer*.

171 For the Italian proposal, see Shaker, *The Nuclear Non-Proliferation Treaty*, vol. 1, pp. 304-7.

nuclear countries at less than market cost was founded on strictly commercial considerations:

*For the NWSs to assume the obligation to provide fuel services for all the NNWSs signatories to the Treaty could have quickly amounted to a commitment of several billion dollars per year on the part of AEC requiring greatly expanded plant capacity;... The United States government was understandably reluctant to undertake this kind of responsibility... The prospective commercialization of this last area of government nuclear monopoly made it an unlikely area for international commitments on a non-commercial basis.<sup>172</sup>*

The projected increase in world demand for enrichment services impinged on the United States' ability to use its monopoly of enriched uranium as a tool of its non-proliferation policy, as it had been doing since the days of the Atoms for Peace. Economic considerations precluded the leader of the NPT regime to dispense selective private benefits to potential followers. The result, as Baker observed, "was to weaken the appeal of the NPT to those nations which might have been susceptible to economic inducements."<sup>173</sup>

### 2.3.5 The Free Rider Problem

We have already mentioned that the key trade-off of the NPT consisted of nuclear technical assistance in exchange for safeguards compliance and renunciation of nuclear weapons. The Treaty of Non-Proliferation confirmed the principle of nuclear cooperation established with the Atoms for Peace and legitimized the right of all countries to share in the "potential benefits" of the

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172 Baker, "Commercial Nuclear Power and Nuclear Proliferation," p. 1889.

173 Ibid., p. 1890.

peaceful atom. Furthermore, the economic value of nuclear energy and the political imperative to widen NPT acceptance, particularly among the non-nuclear industrialized countries, were responsible for a peculiar feature of the NPT regime, which is crucial for the argument developed in this chapter. The Treaty did not establish any sanctions or restrictions as regards non-signatories, and accordingly there were hardly any exclusionary benefits accorded to NPT parties.

The only exclusionary benefit is found in the Security Council resolution on security assurances, whereby explicit reference is made to non-nuclear countries party to the Treaty. But as observed above, this resolution did not create any new military commitment on the part of the nuclear powers.<sup>174</sup> For non-signatories such as Argentina and Brazil the resolution was meaningless, since both countries were already covered by the Rio Treaty which provides that any aggression against any one of its members shall be considered an aggression against all. The granted security assurances were so feeble as to indicate that, from the viewpoint of the framers of the NPT, the security problems of non-nuclear countries were not as urgent and imponderable as they were for the nuclear powers themselves.

More significantly, the NPT did not establish any restriction on nuclear technology transfers to non-parties. Thus, the NPT instituted the right to peaceful nuclear development and collaboration as a legitimate norm of the non-proliferation regime and provided that right as a collective good, since non-signatory

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174 This point was particularly emphasized by the US Executive during congressional consideration of the NPT, when the debate centered on the question of whether the US had committed itself to aid a non-nuclear signatory that was victim of aggression by a nuclear state. In his testimony, Secretary of State William P. Rogers then declared: "I wish to make clear that the Non-proliferation Treaty does not create any new security commitment by the United States abroad and that it does not broaden or modify any existing security commitments abroad." U.S., Congress, Senate, Committee on Foreign Relations, *Non-proliferation Treaty (Part 2)*, p. 306.

states could not be effectively excluded from the potential benefits of nuclear cooperation. As seen before, goods are said to be collective to the extent that they present at least one of two properties: jointness of supply and impossibility of exclusion. A good is in joint supply – a property referred to also as non-rivalness of consumption – in the sense that one person's consumption of the good does not diminish the amount available to another. According to the second property, which is the one that matters for our argument, if a good is supplied to one person, it must simultaneously be supplied to all; that is to say, nobody can be excluded from consumption of the good. Mancur Olson's theory of collective action deals with goods that exhibit this last property. Thus, it is the property of non-exclusion that leads to the free rider problem. As Hardin puts it:

*The central relationship between the analysis of public goods and the problem of collective action... is that the costliness or de facto infeasibility of exclusion from consumption of a collectively provided good usually eliminates any direct incentive for individual consumers to pay for the good.*<sup>175</sup>

Non-signatories were free riders of the NPT regime because they could enjoy the collective good provided by the regime, without having to incur any of the two costs associated with accession to the regime: renunciation of nuclear weapons and compliance with the principle of full-scope safeguards.<sup>176</sup> Actually, non-signatories got

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175 Hardin, *Collective Action*, p. 20. See also, R. Harrison Wagner, "National Defense as a Collective Good," in *Comparative Public Policy: Issues, Theories, and Methods*, eds. Craig Liske, William Loehr, and John McCamant (New York: John Wiley & Sons, 1975), p. 204.

176 NPT parties are subject to the NPT safeguard system – INFCIRC/153 – that requires all peaceful nuclear activities to be placed under safeguards. In the case of non-parties, safeguards – when required as a condition precedent to exports of nuclear materials to such countries – are set forth in INFCIRC/66/Rev. The non-NPT system is facility specific, that is to say, safeguards apply only to the specific assistance provided. Indigenously designed and constructed facilities are not included. Thus, non-parties to the NPT may maintain a dual power program that includes one set of nuclear

a free ride on non-nuclear signatories' actions, those accepting to incur those costs and bringing the NPT regime into effect. Lacking exclusionary rules to guide relationships among non-signatories and selective benefits to signatories, the NPT really discriminates against the latter.

During the negotiation of the Treaty the debates centered on the question of inequality of treatment between nuclear and non-nuclear countries. Thus, the problem of equal treatment of non-nuclear parties and non-parties was hardly considered. The issue as it impinged on nuclear cooperation was the subject of a draft resolution introduced by the representative of Pakistan at the 1968 Conference of Non-Nuclear Weapon States. The resolution urged countries not to provide nuclear assistance to non-nuclear countries which had not signed the NPT. The resolution was objected to as being discriminatory. The Indian representative, making use of his Third World credentials, was shrewd enough to observe that "it would be the first time that the developing countries themselves had fixed restrictions for technical assistance and access to scientific institutions and establishments."<sup>177</sup>

The problem of less stringent safeguard requirements in the case of non-parties was raised at the 1975 NPT Review Conference by representatives of non-nuclear countries party to the Treaty. The final declaration of the Review Conference included a paragraph calling for the extension "of safeguards to all peaceful nuclear activities in importing States not party to the Treaty."<sup>178</sup> Major

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facilities under safeguards, and another unsafeguarded, the latter resulting from either imported materials without bilateral safeguard requirements, or facilities indigenously developed, independent of safeguards. For details of both safeguards systems, see Ralph T. Mabry, Jr., "The Present International Nuclear Regime," Appendix to *International Cooperation in Nuclear Energy*, by Joseph A. Yager (Washington, D.C.: The Brookings Institution, 1981), pp. 145-71.

177 Quoted in Shaker, *The Nuclear Non-Proliferation Treaty*, vol. 1, pp. 321-22.

178 Quoted in Eldon V.C. Greenberg and Bruce A. Rosenfield, "NPT Safeguards Restrictions on Transfers to Non-Parties," in U.S., Congress, Senate, Committee on Government Operations, *Export Reorganization*



nuclear exporters, however, have continued to supply non-parties to the NPT with nuclear equipment and technology requiring safeguards only on the specific materials transferred.

Foreseeably, the largest recipients of IAEA technical assistance have tended to be Third World countries with significant nuclear technological capabilities, and among them, NPT non-signatories are prominent beneficiaries of these funds. Hence, the five largest recipients of Agency assistance in the period from 1961 to 1981 were, in order of declining cumulative total assistance: Brazil, India, Argentina, Pakistan, and Chile. Together these five NPT non-signatories accounted for more than 22 percent of the total assistance provided by IAEA to 104 countries in a twenty-year period.<sup>179</sup>

After the Indian nuclear explosion in 1974, the United States tried to institute exclusionary rules to guide nuclear transfers, such as banning the sales of sensitive nuclear materials – mainly reprocessing and enrichment; and the requirement of full-scope safeguards to parties and non-parties of the NPT. In the United States, immediate reaction to the event came from the Congress, which first raised the issue of the conspicuous danger in what was deemed to be a very liberal nuclear export policy.<sup>180</sup> Subsequently, after the election of President Carter, this concern was carried out through Executive action and was finally made into United States

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*Act of 1976*, p. 1485. For recommendations along the same lines, see the Report of the Divonne Conference on NPT, in U.S., Congress, Senate, Committee on Foreign Relations, *Non-proliferation Issues*, pp. 20-21.

179 From 1961 to 1981, total IAEA technical assistance expenditures amounted to US\$ 128,592.0 thousand; the share of those five countries was US\$ 28,550.8 thousand. Data are from Schiff, *International Nuclear Technology Transfer*, pp. 196-98, table 4.9.

180 For a critical appraisal of the US Executive's lack of an immediate disapproval of the Indian nuclear test, see Senator Ribicoff's article, "A Market-Sharing Approach to the World Nuclear Sales Problem," p. 766. In contrast to the United States, Canada cut off nuclear exports to India, and set an example, according to the Senator, "that serves to discredit U.S. non-proliferation policy." Ibid., p. 767.

law with the Nuclear Non-Proliferation Act (NNPA) of 1978. The 1978 Act prohibited the export of sensitive nuclear materials to non-nuclear countries, and required the application of full-scope safeguards on all United States nuclear transfers.<sup>181</sup> This change in American non-proliferation policy stirred a bitter reaction from the other major suppliers, who saw it as a unilateral attempt of the United States to impose its views on other countries. At the international level, United States efforts were channeled to change the prevailing, more liberal regime's rules, and to introduce more stringent controls over international nuclear supplies. These United States multilateral efforts were not totally successful since they encroached on strong political and economic interests of other nuclear exporters. Thus, a certain measure of agreement on export controlling norms emerged from the negotiations of the Nuclear Suppliers' Group (NSG), but no consensus was reached on the issue of full-scope safeguards.<sup>182</sup>

The Treaty and the NPT safeguard system were achieved through a long and complex negotiation process in which the reconciliation between arms control and nuclear power development proved to be hard, in the face of the divergent interests and priorities of the countries involved. Hence, the NPT

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181 US congressional concerns were expressed in the Symington and Glenn amendments whereby no military aid would be rendered by the United States to any country which delivered or received nuclear enrichment equipment or technology, unless they were put under international safeguards. Similar restrictions as regards reprocessing equipment were objects of a separate amendment. See Kramish, "Four Decades of Living with the Genie," pp. 202-4.

182 The NSG was initially composed of Britain, Canada, France, Japan, West Germany, the Soviet Union, and the United States. Meetings were initiated in the spring of 1975, in London, with the objective of drawing up export guidelines among major suppliers. Later, membership was expanded to fifteen countries. At the end of 1977, the NSG had reached an accord on a set of guidelines on specific materials and equipment to be restricted. As a consequence of the opposition of France and West Germany, the agreed guidelines did not include a full-scope safeguard clause, and no embargo was put on the actual sale of sensitive nuclear equipment. See Kramish, "Four Decades of Living with the Genie," p. 21; and Pierre Lellouche, "International Nuclear Politics," *Foreign Affairs* 58 (Winter 1979-80): 347. For the NSG guidelines, see Ralph T. Mabry, Jr., "The Export Policies of the Major Suppliers," Appendix to *International Cooperation in Nuclear Energy*, by Yager, pp. 195-99.

exhibits significant loopholes.<sup>183</sup> The irony of the NPT is that in order to control nuclear weapons it provided the right to nuclear cooperation as a collective good, thus creating a free rider problem for the regime. Furthermore, the commercial value of nuclear energy precluded accession to the Treaty to be turned into a semi-private good, by means of assuring selective benefits for those who joined the regime. Accordingly, disincentives for acceding to the NPT tended to be higher for those countries that placed a high premium on indigenous nuclear capability.

Free riders of the regime were non-nuclear Southern countries with relatively advanced nuclear energy programs, such as Argentina, India, Israel, and South Africa, or late-comers to the nuclear scene, such as Brazil, but with sufficient industrial capacity to support a vast nuclear undertaking. Avoiding being bound by an international commitment, those countries were not deprived of the benefits of nuclear cooperation and kept open their nuclear options. Their attitude towards the NPT does not indicate that they are necessarily going to produce nuclear weapons, only that they chose to keep their options free should they decide to attain a nuclear-explosive capability.<sup>184</sup> The Indian example has shown that the sanctions of the regime are rather weak when that does occur.

We turn now to examine Brazil's nuclear energy options. In the next section we examine briefly the evolution of Brazilian nuclear energy policy. Following that, our focus turns to nuclear diplomacy after 1964, analyzing Brazil's stance on the non-proliferation regime, its views and objections to the NPT.

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183 "Had the framers taken all possibilities into account, the treaty would not have been achieved." Kramish, "Four Decades of Living with the Genie," p. 24.

184 For the distinction between nuclear weapons proliferation and nuclear options proliferation, and a discussion of "nuclear ambiguity" as the mode of nuclear decision making among Southern near-nuclear countries, see Kapur, "Nuclear Energy, Nuclear Proliferation, and National Security," pp. 188-89.

## 2.4 Brazilian Nuclear Policy

Similar objections to the NPT were raised by such countries as Argentina, India, and Brazil during the negotiation of the Treaty. By comparison, Brazilian nuclear development lagged behind the technological achievements attained by the Indian and the Argentine nuclear programs. The underdeveloped stage of Brazil's nuclear activities at that time was a direct consequence of the discontinuous pattern followed by its nuclear policy since its inception. This peculiar feature of the Brazilian case contrasts sharply with the Argentine example, since the latter has exhibited over a period of time a consistent nuclear policy geared towards the maximization of autonomy in the development and control of nuclear energy.

Nearly all studies of Brazilian nuclear policy have pointed out the inconsistent course of its evolution.<sup>185</sup> Brazil's nuclear beginning is related to the establishment of the Conselho Nacional de Pesquisas (CNPq) in 1951. The National Research Council was vested with wide authority in the nuclear field, such as the "research and industrialization of atomic energy and its applications, including acquisition, transportation, protection, and transformation of raw materials."<sup>186</sup> With Álvaro Alberto as the CNPq's first President, the principle of "specific compensation"

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185 Guido Fernando Silva Soares, "Contribuição ao Estudo da Política Nuclear Brasileira" (Ph.D. dissertation, Universidade Católica de São Paulo, 1974); James W. Rowe, "Science and Politics in Brazil: Background of the 1967 Debate on Nuclear Energy Policy," in *The Social Reality of Scientific Myth: Science and Social Change*, ed. Kalman H. Silvert (New York: American Universities Field Staff, 1969), pp. 91-122; José Murilo de Carvalho, "A Política Científica e Tecnológica do Brasil," Rio de Janeiro, 1976 (Mimeographed), pp. 74-88; Maria Cristina Leal, "Caminhos e Descaminhos do Brasil Nuclear: 1945-1958" (Master's thesis, Instituto Universitário de Pesquisas do Rio de Janeiro, 1982); and Regina Lúcia de Moraes, "Considerações sobre a Política Científica do Brasil" (Master's thesis, Universidade de Brasília, 1975), pp. 99-145.

186 Article V, second paragraph of the Law 1310, 15 January 1951, that created the CNPq. Quoted in Jacqueline P. de Romani, "Apoio Institucional à Ciência e à Tecnologia no Brasil," CET/SUP/CNPq, April 1977, p. 24. (Mimeographed.)

was set up to guide Brazil's nuclear exports of fissionable raw materials. According to the specific compensation guideline, Brazil would sell fissionable raw materials only for a fair price and in exchange for nuclear assistance, in terms of training, technology, and equipment. The principle was formulated by Álvaro Alberto in a Memorandum to the Memorandum to the Brazilian government in 1947 and was incorporated into a policy guideline document prepared by the CNPq in 1952 and approved by the President of the Republic, Getulio Vargas, and the National Security Council. Brazil was known to possess large deposits of monazite sands, and Álvaro Alberto's participation in the discussions of the Baruch Plan, at the United Nations Atomic Energy Commission, led him to be a Strong supporter of the idea that Brazil should use its possession of those raw materials as an asset to develop its nuclear plans. Furthermore, the CNPq established ambitious goals for Brazil's nuclear program, including the control of all phases of the fuel cycle and the development and research of power reactors.<sup>187</sup>

Despite those official guidelines, the Brazilian government had continued to cooperate with the United States' efforts to control the world supplies of fissionable raw materials. The first nuclear agreement with the United States dated back to July 1945, whereby Brazil agreed to limit its exports to the United States or to consignees "approved by the United States." In return, the latter would buy annually a certain amount of monazite sands.<sup>188</sup> During the Korean War the United States intensified its strategic materials stockpile program, and two other nuclear agreements were signed between the two countries in February 1952 and August 1954. Brazil would commit itself to sell specified amounts of monazite

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187 Leal, "Caminhos e Descaminhos," pp. 43, 50.

188 U.S. National Archives Record Group nº 77, quoted in Norman Gall, "Atoms for Brazil, Dangers for All," *Foreign Policy* 23 (1976): 180.

sands and rare earth minerals, and the United States would pay in dollars and wheat, as was the case in the 1954 agreement. The CNPq's export guidelines had been completely bypassed, since neither of these two agreements included a clause of "specific compensations."

The question of "strategic minerals," as it became known in Brazil, created a deep controversy in the Brazilian politics. It had been one of the issues of the nationalist agenda, and it constituted an important concern among the nationalistic segment of the Brazilian military. Conflict of orientation among federal agencies was particularly acute during the Getúlio Vargas presidency (1951-1954). The CNPq and the National Security Council pressed for the inclusion of some compensation in those agreements with the aim of developing an independent nuclear program. Both agencies were overridden by the Ministry of Foreign Relations whose orientation prevailed. For the latter, Brazil would use its strategic raw materials reserves as a bargaining chip to obtain from the United States some specific economic concessions.<sup>189</sup> In fact, the Getúlio Vargas government was ready to cooperate fully with the United States stockpile program in exchange for military assistance, long-term credits for economic development programs, and cooperation in the development of the oil industry.<sup>190</sup>

Under the McMahon Act's policy of denial, the United States government would not supply nuclear technology or equipment anyway. Furthermore, United States actions and pressures on the Brazilian government were geared to obstruct the action of those

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189 According to the Brazilian Foreign Relations Ministry at that time, João Neves da Fontoura, "to exchange thorium for wheat or dollars amounts to the same." Quoted in Leal, "Caminhos e Descaminhos," p. 67. For an analysis of the strategic minerals controversy, see *ibid.*, pp. 29-71.

190 See memorandum for conversation of Foreign Minister João Neves da Fontoura with U.S. Secretary of State Dean Acheson, GV 51.04.05/2, Getúlio Vargas Papers, CPDOC, Rio de Janeiro. This document reveals the low priority the Vargas government placed on the development of nuclear energy, in light of other more pressing goals.

inside the Brazilian state apparatus who defended the development of an independent nuclear program. An attempt to obtain nuclear technology from West Germany in the early 1950s was blocked by direct United States intervention.<sup>191</sup> A congressional hearing held in 1956 to investigate previous irregularities in the nuclear program disclosed confidential documents that attested to the attempts made by United States officials to have the Brazilian government change the nuclear guidelines set up by the CNPq.<sup>192</sup> One of these documents was very critical of Álvaro Alberto's initiatives in the nuclear field, blaming him for the delay in concluding a nuclear agreement with Brazil, and proposing to transfer CNPq functions in the nuclear area to a new agency, modeled after the United States Atomic Energy Commission. Another document expressed United States dissatisfaction with the Brazilian-West German nuclear negotiations, mentioned its detrimental effect on any future United States collaboration with Brazil, and considered the possibility of Brazil attaining control over uranium enrichment technology "as a threat to the security of the United States and the Western Hemisphere." Finally, there was a draft of an agreement for United States-Brazilian joint cooperation in prospecting for fissionable raw materials in Brazil, and a draft note evaluating the

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191 In 1953 the Brazilian government, through Álvaro Alberto, concluded a secret agreement with the Federal Republic of Germany to buy three prototype gas centrifuges for uranium enrichment. The US took cognizance of the deal just before the ultracentrifuges were ready to be shipped to Brazil. They were seized immediately on orders from the US High Commissioner to Germany, since the country was still under allied military occupation. The equipment did not reach Brazil until 1956. For the ultracentrifuges episode, see Luiz Alberto Moniz Bandeira, *Presença dos Estados Unidos no Brasil* (Rio de Janeiro: Editora Civilização Brasileira, 1973), pp. 354-60; and Leal, "Caminhos e Descaminhos," pp. 53-55.

192 According to Renato Archer, then a Federal Deputy at the Brazilian House of Representatives, and at the center of the 1956 congressional investigations, the confidential documents were prepared by the US embassy in Rio de Janeiro, at the request of General Juarez Távora, head of the Military Cabinet of the Café Filho government. The documents were sent by Távora to the National Security Council to serve as a basis for the formulation of new guidelines for Brazilian nuclear policy. Leal, "Caminhos e Descaminhos," pp. 79-81.

potential existence of rich supplies of uranium on Brazilian soil and expressing the United States' interest in acquiring those raw materials.<sup>193</sup>

In fact, during the Café Filho government (1954-55), Álvaro Alberto's efforts to develop an independent nuclear program experienced a severe setback. Established by initiative of the head of the CNPq, nuclear cooperation with France's Commissariat à l'Energie Atomique to produce metallic uranium in Brazil was canceled by the new administration. New guidelines were approved by Café Filho in November 1954 giving the Ministry of Foreign Relations the sole responsibility for conducting international negotiations involving any nuclear matter, and soon after the National Security Council withdrew from the CNPq its previous role in such international negotiations. Álvaro Alberto was compelled to resign and left the Council on 12 January 1955. A few months later, in August 1955, Brazil concluded two nuclear agreements with the United States. The first established a program for prospecting uranium supplies in Brazil, and the second, negotiated under the United States' Atoms for Peace program, made available a research reactor and provided for training of nuclear scientists and technicians.<sup>194</sup>

The revelations brought out at the 1956 Hearings created a new momentum for nuclear energy during the Juscelino Kubitschek

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193 The dates of these last two documents were 9 March 1954 and 22 March 1954, respectively. Bandeira, *Presença dos Estados Unidos*, pp. 361-72; Guilherme, *O Brasil e a Era Atômica*, pp. 157-88. See also, Brasil, Câmara dos Deputados, *Documentos Parlamentares, Energia Nuclear*, p. 185.

194 A chronology of Brazilian nuclear policy from 1945 to 1958 is provided in Leal, "Caminhos e Descaminhos," pp. 165-85. In his testimony to the 1956 congressional hearings, Álvaro Alberto suggested the existence of "foreign pressures" in the episode of his resignation from the CNPq. A detailed account of this event is found in *ibid.*, pp. 94-98. For an inside report of the frustrated Brazilian-French cooperation, see Alexandre Giroto, "Brasil Já Possuía o Urânio Puro Desde o Ano de 1954," *Revista de Direito Nuclear* 3 (August/December 1981): 33-37. Giroto was the head of the CNPq mission sent to France in 1952.



presidency (1956-1961). Following the recommendations of an Inter-Ministerial Commission on Brazilian Nuclear Policy, the National Atomic Energy Commission (CNEN or Comissão Nacional de Energia Nuclear) was established in 1956 to coordinate national nuclear policy, directly subordinate to the President of the Republic. Later in 1962, the Commission was given autonomous status with regard to administrative and financial matters. Again, broad goals were laid down for a nuclear program, with strong emphasis given to the prospecting and mining of uranium and to the domestic production of nuclear fuels. Exports of fissionable raw materials were temporarily banned, and in 1962 the state was given sole control over the prospecting, mining, and milling of uranium ores; the commercialization of fissionable raw materials; and the production of nuclear fuels.<sup>195</sup> In 1959 the federal government set up the Superintendence of Project Mambucaba to plan for the construction of the first nuclear-powered electric plant near the river Mambucaba basin in the state of Rio de Janeiro. In fact, very few of those planned initiatives were carried out. The project Mambucaba was eventually abandoned, with little progress made in the prospecting for uranium and hardly any advancement in the production of nuclear fuels.

A report by the President of CNEN to advise the first military government on nuclear energy matters revealed the CNEN discomfort with the slow progress of the country's nuclear program, in comparison with what was occurring in other developed and developing countries. In contrast to the Brazilian case, according to the report, those countries had experienced a steady and progressive development in the atomic field. The report

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195 Morel, "Considerações sobre a Política Científica do Brasil," pp. 112-16. With the creation of the National Atomic Energy Commission, the functions of the CNPq were concentrated on the promotion of scientific and technological development, dealing only indirectly with nuclear matters. Romani, "Apoio Institucional," p. 25.

thus presented some of the reasons for the Brazilian setback, mentioning the lack of coordination between the federal energy agencies and the CNEN in energy planning, the prevalence of a bias favoring hydroelectric energy, and the lack of decisive action from the federal government to implement a long-range program of nuclear-powered electric plants.<sup>196</sup>

A similar diagnosis was offered by Brazilian scientists. In a congressional hearing on nuclear matters held in 1968, the testimony of the nuclear physicists pointed out the government's lack of a clearly defined policy towards nuclear energy development. They warned against the long-run consequences of such policy indefiniteness, in curtailing future options in the field.<sup>197</sup> From the viewpoint of Brazilian scientists, however, the CNEN was much to blame for that situation. Their criticism centered on the CNEN's non-supporting role towards scientists' isolated efforts to develop indigenous nuclear technology. The ill-fated story of the "Thorium Group" is a dramatic example of what nuclear physicists have complained of.<sup>198</sup> The beginning of the nuclear era in Brazil was characterized by an alliance between scientists and the military, both sharing the direction of the CNPq and establishing Brazil's initial guidelines in the field.<sup>199</sup> But as early as 1955, nuclear

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196 Brasil, Presidência da República, Comissão Nacional de Energia Nuclear, *Pontos Essenciais de um Programa de Energia Nuclear para o Brasil*, by Luiz Cintra do Prado (Rio de Janeiro, 12 August 1964), pp. 1-10.

197 Carvalho, "A Política Científica e Tecnológica do Brasil," p. 84.

198 Known as the "Thorium Group," a certain number of nuclear experts from the Radioactivity Institute of the Federal University of Minas Gerais had been working since the mid-1960s to develop a viable process to utilize thorium in a power reactor. Despite the Group's difficult relationship with the CNEN, which had ignored the Group's original research proposal, the scientists were able to make some progress in their investigations. In 1969, however, the CNEN withdrew its financial support, and a year later the "Thorium Group" was dissolved. Ibid., pp. 84-86.

199 Rowe, "Science and Politics in Brazil," p. 109. Actually, before the creation of the CNPq, a special commission, Comissão de Estudos e Fiscalização de Minerais Estratégicos (CEFME), had been in charge of nuclear matters. The CEFME had been created in 1947 within the National Security Council, headed by Army Colonel Bernardino Correia de Mattos and staffed by Othon Leonardos, a geology

physicists were protesting against their exclusion from the nuclear decision-making process in favor of diplomats.<sup>200</sup>

In the late 1940s and early 1950s elite thinking on nuclear energy clustered around two distinct viewpoints. There were those who advocated the development of an independent nuclear program, and those who believed that nuclear energy would be available in Brazil only to the extent that the country established itself as a firm ally of the United States. Among the former, two slightly different orientations prevailed. On the one hand, a “self-sufficient” orientation was against the import of foreign technology and urged the development of a native technology. A “self-reliant” orientation, on the other hand, did not oppose foreign cooperation as long as control over the use of such technology would stay in Brazilian hands.<sup>201</sup> As mentioned before, the CNPq had defended since its inception a self-reliant course for the Brazilian nuclear program, and this orientation had also been shared by the National Security Council. A self-sufficient course was preferred by the more nationalistic segment of the military who expressed their opinion in various articles published during the “strategic minerals controversy” in the periodical of the military association known as *Clube Militar*.<sup>202</sup> Among nuclear physicists, the debate

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professor, and two well-known nuclear physicists, Joaquim da Costa Ribeiro and Marcelo Damy. Leal, “Caminhos e Descaminhos,” p. 37.

200 Scientists’ dissatisfaction was voiced strongly at the occasion of the signature of the 1955 nuclear agreement with the United States, in the context of the Atoms for Peace program. See statement by Brazilian nuclear physicist, Mario Schemberg, quoted in *ibid.*, pp. 102-3. Similar criticisms were raised in a Seminar on Atomic Energy held in the city of Belo Horizonte in 1958. Carvalho, “A Política Científica e Tecnológica do Brasil,” p. 75.

201 For a consideration of the Argentine case, in terms of these two orientations, see Ashok Kapur, *International Nuclear Proliferation: Multilateral Diplomacy and Regional Aspects* (New York: Praeger, 1979), pp. 333-34.

202 In the late 1940s and early 1950s the *Clube Militar*, which gathered military officers on active and retired duty, became a sort of clearing house for the nationalist thinking on issues such as oil, strategic minerals, and the Amazon region. For the role of the *Clube Militar* and its impact on Brazilian politics,

over domestic versus foreign technology was particularly acute in connection with the 1955 nuclear agreement with the United States.<sup>203</sup> The actual policy was more in tune with the orientation of Foreign Minister João Neves da Fontoura and General Juarez Távora, for whom the issue of decision-making control was much less demanding than that of cooperation with the United States. In 1956 the federal government once again had proclaimed a self-reliant course for the Brazilian nuclear program, but very few concrete steps were actually taken to implement such a goal.

In contradistinction, at that same time Argentina was taking its first concrete steps to achieve nuclear decision-making autonomy and to build up the necessary scientific and technological infrastructure. Argentina sought to profit most from its participation in the United States' Atoms for Peace program. Having received a nuclear research reactor in the context of that program, in 1957 it made the crucial decision to manufacture subsequent reactors. As early as 1965 the Argentine National Atomic Energy Commission had begun feasibility studies for its first power reactor, the construction of which started in 1968.<sup>204</sup> The Argentine decision to build the Atucha reactor, thus entering the stage of nuclear power production, had a major impact on the Brazilian military government.

Actually, the military government which took power in Brazil in 1964 did not reverse the preceding discontinuous course

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see Nelson Werneck Sodré, *História Militar do Brasil* (Rio de Janeiro: Editora Civilização Brasileira, 1965), pp. 304-26.

203 For both the military and the scientists' perspectives, see Lead, "Caminhos e Descaminhos," pp. 57-66, and 100-4, respectively.

204 For an account of the successful early history of the Argentine National Atomic Energy Commission, see Jorge A. Sabato, "Atomic Energy in Argentina: A Case History," *World Development* 1 (August 1973): 23-38. In the 1970s, military rule in Argentina provoked an impressive brain drain in the country, with serious consequences for Argentina's human resources infrastructure.

of Brazilian nuclear activities. The military did, however, bring about two new elements to the nuclear decision making. The first was a strong resolve to “skip stages,” thus ending a long period of indefiniteness in the field. The second was the military’s clear determination to avoid any binding international commitment that could impinge on its present and future nuclear options. This last aspect has to do with Brazilian nuclear diplomacy, and it will be examined in the next section of this chapter.

In fact, a renewal of the commitment for nuclear energy development was only felt with the second military government, since the first three years of military rule nuclear energy had not been a top priority on the government’s agenda.<sup>205</sup> Thus, it was during the period of the General Artur da Costa e Silva government (1967-1969) that nuclear energy was placed on the top of the military regime’s priorities, a move reflecting changing conditions in both domestic and international arenas. These new aspects were: changes inside the military leadership with political clout leaning towards that segment characterized by a hard-line orientation on domestic political issues and an independent posture on international issues; the occurrence of two important events at the international level – the negotiations of the Tlatelolco and the Non-Proliferation treaties, which tended to link domestic nuclear options to international issues; and last, but not least, the progress achieved by the Argentine nuclear program. In a speech delivered a few months after his inauguration, Costa e Silva

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205 The first global economic plan, set forth in the period 1964-66, proposed to halt, for the time being, plans for nuclear energy production. Morel, “Considerações sobre a Política Científica do Brasil,” p. 117. In a major administrative reform of the government, brought about by the Law-Decree nº 200 of 25 February 1967, the CNEN lost its former autonomous status and was placed within the Ministry of Mines and Energy. Apparently that decision was taken against the expressed recommendations of the CNEN. The already mentioned 1964 report by the Commission’s president to the first military government made a strong point against changing the CNEN organizational status and placing it under the jurisdiction of the Ministry of Mines and Energy. Brasil, Presidência da República, Comissão Nacional de Energia Nuclear, *Pontos Essenciais de um Programa de Energia Nuclear para o Brasil*, pp. 8-10.

highlighted the importance of pacific nuclearization to national development and announced the decision to implement a program for the commercial production of nuclear energy. In proclaiming straightforwardly his government's quest for nuclear energy independence, Costa e Silva then added:

*The Brazilian government reserves to itself exclusive rights regarding the installation and operation of nuclear reactors, as well as the prospecting, mining, industrialization, and commercialization of nuclear minerals and ores, and of fertile and fissionable materials.*<sup>206</sup>

A Special Working Group composed of representatives of the Ministry of Mines and Energy, the National Security Council, and the CNEN was formed in June 1967 to formulate nuclear guidelines for the years ahead. The Group's final report recommended immediate provisions for the construction of the first nuclear-powered electric generator, suggesting that priority should be given to the purchase of a nuclear reactor with sufficient experience and technical capability already tested in the marketplace. Observing that it would be extremely difficult to produce enriched uranium in the country, the report advised that nuclear fuels could be obtained through international agreements. In 1972, agreement was reached with Westinghouse for the construction of Brazil's first nuclear power reactor.<sup>207</sup>

The government's decision to acquire nuclear technology from abroad rather than developing it at home, and its choice

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206 Speech at Ilha Solteira on 30 June 1967, as quoted in Rowe, "Science and Politics in Brazil," p. 92. For a collection of speeches and documents related to Brazil's nuclear energy policy during the Costa e Silva period, see Brazil, Ministério das Relações Exteriores, Secretaria Geral Adjunta para Organismos Internacionais, *Política Nuclear do Brasil – Textos e Declarações*, Rio de Janeiro, 9 August 1967. Part of this volume has been published as a special issue, entitled "Política Brasileira de Energia Atômica," of the *Revista Brasileira de Política Internacional* 10 (March and June 1968).

207 For the recommendations of the Special Working Group, see José Goldemberg, "As Incertezas da Política Nuclear Brasileira," *Dados e Ideias* 2 (October/November 1976): 14.

for enriched uranium as the nuclear fuel, had put an end to nuclear physicists' longtime aspiration for the development of an indigenous technology based on the utilization of natural uranium and heavy-water reactors. For those scientists advocating an independent nuclear program, the fundamental disadvantage of the enriched uranium was the dependence on the United States for the supply of such fuels, since this country had a virtual monopoly over the commercialization of enrichment services. Actually, scientists had been almost completely excluded from the decision-making process, since with the military regime national nuclear policy came under strict military control, with the supervision and coordination of nuclear policy resting with the National Security Council.<sup>208</sup> Apparently the decision to buy a power reactor had been made out of the military government's fears of remaining at a disadvantage vis-à-vis the Argentine nuclear program. According to a Brazilian nuclear physicist, this type of argument is fallacious, since buying a nuclear reactor does not guarantee any superiority whatsoever. He goes on to add that only by "planning and constructing our own nuclear reactors, acquiring in the process the complete control of this new technology," could Brazil compete on the same footing as Argentina.<sup>209</sup>

The military's haste in "skipping stages," so to speak, in the nuclear field, in addition to the exclusion of scientists from the decision-making process had an effect of producing a decision that in fact contradicted the military regime's avowed goals of self-sufficiency in the nuclear field. Inside the government, second thoughts on the advisability of a policy of purchasing

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208 For the nuclear organizational structure established after 1967, see Rex N. Alves, "Política Nacional de Energia Nuclear," lecture presented at the Escola Superior de Guerra (Higher Way College), Rio de Janeiro, 29 July 1983, p. 46. (Mimeographed.)

209 Goldemberg, "As Incertezas da Política Nuclear Brasileira," p. 15.

foreign equipment on a turnkey basis gradually evolved. On the international front, the Costa e Silva government set the tone for Brazilian nuclear diplomacy in the years ahead. At the same time that Brazilian officials were negotiating the purchase of the country's first power reactor, the Costa e Silva government was making it clear that Brazil would not accept any international obligation that could hinder its present and future nuclear options, and that it would not change its position to sign the NPT. The stakes in the nuclear business were such as to preclude commercial ventures as a part of a NPT bilateral bargain.

## **2.5 Brazilian Nuclear Diplomacy**

We argued earlier that the NPT regime had been unable to provide either positive inducements in the form of selective benefits to signatories, or negative inducements in the form of sanctions to non-signatories. Thus, the incentives for free riding the regime were higher for those countries that valued most the attainment of nuclear capability, since these countries could continue to benefit from nuclear cooperation without having to incur any of the costs associated with accession to the regime.

In Brazil, as we have seen, the development of an indigenous nuclear capability had been a long-time aspiration of scientists and the military. At one time or another, several factors had militated against the success of this aspiration: United States pressures, lack of a firm commitment from the federal government to develop nuclear energy, and exclusion of scientists from the decision-making process. Under military rule, greater concern for national security and national power came to be expressed in the nuclear arena. In the military view, the attainment of nuclear capability constituted the most visible indicator of a world-power status, and the path to pacific nuclearization was seen as a necessary step for narrowing the gap between developing and developed countries.



Therefore, attempts by adverse foreign interests to frustrate this objective were likely to be repelled.<sup>210</sup> Historically, a vision of Brazil's destiny as a country with the potential for being placed among the world's great powers has been shared by military and civilian elites alike. Thus, the view of Brazil as a candidate for world-power status, along with a critical appraisal of the prevailing international power structure, became acceptable rationales for Brazilian nuclear diplomacy in 1967, and for the country's overall foreign policy afterwards. Although domestic nuclear choices in 1967 were a poor indicator of that commitment, it was at the international level that a new departure took place in the country's nuclear policy.

Brazilian position on the NPT can be seen as a change of the country's previous stance on issues of disarmament and non-proliferation in two particular ways. On the one hand, it represented a modification of traditional Brazilian support for past United States non-proliferation initiatives, such as the Baruch Plan and the Atoms for Peace program. Moreover, it was the first time, since the military took power in 1964, that Brazilian foreign policy was clearly at variance with United States orientations. On the other hand, it constituted a departure from Brazil's disarmament policy as carried out during the years of the "independent foreign policy" of the Jânio Quadros - João Goulart presidential periods (1961-1964).

The fact that a professedly anti-communist regime was diverging with the United States on a particularly sensitive issue to the latter, indicates that the linkage between domestic and foreign policy orientations, forged during the Cold War period, was broken.

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210 For the importance of nuclear energy for Brazilian development, see statements by diplomats and members of the Costa e Silva government, in Brazil, Ministério das Relações Exteriores, *Política Nuclear do Brasil*.

Socialized in the parameters of the Cold War, the Brazilian military had come to establish a close link between anti-communism at home and alignment with the United States in political, economic, and military terms. Students of Brazilian foreign policy have pointed out the close ideological congruence between domestic choices, particularly those that involved redistributive issues, and foreign policy orientations on Cold War issues, during the 1950s and early 1960s.<sup>211</sup> Because of the linkage between the two areas, foreign policy issues had tended to intermingle with domestic politics. International issues were thus highly divisive within Brazilian politics, stirring conflicting responses among different groups and individuals. Actually, the opposite had happened in the United States during the Cold War period, when a bipartisan consensus kept foreign policy issues outside the realm of domestic politics.

With the military in power after 1964, conflict was suppressed within Brazilian politics, but the linkage between the two arenas still remained, at least up to 1967. Actually, during the first years of military rule, international issues had been a major component of the legitimizing ideology of the new rule, since the coup in 1964 had been justified by the military as a defensive reaction against international communist aggression.<sup>212</sup> Domestic and foreign policies had been guided by the principle of “ideological frontiers,” which constituted the core of the military’s national security doctrine. This doctrine, however, underwent modification with the gradual relaxation

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211 For an analysis of Brazilian “independent foreign policy” from the standpoint of the linkage between domestic and foreign policy orientations, see Keith L. Storrs, “Brazil’s Independent Foreign Policy, 1961-1964: Background, Tenets, Linkage to Domestic Politics, and Aftermath,” (Ph.D. dissertation, Cornell University, 1973). Storrs suggests that in the early sixties a high degree of congruence tended to occur between positions in a liberal-conservative continuum and the East-West one. With the conservatives in power after 1964, there was a major modification in Brazilian foreign policy, with the reversal of the principal tenets of the “independent policy” that had emerged when the liberals were in power.

212 Carlos Estevam Martins, “A Evolução da Política Externa Brasileira na Década 64/74,” *Estudos Cebap* 12 (April-June 1975): 57-68.

of the United States - Soviet Union relationship. The process of detente, the peace negotiations in Vietnam, and Nixon's low-profile Latin American policy were considered by the Brazilian military as indicators of the loss of United States leadership in the Western world and, consequently, of the latter's forsaking of its traditional allies in Latin America. Believing the survival of the regime could no longer rely on the United States' help, and seeing themselves as encircled by unfriendly neighbors of nationalist and populist orientations, the military began to consider the defense of the regime to depend exclusively on the strengthening of the country's industrial and military power. Attempting to accomplish those goals, the government would face the rigidity of the international system, making it difficult to attain the factors – political, military, economic, and technological – deemed indispensable for the growth and development of the country.

The negotiation of the Non-Proliferation Treaty in the late 1960s provided the first opportunity for the military regime to reveal its changing views on international security and power. From the standpoint of the Brazilian rulers, the Treaty was an attempt by the superpowers to “freeze” the international power structure to contain emergent powers such as Brazil, and, therefore, it constituted the highest point in the ongoing detente between the United States and the Soviet Union.<sup>213</sup> From then on, the Brazilian government has justified its newly adopted positions on different issues, such as nuclear power, environment, and the territorial sea, on the basis of the “freezing of the world power structure” foreign policy conceptual paradigm.

It should be observed that this new paradigm did not completely override the old one of “ideological frontiers.”

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213 The thesis of the “freezing of world power structure” had been developed in several writing of Ambassador Araújo Castro. See, particularly, “O Congelamento do Poder Mundial,” in Araújo Castro, ed. Rodrigo Amado (Brasília: Editora Universidade de Brasília, 1982), pp. 197-212. This volume contains a collection of Araújo Castro's writing on disarmament, international security, and Brazilian foreign policy issues.

The latter remained the operational element in Brazilian behavior in Latin America for a long period of time. Particularly during the Medici government (1969-1974), conservative diplomacy in regional multilateral arenas, such as the Organization of American States, and close bilateral relationships with the other military governments in the region were reinforced by the “parallel diplomacy” of the country’s security services in the neighboring countries. Clearly at that time, Brazilian activities in Latin America were an extension of the national security policy of the regime.<sup>214</sup> It can be argued, however, that there was no incoherence between the defense of the status quo in the region and the position of independence on those global issues. In Latin America, where the geographical proximity increases the impact of other countries’ domestic political processes on the Brazilian territory, the policy of “ideological frontiers” appeared to be a more effective way of maintaining the political-ideological equilibrium of the region. As to the global issues, where the political survival of the regime was not at stake, Brazilian behavior could be ruled by pragmatic realism in the defense of the interests of the state. Ideological politics and realpolitik constituted, therefore, different tactics, appropriate to distinct contexts, but belonging to the same strategy of neutralizing all foreign factors impeding Brazil’s national power.<sup>215</sup>

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214 On the influence of the security component of the regime over Brazilian diplomacy in Latin America, see Schneider, *Brazil – Foreign Policy of a Future World Power*, p. 62; and Thomas E. Skidmore, “Brazil’s Changing Role in the International System: Implications for U.S. Policy,” in *Brazil in the Seventies*, ed. Riordan Roett (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1976), p. 34.

215 It was only in the late 1970s and early 1980s, with the worsening of Brazilian economic conditions, that pragmatism finally came to Latin America, in the form of a strong commitment from the government to improve political and economic relations with all countries in the region. For the impact of changing economic conditions on the country’s Latin American diplomacy, see Robert Bond, “Brazil’s Relations with the Northern Tier Countries of South America,” in *Brazil in the International System: The Rise of a Middle Power*, ed. Wayne A. Selcher (Boulder: Westview Press, 1981), pp. 123-41.

Brazil's view of the international system, as it was first expressed in the NPT regime, revealed a quest for an altered world order; but, simultaneously, it did not reject power politics per se. What it did reject was the attempt by the superpowers to freeze the existing power hierarchy, thus preventing the vertical mobility of emerging powers such as Brazil. Brazilian opposition to the NPT was based on the argument that the Treaty would deny the country something not denied the great powers – namely, the development of peaceful uses of nuclear technology. From the government's view, the Treaty would create a form of technological dependence, quite incompatible with Brazil's aspirations for development. Since "pacific nuclearization" tended to be perceived as a necessary path to continued national independence, the issue of non-proliferation was defined in terms of a threat to the country's sovereignty. For a ruling elite who had aspired world power status for its country, the problem of equity in international relations tended to be couched in the language of power rather than morality.

There were also other ambiguities in Brazilian behavior in 1967. The government's critical view of the NPT was quite welcome at home, even by those who opposed the regime. Support for the government's nuclear diplomacy came from newspapers such as the *Correio da Manhã* and the *Última Hora*, the latter a traditional supporter of the extinct Brazilian Labor Party and of former President João Goulart. Positive reaction from the scientific community was expressed in various interviews published in those newspapers. The fact that opposition groups were in agreement with the government's policy prompted the newspaper *Jornal do Brasil* to suggest that the same phenomenon that had occurred in the 1930s was taking place again, when the military had shared left-wing viewpoints.<sup>216</sup> It is noteworthy that negative reaction came

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216 Ruy Mauro Marini and Olga Pellicer de Brody, "Militarismo y Desnuclearización en América Latina: El Caso de Brasil," *Foro Internacional* 8 (July/September 1967): 14-15.

from some former members of the Castelo Branco administration, as well as from conservative and pro-United States newspapers such as *O Estado de São Paulo*.<sup>217</sup>

The impact of domestic political considerations on Brazil's NPT policy was not negligible. To the government, its nuclear diplomacy could have a positive effect in broadening badly needed domestic support for the regime.<sup>218</sup> On the other hand, mobilization of public opinion, and particularly of scientists, on the nuclear issue could bring strength to Brazil's negotiating stance, in face of mounting international pressures to change its position on the NPT. In a deliberate attempt to rally the scientists' support, the Costa e Silva government had announced plans to seek collaboration with Brazilian scientists abroad, and invited the scientific community to give their collaboration "in the definition and execution of an active pacific nuclearization policy."<sup>219</sup> Not only did this collaboration prove illusory, as we mentioned earlier, but the very nature of the regime precluded nuclear diplomacy becoming a source of legitimation for the regime. The reason it had not been able to do so has to do with the potential destabilizing effect, from the government's point of view, of a linkage between foreign and domestic arenas on the nuclear issue. Domestically, Brazil's NPT policy posed a dilemma for the ruling elite. If the nationalistic component of such a policy was pushed too hard, it

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217 For an account of the domestic reaction to the government's standpoint on the NPT, see H. Jon Rosenbaum and Glenn M. Cooper, "Brazil and the Nuclear Non-Proliferation Treaty," *International Affairs* 46 (January 1970): 82-85. The article mentions a public opinion survey, sponsored by the government and conducted in 1967, showing overwhelming support of the government's position, and cites a favorable statement issued by the leader of the opposition party before the Brazilian Senate.

218 This point is developed in Rowe, "Science and Politics in Brazil," pp. 116-20.

219 Statement issued by Foreign Minister José de Magalhães Pinto in a lunch offered by the Foreign Ministry to Brazilian scientists, Brasil, Ministério das Relações Exteriores, *Política Nuclear do Brasil*, p. II-1.

would attract the support of the opposition groups, but it would certainly alienate sectors of the military and the ruling class, thus eroding the basis of support of the regime. Thus, to avoid stirring a nationalistic reaction, the government deliberately chose not to socialize conflict, by removing any anti-American overtones from its independent posture on the nuclear issue.<sup>220</sup>

Indeed, in the midst of the NPT controversy, when the Brazilian press was accusing the United States of trying to perpetuate a kind of “nuclear colonialism,” the Foreign Ministry announced a United States offer for expanded nuclear collaboration with Brazil. The announcement was phrased in such terms as to minimize policy differences with the United States, and followed instructions from the upper echelons of the government to de-escalate the divergences between the two countries.<sup>221</sup> It might even be argued that domestic political considerations intruded on the country’s nuclear choices in the beginning of 1968. As we mentioned before, decisions reached at that time were against the majority of scientists’ opinions, and in fact scientists had been excluded from the decision-making process, the government’s rhetoric at the beginning of the Costa e Silva administration notwithstanding. In a certain sense, the nuclear guidelines can be seen as the outcome of an unavowed trade-off between domestic and foreign choices. By seeking United States collaboration in its newly formulated nuclear power production program, the government appeased the more conservative and pro-United States segments among the supporters of the regime, and was able to maintain its NPT policy.

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220 The idea that the manipulation of the scope of conflict is the most important strategy of politics was developed in the classical book of E. E. Schattschneider, *The Semi-Sovereign People – A Realist’s View of Democracy in America* (New York: Holt, Rinehart & Winston, 1960).

221 Rowe, “Science and Politics in Brazil,” pp. 120-21.

Brazil's nuclear diplomacy in 1967 was also at variance with its previous stance on non-proliferation issues. During the years of "independent foreign policy," Brazil had been an active promoter of disarmament, and along with other non-aligned members of the ENDC, such as India and Mexico, had played a leading role in seeking to secure from the superpowers concrete disarmament agreements.<sup>222</sup> Together with Mexico, Brazil had been a vigorous proponent for the establishment of a nuclear free zone in Latin America. In 1962 the Brazilian representative at the United Nations had submitted to the General Assembly a draft resolution concerning the establishment of a denuclearized zone in Latin America. Following that, in April 1963, the presidents of Bolivia, Brazil, Chile, Ecuador, and Mexico issued a joint declaration announcing that they were prepared to sign a multilateral agreement "whereby their countries would undertake not to manufacture, receive, store, or test nuclear weapons or nuclear launching devices," and calling the other Latin American governments to accede to that declaration, "in order that Latin America may be recognized as denuclearized zone as soon as possible."<sup>223</sup>

Despite the fact that Brazil did not change its previous stance on issues of disarmament, continuing to espouse the same positions as before, after 1964 the Brazilian posture regarding the non-proliferation regime underwent a distinctive transformation. Other countries, such as Argentina and India, have also behaved similarly, supporting disarmament but opposing non-proliferation proposals on the grounds that they were discriminatory and did not constitute real disarmament endeavors, since they would control

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222 For the Brazilian role in disarmament issues during the "independent foreign policy" period, see Storrs, "Brazil's Independent Foreign Policy," pp. 293-98.

223 *United Nations and Disarmament*, p. 335.



only horizontal proliferation, and not vertical proliferation. Such double standard behavior, nonetheless, had been made easier in view of the superpowers' determination to deal with both problems separately, and to de-link non-proliferation negotiations from disarmament agreements.

Just after the military coup, the new government expressed support for banning nuclear weapons from Latin America, but showed no desire to offer its leadership to that effort. With Brazilian retreat, Mexico assumed the leadership for the negotiations of a treaty for the denuclearization of the region. At these negotiations, Brazil led a minority bloc of those Latin American countries that had some objections to the first draft treaty presented by Mexico in the beginning of 1966. Brazil's major objections centered on the issue of when the treaty would go into effect. By the Mexican proposal, the treaty would go into force after eleven states had ratified it. Brazil, on the other hand, would agree to enter into force of the treaty only after the following requirements had been met: ratification by all Latin American countries; the nuclear powers' signature to Protocol II of the treaty, by which they would undertake to respect the status of denuclearization in Latin America and not to use nuclear weapons against the parties to the treaty; and the signature by all countries possessing territories within the region of Protocol I, committing them not to place nuclear weapons in the territories under their jurisdiction.<sup>224</sup> A compromise between the two positions was reached through a Mexican proposal whereby the more stringent conditions set forth in the Brazilian draft were included in article 28 of the Treaty, but a clause was inserted in the

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<sup>224</sup> For the major differences between the Mexican and the Brazilian proposals, see "Política Brasileira de Energia Atômica," *Revista Brasileira de Política Internacional*, pp. 96-97. See, also, Marini and Brody, "Militarismo y Desnuclearización en América Latina," pp. 1-3. An account of the negotiations of the Treaty can be found in Hugh B. Stinson and James D. Cochrane, "The Movement for Regional Arms Control in Latin America," *Journal of Inter-American Studies and World Affairs* 13 (January 1971): 7-11.

same article, allowing states to waive the requirement of complete ratification and compliance. The Treaty for the Prohibition of Nuclear Weapons in Latin America, or the Treaty of Tlatelolco, was formally signed on 14 February 1967, in Mexico City. Brazil signed and ratified it but did not waive the requirement of complete ratification; thus, the Treaty will only be in force for Brazil after all Latin American and outside states have complied with it.<sup>225</sup>

One of the most controversial issues during the negotiation of the Tlatelolco Treaty was related to the right to conduct nuclear explosions for peaceful purposes, as provided in its article 18. The United States had serious reservations about this article, on the grounds that it was difficult to establish a clear-cut differentiation between a peaceful nuclear explosive and a nuclear weapon. Consequently, it had interpreted the Treaty as precluding peaceful nuclear explosives. The Soviet Union, the United Kingdom, and Canada also agreed with the United States' interpretation. The Mexican position stated that article 18 had to be interpreted in the context of the definition of a nuclear weapon, as set forth in article 5 of the Treaty. According to Mexico's understanding, such explosions could be carried out directly by parties to the Treaty only if they did not require the use of a nuclear device similar to those defined in article 5. Therefore, article 18 had been included to face the hypothetical contingency that such differentiation might be established with future advances in scientific research. If unsuccessful, contracting parties would not be allowed to manufacture nuclear explosive devices even though they might be intended for peaceful purposes. The Brazilian understanding, as well as the Argentine one, was different from both the United States' and Mexican positions. Upon signing the Treaty, the Brazilian representative handed a note of clarification to the Mexican

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225 Brazil signed the Tlatelolco Treaty on 9 May 1967, and ratified it on 29 January 1968.

government, in which Brazil declared its interpretation of the meaning of article 18 as allowing the “signatory States to carry out with their own means, or in association with third parties, nuclear explosions for peaceful purposes, including explosions which may involve devices similar to those used in military weapons.”<sup>226</sup> Brazil certainly would not have signed the Tlatelolco Treaty had article 18 been excluded from it.

In the case of the NPT, the Brazilian position was straightforward, and peaceful nuclear explosions were again a contentious issue. The essence of Brazil’s objection to the NPT was that it failed to provide an acceptable balance of obligations and responsibilities between nuclear weapon states and non-nuclear weapon states. According to the Brazilian viewpoint, the latter would be denied everything – manufacture of peaceful nuclear explosive devices and possession of nuclear weapons, besides being subjected to the regime of full-scope safeguards – while the former would surrender nothing. As a corollary of this point of view, the Treaty was seen as a discriminatory device, since it would divide the world into two categories – those that could pursue an independent nuclear technological development without international constraints, and those that could not. Therefore, with the avowed objective of preventing horizontal nuclear proliferation, the NPT would in fact prevent the independent peaceful nuclear technological advancement of non-nuclear countries.<sup>227</sup> From the Brazilian decision-makers’ standpoint, the Tlatelolco Treaty

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226 “Note Delivered by the Brazilian Plenipotentiary to the Chairman of the Preparatory Commission for the Denuclearization of Latin America, on signing in Mexico City, on May 9, 1967, the Treaty for the Prohibition of Nuclear Weapons in Latin America,” in Brazil, Ministério das Relações Exteriores, *Política Nuclear do Brasil*, p. V-4. Also, see Shaker, *The Nuclear Non-Proliferation Treaty*, vol. 1, p. 210; and *United Nations and Disarmament*, pp. 343-44.

227 See Colonel Luiz de Alencar Araripe, “Aspectos Político-Militares, Panorama Nuclear Mundial e o Brasil,” in “Política Brasileira de Energia Atômica,” *Revista Brasileira de Política Internacional*, pp. 147-63; and Alves, “Política Nacional de Energia Nuclear,” pp. 16-20.

was free of all these liabilities, and as such it constituted a much more effective and non-discriminatory instrument for curbing nuclear weapons proliferation.<sup>228</sup> Brazil's proposed amendments to the NPT were thus designed to redress somewhat that was perceived to be a highly unbalanced agreement. Major Brazilian proposals to amend the joint US-USSR treaty draft concerned: the recognition of the right of all parties to develop peaceful nuclear explosive devices under safeguards; the specification of further measures of disarmament to be negotiated under article VI of the Treaty; and the provision for the channeling of a substantial part of the resources freed by the measures of nuclear disarmament to developing countries. All these proposals were rejected by the superpowers.<sup>229</sup>

During the ENDC discussions, both Brazil and India attacked the US-USSR draft treaty vigorously, and their arguments paralleled each other, although with a slight difference in emphasis. The Indian viewpoint tended to put some emphasis on the security-related aspects of the NPT, whereas the Brazilian position relied heavily on technological-economic issues. Playing a leading role against the continued manufacture of nuclear weapons by the nuclear powers, India proposed that the production of such weapons be prohibited in the first article of a non-proliferation treaty; it advanced specific requests on security assurances for non-nuclear weapon states and advocated the application of international

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228 For a comparison of the Tlatelolco Treaty and the NPT, according to the Brazilian decision-makers' perspective, see "Política Brasileira de Energia Atômica," *Revista Brasileira de Política Internacional*, pp. 102-4.

229 Brazil also had submitted amendments on the subject of the rights and obligations of parties to nuclear weapon-free zone treaties, a proposal advanced by Mexico which had pressed for the inclusion of a specific article in the text of the NPT; as well as on procedural matters. Brazilian formal amendments to the NPT were submitted on 31 October 1967 and 13 February 1968. See United Nations, General Assembly, 22<sup>nd</sup> Sess., *Report of the Conference of the Eighteen Nation Committee on Disarmament* (A/7072 Add. 1), 19 March 1968.

safeguards on all the nuclear activities of the nuclear weapons countries. The Indian government also opposed the prohibition of the possession of peaceful nuclear explosive devices by non-nuclear countries, rejecting the NPT views on this issue as an attempt to favor “non-proliferation in science and technology.”<sup>230</sup> Brazil held objections similar to those raised by India in criticizing the continuation of vertical proliferation allowed under the NPT and condemning the treaty for not providing a clear commitment on the part of the nuclear powers to press for further disarmament measures. But it was the question of “non-proliferation in science and technology” that aroused most Brazilian dissatisfaction with the NPT. Differences between the Indian and the Brazilian stance on the non-proliferation regime should not be overemphasized, nor should they be underestimated.<sup>231</sup> Security concerns tend to be paramount regarding the implications of India’s hypothetical accession to the NPT, given the more complex and hostility-prone geopolitical environment facing India. Therefore, upgrading security assurances to persuade free riders to join the NPT may be less effective in the case of countries such as Brazil, as opposed to concrete economic and technological side benefits.

The Brazilian government envisioned the non-proliferation regime in the context of the North-South dispute, and considered the NPT a piece of technological neo-colonialism. This viewpoint was most clearly articulated in connection with the peaceful nuclear explosion issue. The Brazilian position repudiated the basic formula of the NPT which saw no difference between a nuclear weapon and a peaceful nuclear explosive device. At the ENDC,

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230 Shaker, *The Nuclear Non-Proliferation Treaty*, vol. 1, pp. 207, 252-54, and vol. 2, p. 668; and *United Nations and Disarmament*, pp. 288, 292.

231 For a slightly skewed “Indian perspective” in the analysis of the Southern view on the non-proliferation regime, see Kapur, “Nuclear Energy, Nuclear Proliferation and National Security,” pp. 176-79.

Brazil's representative asserted his government's commitment to the proscription of nuclear weapons, but declared that it was not ready "to waive the right to conduct research without limitation and eventually to manufacture or receive nuclear explosives that will enable us to perform great engineering work... for the benefit of economic development and the well-being of the Brazilian people." To waive such a right, according to him, would be tantamount "to renouncing beforehand the virtually unlimited perspectives in the field of peaceful activities."<sup>232</sup> Bringing in a theme that was to be spelled out in President Costa e Silva's first major address on foreign policy, the Brazilian representative had stated at a previous ENDC meeting: "The development of research in the field of nuclear energy inevitably includes, at a certain stage, the use of explosives; to bar access to explosives would amount to hindering the development of the peaceful uses of nuclear energy."<sup>233</sup>

Therefore, Brazil was not prepared to accept that "in the name of disarmament, the right of all nations to economic development and to progress could, in some way, be impaired."<sup>234</sup> Finally, according to the Brazilian point of view, the NPT would confer the monopoly over the technology of peaceful nuclear explosions to the nuclear powers, while the non-nuclear countries would remain dependent on the supply of such services from the nuclear countries.<sup>235</sup> Brazil's objections to the NPT, thus, were not

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232 Statement by Ambassador Sergio Correa da Costa, at the 297<sup>th</sup> Session of the ENDC, 18 May 1967, reprinted in "Política Brasileira de Energia Atômica," *Revista Brasileira de Política Internacional*, pp. 44-45.

233 Statement by the Brazilian representative, at the 293<sup>rd</sup> Session of the ENDC, 14 March 1967, quoted in Shaker, *The Nuclear Non-Proliferation Treaty*, vol. 1, p. 208. For excerpts of Costa e Silva's first address on foreign policy, on 6 April 1967, see Brasil, Ministério das Relações Exteriores, *Política Nuclear do Brasil*, p. I-1.

234 Statement by Ambassador Sérgio Correa da Costa, at the 297<sup>th</sup> Session of the ENDC, 18 May 1967, p. 45.

235 See interview by Ambassador Sérgio Correa da Costa to the newspaper *Última Hora*, on 28 June 1967; and Colonel Luiz de Alencar Araripe, "Aspectos Político-Militares, Panorama Nuclear Mundial

superficial, but questioned the basic consensus among the sponsors of the Treaty that nuclear explosive devices were indistinguishable from nuclear weapons, and as such should be prohibited, whatever their purpose. Actually, with the exception of India and Brazil, all the other members of the ENDC shared this consensus.

Consonant with that viewpoint, Brazil submitted to the ENDC formal amendments for the purpose of omitting any references to nuclear explosive devices in articles I, II, and IX. In amending article IV, dealing with the “inalienable rights” of all parties to develop and produce nuclear energy for peaceful purposes, Brazil explicitly included among the activities permitted under the Treaty, “nuclear explosive devices for civil uses.”<sup>236</sup> The most that those in support of Brazilian espousal of the right to peaceful nuclear explosives could obtain was provided in article V of the Treaty, which recognized “that potential benefits from any peaceful applications of nuclear explosions will be made available... to non-nuclear-weapon States Party to this Treaty.”<sup>237</sup>

The question of potential beneficiaries was largely debated, in connection with the idea of establishing a service for peaceful nuclear explosives within the framework of the IAEA. The position of the Soviet Union and the United States was that the NPT was quite explicit in mentioning the non-nuclear-weapon states parties to the Treaty. Thus, for both countries it was in the context of the application of article V of the NPT that the explosive services should be furnished through the IAEA. In attempting to preserve a balance between its non-proliferation objectives and its other security and

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e o Brasil,” both in “Política Brasileira de Energia Atômica,” *Revista Brasileira de Política Internacional*, pp. 56-61, 147-63.

236 ENDC/201, 31 October 1967, and ENDC/201/Rev. 2, 13 February 1968, in United Nations, *Report of the Conference of the Eighteen Nation Committee on Disarmament*.

237 For the text of the NPT, see *Yearbook of the United Nations*, 1968, pp. 17-19.

political interests, the United States interpreted article V as not precluding a bilateral “Plowshare” arrangement with a non-party to the NPT, “provided the supplying nuclear weapon State Party to the NPT otherwise adheres to its pertinent obligations under the Treaty.”<sup>238</sup> The Mexican position was less stringent than those of the US-USSR, and actually reflected the views of an expressive number of countries. According to Mexico, the potential beneficiaries of such international services should include not only the parties to the NPT, but all other countries which explicitly had renounced, by means of a multilateral agreement, the acquisition of nuclear weapons. Brazil, among the non-signatories of the NPT, would be included by the Mexican definition, since it had signed and ratified the Treaty of Tlatelolco which prohibits nuclear weapons. Brazil, however, as well as India, insisted that explosive services should be made available to all members of the IAEA, independent of their NPT status. Both countries held that the implementation of article V should not affect the right of all IAEA members to benefit from the Agency’s assistance, “on a non-discriminatory basis with no conditions attached other than adequate control and supervision by the Agency of the execution of the projects.”<sup>239</sup> Therefore, the establishment of an explosive service within the framework of the IAEA should be in conformity with the Agency statute, and thus to the benefit of all its members.

The question of the recipients of such services was thus left to the full discretion of each supplier country. Although the superpowers have been slow in implementing the undertaking of article V, there are reasons to believe that in any bilateral

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238 Quoted in Shaker, *The Nuclear Non-Proliferation Treaty*, vol. 1, p. 410. The “Plowshare” program had been created in 1957 under the US Atomic Energy Commission, with the collaboration of the private industry. Its main objective was to research and develop the peaceful applications of nuclear explosions.

239 Ibid., p. 412; also, see pp. 411-13.



arrangement to furnish explosive services, the security and economic interests of the supplier will prevail over its non-proliferation objectives. United States assistance in the early part of 1969 for the construction of a harbor in Australia, a country that was not a party of the NPT, is an evidence of the above affirmation.<sup>240</sup> On the other hand, free riders were ready to suggest the widest coverage of all the potential benefits to be derived from the establishment of a non-proliferation regime.

While negotiations for a non-proliferation treaty were still going on, in mid-1967, the Chairman of the United States Atomic Energy Commission, Glenn Seaborg, came on an official visit to Brazil to try to encourage Brazilian adherence to the NPT by offering to make nuclear explosives available to Brazil at cost when feasible. Under the United States' proposal, an international agency would furnish the services, but the supplier country would retain custody of the material until detonation, to comply with the NPT prohibition on transfer of such materials to non-nuclear countries. Furthermore, the United States suggested that instead of fabricating its own nuclear fuels, which would demand a considerable waste of time and money, Brazil could buy them from the United States government at the same price for which they were sold to the North American private nuclear industry. The Seaborg mission was not totally successful, since Brazil declined to compromise on the issue of nuclear explosives. The Brazilian government was ready to accept the cooperation of the nuclear powers in supplying such services, with no political strings attached. But it refused to accept that, as a condition of supply, Brazil would have to waive the right to freely produce its own nuclear explosive devices.<sup>241</sup>

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240 For the reaction of the US Congress to the "Project Keraudren" to Australia, see *ibid.*, p. 410.

241 For information on the Seaborg visit, see Brasil, Ministério das Relações Exteriores, *Política Nuclear do Brasil*, pp. VII 3-4. Also, see interview by Ambassador Sérgio Correa da Costa to the newspaper

The United States' proposal to furnish explosive services, which in fact would impede the development of a national nuclear explosive capability, was considered unacceptable by the scientific community also. Scientists, rallying against the proposal and unfolding criticism in the Brazilian press over the hidden purposes behind the United States' offer, forced the government to tone down its public rhetoric and to adopt a low-profile approach on the Seaborg affair.<sup>242</sup> Although strong divergences persisted between the two countries on the issue of nuclear explosives, in August of that year the Brazilian Foreign Ministry announced plans for further nuclear collaboration with the United States. Indeed, Brazil's move was not a mere attempt to verbally de-escalate the conflict with the United States, but, as we argued before, it reflected deep domestic political constraints on Brazilian nuclear policy and diplomacy. The Seaborg proposals were not successful in changing Brazilian NPT policy, but they did have an impact on its domestic nuclear choices. The final report of the Special Working Group constituted to formulate Brazil's nuclear guidelines, delivered in the beginning of 1968, rejected as non-economical the domestic production of nuclear fuels, recommending instead, that such fuels be purchased from foreign suppliers.

In Brazil those opposed to the government's position on the NPT had raised a black scenario for Brazilian nuclear development in the years ahead. The argument pointed out that by declining to sign the NPT, Brazil would seriously jeopardize its nuclear future, since the supplier countries, mainly the United States, would

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*Última Hora*, on 28 June 1967, in "Política Brasileira de Energia Atômica," *Revista Brasileira de Política Internacional*, pp. 58-59.

242 For scientists' and elite opinion's reactions to the Seaborg visit, see Rowe, "Science and Politics in Brazil," pp. 118-21.

refuse to give their collaboration to Brazilian nuclear plans.<sup>243</sup> The government, however, had proceeded on the assumption that the country would lose nothing by refusing to accede to the NPT. That calculus proved to be correct after all. Contrary to those non-nuclear countries that had joined the regime, Brazil did not surrender any of its future nuclear options, but, just as had happened to the former, was able to share in the ensuing opportunities from the expanding nuclear commerce in the early 1970s.

## 2.6 Concluding Remarks

The Brazilian military regime's nuclear conduct has been analyzed from the perspective of the sub-imperialist framework, which considers it part of an overall strategy for Brazilian expansionism in South America, particularly in the Southern cone of the continent. Thus, the argument goes, by achieving a domestic nuclear capability, Brazil could establish its political and economic predominance in the region, and play the guardian's role for global capitalist interests. The country's stance on the nuclear issue, in particular, would help fulfill Brazil's aspiration to become a special ally of the United States in the region, with concrete benefits accruing from this condition. By playing tough on nuclear matters, it is argued, Brazil could negotiate further nuclear collaboration with the United States from a position of strength, thus obtaining more generous help from the latter for its nuclear plans.<sup>244</sup>

We argued here that the use of a collective goods approach in analyzing Brazil's NPT policy is, in comparison with the sub-

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243 This argument had been articulated in editorials of the newspaper *Jornal do Brasil*. See Rosenbaum and Cooper, "Brazil and the Nuclear Non-Proliferation Treaty," p. 84.

244 For an analysis of Brazilian nuclear conduct along these lines, see Marini and Brody, "Militarismo y Desnuclearización en América Latina," particularly pp. 3-6, 15-16. In political terms, the "gobetween" hypothesis was raised by the Soviet press in suggesting a partial explanation for Brazilian rejection of the NPT. According to the newspaper *Red Star*, Brazil was "acting as a stalking horse for Germany's interests with the expectation that she will be rewarded through future atomic co-operation." Rosenbaum and Cooper, "Brazil and the Nuclear Non-Proliferation Treaty," p. 89.

imperialist model, more sound in analytical terms and empirically more accurate. First, the same analytical category of the sub-imperialists' role is used to explain such distinct behaviors as Brazil sending troops to help the United States' intervention in the Dominican Republic in 1965 and its refusal to accede to the NPT. In the first case, Brazil was clearly following the United States' lead in the region, whereas in the second, it was at variance with United States interests. A collective goods approach instead places those behaviors in distinct analytical categories, within the same theoretical framework. Thus, in the latter case, Brazil was free riding on other countries' collective efforts, while in the former, its behavior parallels the junior partner's conduct in a typical leader-follower relationship, when the follower joins in the collective action because of the presence of either selective benefits or coercion. This last behavior is closer to the meditational role of the sub-imperialist framework, but to consider both as belonging to the same analytical category seriously reduces the value of the category for analytic purposes.

Second, the sub-imperialist framework is faulty in presenting a quite crude determinist explanation of foreign policy, disregarding the effect of domestic political factors. According to this framework, the semi-periphery performs certain functions for the core. Therefore, it might be expected that all semi-peripheral countries would behave alike, since their behavior is an outcome of the same structural factors and processes working at the world-market level. It becomes extremely difficult, using this paradigm, to account for variations in behavior within the semi-periphery. This case study provides an example of such difficulties. Mexico and Brazil are both semi-peripheral countries, having experienced a very similar pattern of capitalist development; but they behave quite differently on the NPT issue. If, however, the effect of domestic political variables is taken into account, differences

between their respective NPT position can be accounted for. In the case of Brazil, the crucial domestic political dimension was the military regime's commitment to attain a nuclear capability and its refusal to waive future nuclear options. Since the non-proliferation regime did not exclude non-parties from the benefits of nuclear cooperation, nor provide private benefits to parties, the rational calculus for Brazil was not to join the NPT, since it would lose nothing and would keep its nuclear options open. As for the Mexican case, domestic political variables also help to explain why Mexico behaved differently and joined the NPT. Historically, foreign policy has played an important role in solving some of the contradictions within the Mexican political system. Thus, on the multilateral level, its diplomacy has maintained a consistent record of supporting disarmament measures and advocating Third World demands, issues that corresponded quite well to the tenets of the "Mexican revolution," still the dominant source of ideological legitimacy for the political system. Therefore, for the Mexican government, the major selective benefit to be derived from its accession to the NPT was the enhancement of its domestic legitimacy.<sup>245</sup>

In concluding this chapter, we present some of the conditions that might have an impact in changing Brazil's NPT policy. Those conditions refer to changes at both the regime and nation-state levels. The most obvious regime change would be a plain renunciation by the superpowers of their respective nuclear arsenals. After all, as it has been argued, "by maintaining nuclear

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245 For an analysis of the impact of domestic political conditions on Mexico's advocacy of Third World demands, see Stephen D. Krasner, "Transforming International Regimes: What the Third World Wants and Why," *International Studies Quarterly* 25 (March 1981): 145-48. It can be argued, also, that Mexican behavior in the NPT could be accounted for out of sheer altruism, although it would be extremely hard to substantiate such claims with empirical evidence. The consideration of extra-rational motivations in solving the dilemma of collective action can be found in Hardin, *Collective Action*, pp. 101-24.

weapons as a permanent part of the calculus of national power, the superpowers have perpetuated the incentive for other nations to consider a nuclear option.”<sup>246</sup> Given present international conditions, this outcome seems almost impossible, although some concrete steps towards arms reduction by the superpowers would help to bring more credibility to the non-proliferation regime. Therefore, other regime changes seem more likely to occur. Those changes which might induce Brazil to participate in the regime would be less in the line of upgrading security assurances, than in attempting to offer some kind of preferential treatment in the supply of nuclear technology. The previous experience of the regime indicates that upgrading nuclear cooperation is most unlikely because of the observed correlation between the regime’s policies and the economic health of the nuclear industry. Policies of cooperation had been more frequent in times when the latter was experiencing economic prosperity and vice-versa. Since the industry is undergoing a phase of declining investment throughout the world, policies of control are more probable.

We are left with changing conditions at the domestic level. Two can be mentioned: a change in the elite’s views on non-proliferation, and a change of the ruling elite. Beliefs are least amenable to change in face of steady environmental conditions. Thus, were those conditions to remain the same, it is improbable that the Brazilian rulers would change their views on nuclear issues. Since Brazil has undergone a transitional process from military rule to civilian government, we might speculate on some of the limits and possibilities for changes in its nuclear diplomacy, given the change in the ruling elite. It seems plausible enough to argue that a civilian government would dissociate itself from the former regime by making a formal pledge to renounce nuclear

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246 Baker, “Commercial Nuclear Power and Nuclear Proliferation,” p. 1868.

weapons. This pledge the former military regime, despite repeated proclamations of its peaceful motives, had been unable to make credible, since it had not joined the NPT and had accepted the Tlatelolco Treaty only with reservations. Even on the supposition that a civilian government would be willing to dissociate from the former regime, and thus accept a contractual obligation to prove its nuclear motives – a doctrine rejected by the military – Brazil's NPT policy might not change. The reason for this is related to the widespread rejection of the Treaty among the civilian – particularly scientists – and military elites, one of the few areas of consensus between the two elites.

Finally, we must take into account the regional factor. The process of democratization of Argentine politics has not so far had any significant impact on its nuclear diplomacy. It might be argued, however, that the Argentine government is refraining from taking further action on the matter until the political course in Brazil is more clearly delineated. In the eventuality that domestic political conditions in both countries are conducive to a change in their respective nuclear diplomacies, Tlatelolco, not the NPT, would most likely be chosen to prove their peaceful nuclear motives.





### **3. THE NUCLEAR AGREEMENT: “BREAKING THE RULES WITHOUT QUITE GETTING THE BOMB”**

On 27 June 1975, Brazil and West Germany signed the “Agreement Concerning Cooperation in the Field of the Peaceful Use of Nuclear Energy.” It was immediately labeled the “agreement of the century,” not only for the financial magnitude of the deal, approximately US\$ 10 billion in prices of 1975, but, above all, for the novel nature of the transaction. It was the first nuclear cooperation agreement between an industrialized country and a Third World nation to include the transfer of equipment and technology for all the phases in the production of nuclear energy, from the front to the back end of the fuel cycle. The accord provided for the construction of two 1,300-megawatt pressurized water reactors by 1985, and an option for six more by 1990. It called for the formation of several joint ventures between the Brazilian state enterprise Nuclebrás and quite a few German firms to undertake: (1) prospecting, mining, and processing of uranium ores, with a commitment from Brazil to supply to Germany up to 20 percent of uranium ores; (2) nuclear engineering and manufacturing of

heavy equipment for nuclear reactors; (3) uranium enrichment and enrichment services (the agreement contemplated the joint technical and commercial development of the jet-nozzle method for uranium enrichment, a technique still in the experimental stage in West Germany, with a provision for the construction of a demonstration plant and, subsequently, a commercial-scale production plant); (4) fabrication of nuclear fuels; and (5) chemical reprocessing of used nuclear fuels, to be undertaken in a pilot plant. Three different sets of agreements were involved in the program of cooperation with the Federal Republic of Germany: the accord mentioned above, delineating the overall basis for that cooperation; a trilateral agreement among Brazil, Germany, and the IAEA for the application of safeguards, concluded on 26 February 1976; and an industrial protocol, also signed on 27 June 1975, laying down the specific guidelines for each area of cooperation, along with a series of business contracts concluded in the succeeding months.<sup>247</sup>

In Brazil, the event provoked a state of euphoria within the government, with the leader of the government in the Senate pronouncing the signing of the agreement as geared “to our aspiration to a Great Power status [*Grande Potencial*],” and representing “a victory with a capital V to our country.” Foreign Minister Azeredo da Silveira was quoted as saying that “the nuclear agreements signed with Germany will represent to Brazil a raising

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247 Brazil, *O Programa Nuclear Brasileiro*, Brasília, March 1977, pp. 13-14. The Brazilian government released the text of only the first two agreements and they were included in *ibid.*, pp. 30-51. The business contracts involved such matters as formation of the joint ventures; supply of equipment not yet produced in Brazil; provision of services for basic engineering and other phases of the fuel cycle; transfer of technical information; and financing for the import of equipment and services. Information of the general contours of the industrial nuclear cooperation between the two countries was released by Nuclebrás and published in the Brazilian press. It indicates the activity of each joint venture, Nuclebrás' share in each of them, in addition to the specification of the German firms and European consortia involved in the transaction. See *Jornal do Brasil*, 28 June 1975, pp. 9-10; and “Nuclebrás Constitui 4 Subsidiárias Este Mês,” *Jornal do Brasil*, 15 December 1975.

of its status before the international community."<sup>248</sup> Writing almost two years after the event, an analyst of Brazilian foreign policy suggested that "at the present time schedule, Brazil will be a full-fledged nuclear power before the year 2000."<sup>249</sup> Other students of this country's foreign policy, however, showing a bit more caution, had tended to consider Brazil's determination to attain nuclear self-sufficiency against all international pressures, along with other crucial foreign policy decisions, as indicators of Brazil's new role in international affairs. Thus, for Schneider, the nuclear field illustrates "Brazil's increased ability to cope with external factors – to move to a position of negotiating from strength," whereas for Roett, the 1975 agreement "is but one manifestation of a recurring theme in Latin America: Brazil now possesses the will and the resources to reach for and probably achieve the status of a major international power by the end of the twentieth century."<sup>250</sup>

The methodological problems of using the emerging power framework in the analysis of semi-peripheral states' foreign policy was discussed earlier. As pointed out before, a major problem with this approach is the use of power as an absolute concept, thus inferring, wrongly, that power resources and power attributes are interchangeable between and within issue areas. The same problem exists with the sub-imperialist approach in treating vulnerabilities as persisting in all issues areas. Avoiding such pitfalls, our foreign policy model is built on the assumption that power resources are situationally specific. Resources, and conversely vulnerabilities,

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248 Quoted, respectively, in Kurt Rudolf Mirow, *Loucura Nuclear* (Rio de Janeiro: Editora Civilização Brasileira, 1979), p. 40; and "Silveira Vê um Novo Status," *Jornal do Brasil*, 30 June 1975, p. 3.

249 Jordan M. Young, "Brazil: World Power 2000?" *Intellect* 105 (June 1977): 409.

250 Ronald M. Schneider, *Brazil – Foreign Policy of a Future World Power* (Boulder: Westview Press, 1978), p. 47; and Riordan Roett, "Brazil Ascendant: International Relations and Geopolitics in the Late Twentieth Century," *Journal of International Affairs* 29 (Fall 1975): 139.

vary from one issue to another, which is the same as saying that power resources are not easily transferable between issue areas.<sup>251</sup>

In the first chapter we defined as unilateral behavior any action in which the initiator pays for its costs even though its behavior may adversely affect another country's domestic or foreign interests. Therefore, a country acts unilaterally whenever it brings about an action and accepts the costs of its effects on another country by not changing it. Brazil's decision to attain self-sufficiency in all phases of the nuclear fuel cycle qualifies as a unilateral action for two distinct but related reasons. In the first place, although that decision did not violate the explicit norms of the NPT, it was perceived, by the supporters of the non-proliferation regime, as violating the implicit norms that were evolving, particularly in the United States and Canada, after the Indian explosion of May 1974. In addition, Brazil – and Germany – were able to resist the pressures of the Carter administration to eliminate that portion of the agreement whereby Brazil would receive enrichment and reprocessing facilities. The fact that the agreement was concluded, and that it was not modified, thus represented a political victory for Brazilian foreign policy in defending the principle and asserting the right to enjoy the full benefits of the fuel cycle without external dictation. On the other hand, when the economic and commercial aspects of that transaction are brought into focus, it becomes evident that power resources in the political-diplomatic arena are not easily transferable to commercial and technological domains. Despite all the “sweeteners” that competition among suppliers have brought to the international nuclear market, barriers to entry into the nuclear field are still very high. Since the nuclear market

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251 For a contextual power analysis that treats power as a nonfungible and thus situationally specific resource see David A. Baldwin, “Power Analysis and World Politics: New Trends Versus Old Tendencies,” *World Politics* 31 (January 1979): 161-94.

is mainly a supplier's market, West Germany was able to exploit those conditions for non-proliferation and commercial purposes. Brazil's negotiating position was thus much weaker than a sole focus on the political-diplomatic arena would have us conclude.

The next sections analyze the dual nature of independence and vulnerability exhibited by Brazil in its attempts to attain self-sufficiency in the nuclear field. We first focus on the autonomy side of the nuclear issue. Brazil's perceived challenge to the non-proliferation regime and to the United States' non-proliferation objectives are examined in the context of the two different responses of the United States Executive to the 1975 nuclear agreement, as well as the aftermaths for the domestic and foreign objectives of the military regime. Then we examine some of the weaknesses of the Brazilian position vis-à-vis West German non-proliferation and economic interests and the consequences for Brazil's goal of nuclear capability. Finally, in the last section we examine the strategic-geopolitical motivations for nuclear self-sufficiency.

### 3.1 Brazil and the Non-Proliferation Regime

The NPT had defined nuclear proliferation as possession of nuclear weapons and of nuclear explosive devices. With the Indian explosion in 1974, the concept has been broadened to include possession of an option – provided by the acquisition of a civilian full-nuclear technological capability – to produce nuclear weapons or other nuclear explosive devices. Therefore, the new definition embraces all sensitive nuclear technologies.<sup>252</sup> Attempts to redefine the concept following the Indian blast stemmed from the

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252 James F. Keeley, "Containing the Blast: Some Problems of the Non-Proliferation Regime," in *Nuclear Exports and World Politics: Policy and Regime*, eds. Robert Boardman and James F. Keeley (New York: St. Martin's Press, 1983), pp. 214-15, 219-21; and Ashok Kapur, *International Nuclear Proliferation – Multilateral Diplomacy and Regional Aspects* (New York: Praeger, 1979), pp. 48-50.

fact that, while the first five nuclear weapons states had proceeded from military programs to nuclear energy programs, the Indian test was the outgrowth of a civilian nuclear program. Actually, the Indian nuclear explosive had utilized plutonium from a Canadian-supplied research reactor that, in turn, used United States-supplied heavy water. This sort of “technological determinism,” as it has been called – the assumption that once a country has acquired nuclear technological capabilities, they would be used to support a weapons program – was fueled, among the organizations charged with missions of arms control and non-proliferation, by the growing significance of the Third World markets in nuclear commerce.<sup>253</sup>

Once the definition of proliferation has been broadened, the next question has been: which countries were most likely to achieve nuclear weapons capability? According to the views of the United States security establishment, the most potent stimulus for a country to undertake a nuclear weapons program is related to its own security concerns. It has been believed that United States security and military commitments in Northeast Asia and Europe “have provided a secure climate in which these nations have been able to make their decision not to proliferate.”<sup>254</sup> Although the industrialized countries have had the capability to develop weapons programs, with the exception of England and France, they have chosen not to do so. Therefore, the would-be proliferator would be found in areas of regional tensions or rivalries, outside

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253 Kapur, *International Nuclear Proliferation*, pp. 54-60, presents a quite critical view of this technological determinism.

254 Statement by Robert Ellsworth, Assistant Secretary of Defense for International Security Affairs, in U.S., Congress, Senate, Committee on Foreign Relations, *Non-proliferation Issues, Hearings before the Subcommittee on Arms Control, International Organizations and Security Agreements of the Committee on Foreign Relations*. 94<sup>th</sup> Cong., 1<sup>st</sup> and 2<sup>nd</sup> sess., 1977, p. 242 (hereafter cited as *Non-proliferation Issues, Hearings*).

the industrialized world, where, "proliferation by a country with limited resources, a record of governmental instability,... would have more serious implications for the United States than would proliferation by an industrial power who is also a historic ally."<sup>255</sup> Two main problems for United States security derive from proliferation in those areas: on one hand, the dynamics of what the Director of United States Arms Control and Disarmament Agency (ACDA) called the "iron law of proliferation," that is to say, "a phenomenon that you have where, in neighboring countries between which exist some problems or antagonisms, one moves to create nuclear power, the other will try to follow;" on the other hand, the likely shattering of one of the basic premises that has informed United States strategic doctrine since the Soviet Union became a nuclear power, that the "potentially hostile nuclear armaments will always be controlled by men who care about the survival of their countries."<sup>256</sup> Nuclearization of the South would pose a serious threat to United States security because of the "ever-present danger" of the escalation of regional conflicts involving lesser nuclear powers "into a confrontation between the two nuclear superpowers." Interestingly enough, the opposite security implication is inferred in Southern strategic thinking. According to this perspective, "in part, horizontal proliferation is... an attempt to find an alternative to superpower intrusions into regional politics... [It] aims to raise the price of superpower involvement in regional politics."<sup>257</sup>

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255 Ibid., pp. 241-42. Also, see "National Security Implications of Nuclear Weapons Possession by a Large and Expanding Number of Nations," in *ibid.*, pp. 202-3.

256 Statements by Fred C. Ikle, Director of the ACDA in, respectively, *Non-proliferation Issues, Hearings*, p. 291; and U.S., Congress, Senate, "The Danger of Nuclear Proliferation," 94<sup>th</sup> Cong., 1<sup>st</sup> sess., 3 June 1975, *Congressional Record* 121: S16593-94.

257 Compare *Non-proliferation Issues, Hearings*, p. 241, and Kapur, *International Nuclear Proliferation*, pp. 43-44.

It was with the help of this conceptual framework that the United States Congress and the press evaluated the German-Brazilian agreements as soon as it was brought to light. Thus, the deal was assessed in terms of the enlarged definition of proliferation, and the “technological determinism” imbedded in that definition was fueled by fact that Brazil was not a party to the NPT. The fear that Brazil might develop the capability to produce nuclear weapons was raised because of the sale of sensitive technologies, such as enrichment and reprocessing. The loopholes and the failure of the NPT regime to control the spread of proliferation-prone technological capabilities were assessed by United States senators in the context of the discussion of the agreement, as well as the dangers of the “fierce competition among nuclear advanced nations to sell reactors to the oil-rich and developing nations.” In face of those developments, the United States senators called for the United States to “assume a major share of the responsibility for the present nuclear proliferation problem.” Such a role was enhanced by the still quite dominant position of the United States as a supplier of enriched uranium fuel, thus “giving the United States considerable leverage over the way nations that depend on us for nuclear fuel should conduct their nuclear affairs.”<sup>258</sup> These themes would be behind most congressional thinking on non-proliferation in the years ahead, and served as an inspiration for suggested modifications by Congress in United States non-proliferation policy. In addition, there was concern that the “iron law of proliferation” would be set in motion in South America, stirring an uncontrolled arms race in the Southern cone of the region. The possibility that, in the future, both Argentina and

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258 U.S., Congress, Senate, “The Danger of Nuclear Proliferation,” *Congressional Record* 121: S16581-95. Quotations are from Senator Abraham Ribicoff, p. S16592.



Brazil might resort to some kind of coercive diplomacy was not discarded. Noteworthy was the perception of some United States senators that the Western Hemisphere was still an exclusive United States domain. In a statement, widely reproduced in the Brazilian press, the Chairman of the Joint Committee on Atomic Energy, Senator John Pastore, exhibiting a quite non-diplomatic candor, observed:

*And what concerns me to no end is the fact that this is a likely peril being instituted by an ally in our own backyard, so to speak, while, at the same time, the U.S. Government is heavily committed in West Germany's backyard to defend them against a likely peril. ...If this agreement goes through at this time in this fashion, it will make a mockery out of the Monroe Doctrine.<sup>259</sup>*

The Brazilian-German agreement – albeit within the bounds of the NPT regime, since the latter allows for the transfer of sensitive nuclear equipment and technologies, under safeguards – was *perceived* by the United States Congress and the press as falling into the new definition of proliferation, and, therefore, as a direct violation of the regime's rules. Actually, for non-proliferation advocates in the United States, the Brazilian decision to acquire the full nuclear fuel cycle was placed in the same category as the previous Indian test of a nuclear explosive, both being perceived as serious threats to the regime. In fact, if the outcome of India's test had been the redefinition of the concept of proliferation, the 1975 agreement had had the effect of triggering a more clear awareness,

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<sup>259</sup> Ibid., pp. S16582, S16592. See also, Robert Gillette, "Nuclear Proliferation: India, Germany May Accelerate the Process," *Science* 188 (30 May 1975): 911-14; Lewis H. Diuguid, "Brazil Nuclear Deal Raises U.S. Concern," *Washington Post*, 1 June 1975, p. 1; "Nuclear Madness," *The New York Times*, 13 June 1975, p. 36; and "Halting Wider Danger," *The New York Times*, 29 June 1975, p. 14E.

among the regime's supporters, of the potential destabilizing consequences of commercial competition among suppliers.<sup>260</sup>

### 3.2 The United States Executive Responses

The Ford and the Carter administrations responded in two different ways to the 1975 agreement. While the Ford-Kissinger approach relied mainly on cooptation, Carter's response was more in the line of confrontation. These two distinct styles in dealing with the same problem reflect the different approaches of the two administrations in responding to the changing conditions in the nuclear issue area. A new nuclear environment has undermined the premises upon which United States non-proliferation policy has been based since the inception of the Atoms for Peace program.

As we saw in the previous chapter, the mainstream of United States non-proliferation policy has been that if the spread of nuclear technology was inevitable, control of nuclear weapons would only be obtained through nuclear cooperation, under United States leadership. The United States sought to assume a leading role in the process, in such way as to discourage other countries' weapons options, by influencing their nuclear policy. Since the early 1950s, the United States had been able to achieve its non-proliferation objectives through a combination of overwhelming diplomatic influence abroad and preponderance in the world nuclear market. The arms control component of its non-proliferation policy thus rested in the maintenance of North American nuclear industry's competitive edge and the United States' monopoly

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260 Norman Gall, "Atoms for Brazil, Dangers for All," *Foreign Policy* 23 (Summer 1976): 174, suggests that until the German-Brazilian nuclear agreement, "there had been little official concern or public discussion as to the economic wisdom and military implications of the drive to export, and even give away, nuclear reactors." Gall's article has received wide circulation in the United States and Latin America. It was published simultaneously in *Foreign Policy* and *The Bulletin of the Atomic Scientists*, and it was translated and published in Argentina, Brazil, and Venezuela.

over commercial enriched-fuel supplies. The United States exploited those conditions for non-proliferation purposes by requiring safeguards as a condition for nuclear cooperation, and by establishing itself as a reliable supplier of enriched fuels. These practices intended to discourage other countries from developing indigenous capability in those sensitive areas of the fuel cycle, such as uranium enrichment. Thus, from the days of the Atoms for Peace program a "happy convergence" had evolved between the interests of the North American nuclear industry and the non-proliferation objectives of the United States government, since that policy was predicated on the assumption that by being the proliferator the United States could control proliferation.<sup>261</sup>

Since the early 1970s, however, a series of developments have undermined United States leverage in influencing other country's nuclear options, as they impinged on the very conditions upon which that policy was predicated and weakened the non-proliferation regime. A crucial development was the erosion of the United States position in the field of uranium enrichment supply, resulting from a combination of two processes. On the one hand, wrong policies and bad planning in the field led to a situation of fuel shortages in the United States, and eventually to the closing of order books for foreign contracts for enriched fuels by the Atomic Energy Commission (AEC) in 1974. That move seriously questioned the credibility of the United States as a reliable supplier of such fuels. On the other hand, the entrance of other countries in the commercial enrichment field led to the loss of the United States' monopoly on the commercial supply of

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261 The phrase "being the proliferator to control proliferation" was used by Senator Biden in criticizing some of the premises of mainstream non-proliferation policy. *Non-proliferation Issues, Hearings*, pp. 152-53. For an analysis of the formation of US non-proliferation policy after the breakdown of the "happy convergence" era, see John Kurt Jacobsen and Claus Hofhansel, "Safeguards and Profits: Civilian Nuclear Exports, Neo-Marxism, and the Statist Approach," *International Studies Quarterly* 28 (June 1984): 195-218.

enriched uranium. Closely related to that has been the decline of the United States' share in the world nuclear export market, as other industrialized countries began to emerge as important independent suppliers in the nuclear trade. The fourfold increase in oil prices, besides raising the economic value of alternative nuclear energy, also raised the significance of Third World markets in that commerce. Competition among suppliers for those markets led to the offering to prospective buyers of certain "sweeteners" – such as enrichment and reprocessing – that North American firms were legally prohibited from selling. The Indian explosion, in its turn, aroused the concerns of non-proliferation advocates within the United States, especially in Congress, and spurred a growing questioning of the flaws of mainstream policy and of the NPT regime. The Indian test, along with commercial ventures such as the acquisition of the complete fuel cycle by Brazil, and the selling of reprocessing facilities to South Korea and Pakistan thus had the effect of strengthening the position of Congress and agencies such as ACDA in their fights inside the government to stiffen nuclear exports controls, with Congress finally enacting the Non-Proliferation Act of 1978. On top of all those developments, Vietnam and Watergate had helped to undercut United States diplomatic influence around the world.<sup>262</sup>

The two distinct styles of the Ford and the Carter administrations toward the Brazilian-German agreement are tied to the different responses that the administrations gave to the "threats to the regime." At the risk of oversimplifying, it may be argued that the Ford-Kissinger response fell within the bounds of mainstream policy, but the means sought to overcome the

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262 For an examination of the "threats to the regime," see Joseph S. Nye, "Maintaining a Non-proliferation Regime," *International Organization* 35 (Winter 1981): 18-20. An account of the US setbacks in the field of uranium enrichment is presented in Steven J. Baker, "Commercial Nuclear Power and Nuclear Proliferation," in U.S., Congress, Senate, Committee on Government Operations, *Export Reorganization Act of 1976, Hearings before the Committee on Government Operations on S. 1439*, 94<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1976, pp. 1890-99.

instability of the regime took cognizance of the loss of previous United States leverage. The Carter response, to the contrary, departed from some of the premises of mainstream policy but resorted to formulas to control proliferation, as if the United States still had sufficient leverage over another country's nuclear policy. Furthermore, in the particular case we are studying, each style had as its source different conceptions of United States policy for Latin America. The Ford-Kissinger approach to Latin America had proceeded with the Nixon-Kissinger Doctrine of courting friendly "emerging power centers" that could serve United States interests in different regions of the world. That doctrine was part of a general retrenchment strategy, after it became apparent that previous overcommitment abroad did little to serve United States security interests. The Carter administration rejected the "key country" formulation of the Nixon Doctrine and, in fact, some of the most conspicuous targets of its human rights policy were former "key countries" in the Nixon-Kissinger foreign policy grand design.

### **3.2.1 The Ford-Kissinger Approach**

The first major initiative of the Ford administration to stabilize the non-proliferation regime began to take shape in late 1974 when the United States moved to organize what became known as the Nuclear Suppliers' Group (NSG). The purpose of the NSG was to draw up, among major nuclear exporters, some ground rules to control the transfer of sensitive equipment and technology. By early 1976, the seven principal suppliers – Britain, Canada, France, Japan, West Germany, the United States, and the Soviet Union – had agreed to a uniform code of conduct for nuclear trade. The joint agreement neither banned the transfer to non-parties to the NPT, nor required full-scope safeguards as a condition of supply, but imposed more stringent safeguard controls on the supply of sensitive materials and technology – mainly reprocessing

and enrichment – although they were not prohibited, as was the United States’ desire. It has been argued that the existence of the NSG signaled the “admission of the failure of the NPT to establish a viable non-proliferation regime.”<sup>263</sup> It is noteworthy that the Ford-Kissinger response relied mainly on working with other suppliers to achieve some regulation of the international nuclear commerce. The mere fact that the approach was multilateral signaled an acknowledgment by the Ford administration of the self-defeating consequences of any unilateral move, in light of the diffusion of nuclear technology. That awareness is neatly expressed in the following statement by a high-ranking official of the Energy Research and Development Administration (ERDA): “The U.S., however, is only one of many suppliers, and cannot unilaterally inhibit proliferation by control on exports. It is important, therefore, that all suppliers act on similar principles, to the maximum extent possible.”<sup>264</sup> A similar vision was presented by the Director of ACDA, an agency that traditionally has been on different sides from ERDA on non-proliferation matters, particularly on the international implications of domestic nuclear policy: “A unilateral moratorium [of US nuclear exports] would not get us what we are trying to get, namely, multinational restraint in spreading nuclear technology. It would simply take us out of the market and out of a position of influence.”<sup>265</sup>

To expand domestic enriched-fuel-making capacity and, simultaneously, meet the challenge posed by the entry of foreign competitors in the enriched fuel market, President Ford announced

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263 SIPRI Yearbook 1977, p. 23, quoted in William C. Potter, *Nuclear Power and Non-proliferation – An Interdisciplinary Perspective* (Cambridge, MA: Oelgeschlager, Gunn & Hain, 1982), p. 45. In 1976, the NSG was expanded to include eight more members: Belgium, Czechoslovakia, East Germany, Italy, the Netherlands, Poland, Sweden, and Switzerland. NSG’s final guidelines were delivered in early 1978.

264 Statement of Abraham S. Friedman, Director, Division of International Program, U.S. Energy Research and Development Administration (ERDA), in *Non-proliferation Issues, Hearings*, p. 170.

265 Statement by Fred C. Ikle, Director of ACDA, in *ibid.*, p. 295.

in June 1975 plans for ending the governmental monopoly in the production of uranium fuels and turning its manufacture over to private industry. Actually, the trend towards the "privatization" of enrichment facilities had been initiated under the Nixon administration and had met with strong opposition inside the Executive. The proposal considered by the Ford administration would also contemplate the participation of foreign capital, albeit on a minority basis, in enrichment plants to be built in the United States, with the control of the plant resting with United States investors.<sup>266</sup> Furthermore, according to the testimony of a State Department official, the Ford administration had not entirely discarded a previous policy suggestion that "under certain conditions and at certain times in the future we would be prepared to exchange or transfer uranium enrichment technology to other countries."<sup>267</sup> Eventually the Ford administration moved to encourage the development of multinationally managed regional nuclear fuel-cycle centers, a proposal with large support within the government, and announced in Kissinger's United Nations speech in September 1975.<sup>268</sup>

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266 See "U.S. Government Guarantees and Assurances Relating to Private Uranium Enrichment Venture," in *ibid.*, pp. 185-86. A discussion of Ford's proposal and the issue of foreign capital participation can be found in *ibid.*, pp. 193-97. For a critical assessment of the possible future implications of Ford's proposal, see remarks by Herbert Scoville, Jr, former Assistant Director for Science and Technology at the ACDA, in U.S., Congress, House, Committee on Interior and Insular Affairs, *Oversight Hearings on Nuclear Energy – International Proliferation of Nuclear Technology (Part 3), Hearings before the Subcommittee on Energy and the Environment of the Committee on Interior and Insular Affairs*. 94<sup>th</sup> Cong., 1<sup>st</sup> sess., 1975, p. 103 (hereafter cited as *Oversight Hearings on Nuclear Energy*). Reference to the opposition inside the administration to Nixon's "privatization" policy is found in Baker, "Commercial Nuclear Power and Nuclear Proliferation," p. 1892.

267 Myron B. Kratzer, Acting Assistant Secretary, Bureau of Oceans and International Environmental and Scientific Affairs, Department of State, *Non-proliferation Issues, Hearings*, p. 188. The US government's offer to share enrichment technology with "friendly countries" was first made in 1971 and was renewed later by Secretary of State Kissinger in the winter of 1973-74. Baker, "Commercial Nuclear Power and Nuclear Proliferation," pp. 1895, 1926.

268 Kapur, *International Nuclear Proliferation*, p. 84.

That move was already part of a reversal of Ford's previous orientation, which had evolved in the context of mounting nuclear debate in the United States. The policy was triggered by Congress' initiatives to stiffen nuclear exports controls, a concern also echoed in the United States press, and in the face of a presidential election in which the other contender had made the Ford-Kissinger non-proliferation policy a major issue of his campaign. Hence, on the eve of the election, President Ford announced that reprocessing of spent fuel would no longer be regarded by the United States as "a necessary and inevitable step in the nuclear fuel cycle." He also proposed to deter commercial reprocessing "unless there is sound reason to conclude that the world community can effectively overcome the associated risks of proliferation." It has been noted that President Ford's policy statement was "the first presidential declaration devoted exclusively to nuclear proliferation since Nixon's brief statement accompanying the submission of the NPT for Senate ratification."<sup>269</sup>

In light of the dominant orientation of Ford's domestic and foreign nuclear policies, at least up to the October 1976 statement, the manner in which the administration handled the Brazilian-German nuclear agreement comes as no surprise. Despite all the sound and fury of Congress and the press, when news of the deal was revealed in the United States, evidence from United States officials' testimony, at congressional hearings in 1975-1976, suggests that overall the administration followed a low profile approach in dealing with the issue. The question of how hard the Executive had pressed to avoid the agreement was stirred by conflicting information coming to United States Congressmen. On one hand there were the State Department's statements that

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<sup>269</sup> Potter, *Nuclear Power and Non-proliferation*, p. 46. Quotation from Ford's statement is from *ibid.*, pp. 46-47. The statement was issued on October 28, 1976.



"they did their best to stop the deal," but on the other were West German Chancellor Helmut Schmidt's declarations that they were not aware of any opposition to the sale at a high level in the United States government.<sup>270</sup> Apparently, the exchanges between United States and West German officials took place mostly at intermediate, technical levels, where North American representation was quite successful in getting West Germany to agree to tighter safeguard controls on the provision of reprocessing and enrichment technologies.<sup>271</sup>

That low profile approach suggests that the administration, sensing a lack of enough leverage to prevent the transfer of sensitive materials – as happened in the case of the sale of reprocessing facilities to South Korea, which was cancelled by direct United States pressure on the South Korean government – chose to avoid a direct confrontation at the highest level of the West German government, with all the damaging and self-defeating consequences that the politization of the issue would certainly entail. Instead, the outcome of the technical, "quiet diplomacy" of the Kissinger approach was more rewarding from the standpoint of United States non-proliferation interests. Indeed, safeguard arrangements in the German-Brazilian accord went far beyond the NPT safeguards system. As such, they might even have set a precedent for future sales of sensitive nuclear materials and technology, as a former ACDA official observed at a congressional hearing in 1975.<sup>272</sup>

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270 *Oversight Hearings on Nuclear Energy*, p. 15; and *Non-proliferation Issues, Hearings*, pp. 172-76, 198, 257-58, 292, 316, 339.

271 U.S., Congress, House, Committee on International Relations, *Nuclear Proliferation and Reprocessing, Hearings before the Subcommittee on International Security and Scientific Affairs of the Committee on International Relations*, 94<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1976, pp. 5, 12; and *Non-proliferation Issues, Hearings*, pp. 173-75, 190-91, 253, 257.

272 See statement by Herbert Scoville, Jr., former Assistant Director of ACDA, in *Oversight Hearings on Nuclear Energy*, pp. 77-78, 85-86.

As for the Brazilian side, the United States Executive approach signaled the awareness of the Ford administration that influence could best be achieved through good will gestures towards its junior partner, rather than by direct confrontation. Adoption of the Ford-Kissinger approach is best exemplified by the “Memorandum of Understanding Concerning Consultations on Matters of Mutual Interests” signed by Secretary of State Henry Kissinger and Minister of Foreign Relations Azeredo da Silveira on 21 February 1976. The agreement established a mechanism of regular consultations between the two countries, at the cabinet level, on global and bilateral issues. In his main speech on Brazilian soil, Kissinger praised “Brazil’s new role in world affairs” and welcomed “Brazil to her rightful shared role of international leadership.” But certainly the phrase that most pleased the Brazilian authorities was Kissinger’s observation that “neither side can nor should prescribe to the other what its basic stance toward the rest of the world should be. But each side will surely benefit from knowing fully the views of the other and is likely to give them weight.”<sup>273</sup> The Memorandum stirred a loud negative reaction throughout Latin America, with the Spanish-language press accusing Brazil of having consolidated its gendarme role for North American interests in the region, and Kissinger of perpetrating an affront to Latin America. There were also suggestions that the “special relationship” with the United States would severely undercut Brazil’s autonomy and flexibility in multilateral fora. In the United

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273 For Kissinger’s speech, the text of the Memorandum, and the press conference afterwards, see *U.S. Department of State Bulletin* 74 (15 March 1976): 322-26, 336-43. Quotations are on pp. 322 and 326, respectively. Gall, “Atoms for Brazil, Danger for All,” notices that the agreement was, in part, the result of a “prolonged analysis” of US relations with Brazil, triggered by the German-Brazilian nuclear deal. Hence, Washington finally acceded to that arrangement, which “Brazil had sought actively for two years,” p. 162. From US officials’ statements in Congress it is difficult to assess whether the deal was even brought up for discussion by Kissinger in his trip to Brazil, given their rather vague answers to that question. See *Non-proliferation Issues, Hearings*, pp. 292, 339. Actually, the deal was not the subject of a single question during Kissinger’s press conference in Brazil.

States, the liberal press and Democratic Senators saw in the Memorandum an example of the Ford administration's disregard for human rights policy.<sup>274</sup>

In fact, the label of "special ally" of the United States in Latin America did not serve Brazilian foreign policy goals. Similar agreements had been signed previously with Britain, France, and Italy, and this new special relationship with the industrialized countries in Europe was seen in Brasília as a bargaining tool in negotiations with the United States over contentious bilateral issues. A "European option" was overtly admitted by the Brazilian Chancellor just after Kissinger's visit, and on the eve of a presidential trip to Britain and France. Brazilian diplomacy, thus, was trying to shape a special dialogue not only with the United States but with the industrialized world, a relationship based on the Brazilian motto "equal partnership." In the assessment of Brazilian authorities, in specific economic negotiations with the industrialized countries, Brazil's condition as an "active buyer" could be translated into concrete economic benefits in areas such as financing requirements, transfer to technology, and participation of domestic entrepreneurs, up to the limit of their productive capacity.<sup>275</sup>

### 3.2.2 The Carter Approach

After the carrots came the sticks. Carter's approach to the deal must also be understood in light of his overall non-proliferation policy. We had earlier observed that policy changes during the Carter administration departed in part from some of the assumptions of the Atoms for Peace framework. Carter's non-proliferation orientation certainly did not contend with

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274 For an assessment of that negative reaction in Latin America and the United States, see "Reação Previsível," *Veja*, 3 March 1976, pp. 24-25.

275 "Opção é Diversificar Parceiros, diz Silveira," *O Estado de São Paulo*, 25 April 1976, p. 24.

the premise of a leading role for the United States in forging the regime. Actually, perhaps more than any other previous President of the United States, Carter thought “that non-proliferation [was] a special American responsibility and that the United States [could] handle it pretty much on its own.”<sup>276</sup> Paradoxically, albeit an activist in the field, President Carter had much less domestic leeway in non-proliferation matters than had his predecessors. Since 1974, Congress had gradually become the principal agenda-setter on non-proliferation issues, and from then on, had enacted a number of legislative measures intended to stiffen nuclear export requirements.

The non-proliferation policies of the Carter administration combined elements from the pre – and post-Atoms for Peace’s phase of United States domestic and foreign nuclear policy. Hence, Carter’s proposal for developing “alternative nuclear fuel cycles which do not involve direct access to materials usable in nuclear weapons.” The topic, raised in his statement on nuclear policy of 7 April 1977, bears striking similarity to the recommendations of the Acheson-Lilienthal Report, of March 1964, for the denaturation of uranium and plutonium fuels as a new technical method of control.<sup>277</sup> A return to the control and denial spirit of the McMahon Act of 1946 had been first indicated in Carter’s

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276 Pierre Lellouche, “International Nuclear Politics,” *Foreign Affairs* 58 (Winter 1979-80): 347. Lellouche’s phrase refers to the dominant mood of US policy makers’ thinking, since the mid-1940s.

277 For the ambivalence as regards the precise limits between the “safe” and the “dangerous” uses of nuclear energy, in light of the Acheson-Lilienthal Report, see Albert Wohlstetter, “Spreading the Bomb Without Quite Breaking the Rules,” *Foreign Policy* 25 (Winter 1976-77): 94-95. The “functional equivalence” between the two proposals is noticed in Arnold Kramish, “Four Decades of Living with the Genie: United States Nuclear Export Policy,” in *Nuclear Exports and World Politics*, eds. Boardman and Keeley, pp. 20-22. For President Carter’s policy statement of 7 April 1977, see U.S., Congress, Senate, Committee on Governmental Affairs, *Nuclear Non-proliferation Act of 1977, Hearings before the Subcommittee on Energy, Nuclear Proliferation, and Federal Services of the Committee on Governmental Affairs on S. 897*. 95<sup>th</sup> Cong., 1<sup>st</sup> sess., 1977, pp. 103-4 (hereafter cited as *Nuclear Non-proliferation Act of 1977, Hearings*).

announcement of April 1977, with his proposal for "indefinite deferral of commercial reprocessing and recycling of plutonium produced in the United States;" and "restructuring and deferral of commercialization of the breeder reactor program," in addition to the continuation of the embargo of United States enrichment and reprocessing equipment and technology. Moreover, with the enactment of the Nuclear Non-Proliferation Act of 1978 (NNPA), United States nuclear export policy reversed not only its previous more liberal export criteria, but in fact the very consensus, among the major nuclear actors, upon which the non-proliferation regime had been evolving since the establishment of the IAEA in 1956. NNPA's most controversial measures related to United States export requirements. Among them should be mentioned: (1) full-scope safeguards as a condition of continued United States exports were to be required from non-nuclear weapon states. After a twenty-four month grace period, United States nuclear assistance would be cut off for countries failing to meet this criterion; (2) prior United States approval would have to be obtained both for the retransfer of any United States exported materials or materials produced from previous United States exports, as well as for the reprocessing of any exported United States nuclear material; and (3) the President was called to renegotiate all existing agreements to meet these new criteria. Those requirements could be waived at presidential direction, in light of overall United States non-proliferation objectives and national security interests.<sup>278</sup>

It has been observed that Carter's stance on the reprocessing and breeder reactor issues implied, in fact, a dual technological denial, to the other countries, but also to the United States. This

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278 Potter, *Nuclear Power and Non-proliferation*, pp. 47-48; and Ralph T. Mabry, Jr., "The Export Policies of the Major Suppliers," Appendix to *International Cooperation in Nuclear Energy*, by Joseph A. Yager (Washington, D.C.: The Brookings Institution, 1981), pp. 176-79.

self-denial of the so-called economics of plutonium is justified by an insider as follows: “U.S. diplomatic efforts to persuade others to look more carefully at their calculations and at the problems associated with plutonium would have been undercut if U.S. domestic programs did not defer plans for thermal recycle and stretch out the timing of breeder R&D.” He also argues that Carter’s stance on the plutonium economy in the United States “was not expected to lead all other countries to follow suit.”<sup>279</sup> Be that as it may, Carter’s orientations on the economics of plutonium triggered a deep controversy between the United States and its industrialized allies that added more fuel to the other ongoing controversy over nuclear exports to Third World countries. For the Europeans and the Japanese, Carter’s policy entirely disregarded the importance of nuclear energy to resource-poor countries. They also saw in some of the United States’ initiatives unavowed commercial motivations in trying to protect North American industry’s share of the international market and to curb the competitive edge that the Europeans had achieved in reprocessing and fast breeder technology. Moreover, industrialized United States allies condemned the United States for unilaterally changing the rules of the non-proliferation regime. Hence, United States domestic nuclear policy legislation went beyond the rules of the NPT – on the issues of sales embargo of sensitive technologies and full-scope safeguards to all recipients, parties and non-parties to the NPT. But, simultaneously, it imposed its own views on non-proliferation on all recipients of United States nuclear assistance by requiring previous United States approval on those countries’ decisions on reprocessing and retransferring of any United States exported materials. This policy, in fact, allowed “Congress to

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279 Nye, “Maintaining a Non-proliferation Regime,” p. 22. See Potter, *Nuclear Power and Non-proliferation*, p. 47, for the dual-denial assessment of Carter’s policy.

legislate for the rest of the world."<sup>280</sup> Indeed, the non-proliferation policy of the Carter administration signaled a departure from reliance upon the efficacy of the NPT regime's instruments and a revival of earlier non-proliferation formulas. In summing up the European view on the controversy with the United States over nuclear exports, Lellouche puts his fingers on the reasons for such departure:

*From a European perspective, these changes were seen as an attempt to rewrite valid international norms and agreements. Implied in this criticism was the notion that the "old" IAEA-NPT regime had been "good enough" as long as the United States was the dominant actor on the world market.<sup>281</sup>*

The Nuclear Non-Proliferation Act of 1978 was a compromise between the S.897 bill introduced by Congress and the Executive's bill (S.1432). The Executive disagreement with S.897 rested with its technique of unilaterally imposing some export controls, based on a debatable assumption that the United States still had enough leverage to exact compliance from other countries with its new criteria. The administration worried that "the international reaction to these conditions could be severely counterproductive to non-proliferation objectives."<sup>282</sup> Furthermore, the Executive also expressed concern that the export conditions set forth in Congress' bill would undermine the President's flexibility in dealing

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280 Lellouche, "International Nuclear Politics," p. 347.

281 Pierre Lellouche, "Breaking the Rules Without Quite Stopping the Bomb: European View," *International Organization* 35 (Winter 1981): 45. Lellouche analyzes, from a European perspective, the Euro-American controversy in the mid-1970s over two main issues of Carter's policy: nuclear exports to the Third World and the "plutonium economy." See also Karl Kaiser, "The Great Nuclear Debate: German-American Disagreement," *Foreign Policy* 30 (Spring 1978): 83-110.

282 Statement by Joseph Nye, Jr., Deputy Undersecretary of State for Security Assistance, Science and Technology, in *Nuclear Non-proliferation Act of 1977, Hearings*, p. 247. For the Executive branch comments on S.897, see *ibid.*, pp. 113-24.

with problems of proliferation and eventually the Executive's own latitude in foreign policy. Moreover, there were divisions inside the administration. Among the non-proliferation advocates, the "purists" pressed for more restrictive export controls and strongly objected to permission for reprocessing United States-origin spent fuels. The "mainstream" current, on the other hand, tended to adopt a more pragmatic approach on the issue of plutonium recycling, in light of overall non-proliferation goals. A third, distinct, current was represented by ERDA, a historical locus of the nuclear industry's influence inside the State apparatus, which traditionally had been an opponent of restrictive nuclear export legislation.<sup>283</sup>

Those divisions over non-proliferation policy formation accounted for the stop-and-go character of the Carter administration initiatives, up to at least the enactment of the NNPA in March 1978. In a broad sense, Carter moved from a confrontational approach, characteristic of the early days of his administration, as exemplified in the issue of the German-Brazilian agreement, to a more conciliatory stance vis-à-vis United States allies in the industrialized world, in the context of the International Nuclear Fuel Cycle Evaluation (INFCE) discussions. In fact, INFCE had been mainly a United States initiative, and its inception, in part, a conscious effort from the United States government to reestablish the nuclear dialogue with its allies, and to defuse the tensions created by United States non-proliferation initiatives.<sup>284</sup>

The dispute over the German-Brazilian agreement was the first controversial issue of Carter's foreign nuclear policy.

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283 Nye, "Maintaining a Non-proliferation Regime," p. 23; and Jacobsen and Hofhansel, "Safeguards and Profits," p. 213.

284 US motivations for launching INFCE are assessed in Nye, "Maintaining a Non-proliferation Regime," p. 24; and Lellouche, "International Nuclear Politics," pp. 337-38.



That disagreement constituted the most serious crisis in North American-German relations in the post-war era, and Carter's attempt to change part of the nuclear deal has been seen as "the most straightforward attempted application of U.S. influence on Brazil since World War II."<sup>285</sup> According to Carter's former Deputy Undersecretary of State for Security Assistance, Science and Technology, it was the German government's initiative to send a special envoy to confer with the United States authorities before Carter's inauguration that had ended up triggering "prematurely a round of high level and highly visible diplomacy that gave a confrontational tone to the issue." Instead, he observes, "a slow quiet approach to the French-Pakistan and German-Brazilian deals" had been suggested by a Carter State Department transition-team paper.<sup>286</sup> This argument is quite debatable in light of some early suggestions coming from United States Congressmen, such as Representative Jonathan Bingham's advice for the United States to threaten to suspend its supply of enriched fuels to Germany, in case the latter went ahead with the transfer of sensitive technologies to Brazil – and even Carter's critical remarks on that deal in his electoral campaign, and his calling for a moratorium on the sale of uranium enrichment and plutonium reprocessing plants.<sup>287</sup> Thus, the United States Congress and the candidate Carter had already triggered the issue. Because of such crusades in the United States,

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285 Robert Wesson, *The United States and Brazil – Limits of Influence* (New York: Praeger, 1981), p. 75. The damaging impact of the controversy on German-US relations is pointed out in Kaiser, "The Great Nuclear Debate," pp. 87, 97-98.

286 Nye, "Maintaining a Non-proliferation Regime," pp. 23-24.

287 Representative Bingham's suggestion singled out Germany, but was intended as legislation to amend the Export Administration Act. U.S., Congress, House, Committee on International Relations, *Nuclear Proliferation: Future U.S. Foreign Policy Implications, Hearings before the Subcommittee on International Security and Scientific Affairs of the Committee on International Security and Scientific Affairs of the Committee on International Relations*. 94<sup>th</sup> Cong., 1<sup>st</sup> sess., 1975, p. 24 (hereafter cited as *Nuclear Proliferation: Future U.S. Foreign Policy Implications*); and *The New York Times*, 14 May 1976, p. 1.

the German government had begun to fear for the future of the agreement.<sup>288</sup>

Through direct pressures on both governments, Carter attempted to block the sale of enrichment and, particularly, of reprocessing facilities. Hence, the United States government tried to postpone the implementation of that portion of the deal, until other “alternatives could be found to deal with the nuclear power needs of these nations *which we accept*, which does not include the risk of facilities that can produce weapons-grade material.”<sup>289</sup> Among those alternatives to foregoing sensitive technologies suggested by the United States were secure supplies of United States low-grade enriched fuels for nuclear reactors and the internationalization of nuclear fuel cycle services, the latter a proposal that had been under examination by the United States government since the Ford administration.<sup>290</sup>

Carter’s persuasive crusade had begun against the West German government, apparently for two related reasons. In the first place, as had happened during the Ford term, when diplomatic pressures had been exerted almost exclusively on the Federal Republic, it was felt that the United States had more leverage with Germany, given the latter’s dependence on NATO and North American security forces. In the second place, Germany had become quite isolated in the nuclear export controversy since France had announced its decision to discontinue the export of reprocessing plants in December 1976. According to a French analyst, the outcome of the French decision was the breakdown of

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288 Kaiser, “The Great Nuclear Debate,” pp. 97-98.

289 Vice President Walter Mondale’s news conference, Washington, 2 February 1977, in *U.S. Department of State Bulletin* 76 (7 March 1977): 193 (emphasis added).

290 See “Secretary Vance Interviewed for the *New York Times*,” in *U.S. Department of State Bulletin* 76 (28 February 1977): 166.

"the French-German front" that had been very successful, in the previous two years, in resisting United States non-proliferation pressures at the NSG's negotiations. After December 1976, West Germany saw itself in a difficult position, "as the only country still willing to export reprocessing facilities." Consequently, continues Lellouche, "Bonn was now perceived in Washington as the chief obstacle to the development of a common non-proliferation approach by all nuclear supplier nations."<sup>291</sup>

The weak German position on security and nuclear export issue areas did not, however, work to the benefit of United States non-proliferation goals in this particular case. Thus, during two successive rounds of negotiations, first in Bonn and later in Washington, the Federal Republic resisted the United States' onslaught to reconsider the sale of sensitive technologies to Brazil.<sup>292</sup> The German administration stuck to the position that the agreement with Brazil did not violate the NPT rules, since reprocessing and enrichment were included in the trigger list of those nuclear materials that could be exported only with safeguards. Therefore, the agreement had been approved by the IAEA, and its safeguard controls considered satisfactory to the major nuclear suppliers, including the United States. Moreover, it was argued that the accord was subject to safeguard controls

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291 Pierre Lellouche, "Giscard's Legacy: French Nuclear Policy and Non-Proliferation, 1974-81," in *Nuclear Exports and World Politics*, eds. Boardman and Keeley, p. 42. The French embargo in December 1976 had explicitly excluded the sale of a reprocessing plant to Pakistan. The French-Pakistani contract was finally terminated in June 1979, although since August 1978 the French government had decided to cancel the deal. "To avoid further problems with the Gaullists at home and limit the damage to France's image in the Third World, Paris chose not to announce the decision unequivocally." In fact, it was left to the Pakistani government to announce the cancellation of the contract. *Ibid.*, p. 44.

292 For an account of the US non-proliferation diplomacy on the German-Brazilian issue, see William H. Courtney, "Brazil and Argentina: Strategies for American Diplomacy," in *Non-proliferation and U.S. Foreign Policy*, ed. Joseph A. Yager (Washington, D.C.: The Brookings Institution, 1980), pp. 377-84; Wesson, *The United States and Brazil*, pp. 79-89; and José Henrique Greño Velasco, "El Acuerdo Brasil-RFA y el Principio de No Proliferación Nuclear," *Revista de Política Internacional* 154 (November/December 1977): 113-43.

more rigorous than those of the NPT system, since it required that not only all supplied nuclear materials be placed under safeguards, but also the technological know-how to be transferred to Brazil. Germany would agree to consider tighter controls for the transfer of sensitive materials, but such measures would have to be agreed to by all the other suppliers, and could not be imposed unilaterally on Germany.<sup>293</sup>

Successive public statements by German authorities, during the first months of the controversy with the Carter administration, kept reaffirming Germany's commitment to fulfill the entirety of its contractual obligations with Brazil. Apparently, however, the Helmut Schmidt government had been willing to forsake the sale of sensitive materials, and to accept Washington's compromise proposal for the internationalization of fuel cycle facilities. Those proposed multinational centers would then supply enriched fuels to Brazil, obviating the need to have such facilities transferred to the latter.<sup>294</sup> But Germany's partner left no other alternative to Bonn than to resist Washington's pressures and fulfill all of its contractual obligations. Not only did the agreement exclude

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293 "Schmidt: Mais Controles, Só Se Ampliar Garantias," *O Estado de São Paulo*, 2 February 1977, p. 9; *The New York Times*, 13 March 1977, p. 13; Arlette Chabrol, "Schmidt Diz Que Controle da AIEA Legítima Acordo," *Jornal do Brasil*, 3 June 1977, p. 9. The NPT safeguard system deals almost exclusively with the problem of controlling nuclear materials. Besides controlling both the materials and the technology supplied, the German-Brazilian deal specifies that transfer to a third party is also to be under similar safeguards, and those controls would continue to hold even though the agreement would terminate. Brasil, *O Programa Nuclear Brasileiro*, pp. 30-51. For a comparison between the NPT safeguards and those required by the German-Brazilian agreement, see *Oversight Hearings on Nuclear Energy*, pp. 76-79. Those more stringent controls in the export of sensitive technologies had been evolving gradually in the context of the NSG negotiations, mainly at the United States' request.

294 Washington's suggestion for multinational fuel cycles centers had the support, in Germany, even of those sectors of its economy that were strong advocates of the agreement with Brazil. See interview with the representative of the German Steel Workers Union, IG-Metall, in *Jornal do Brasil*, 10 April 1977, p. 8. For a similar viewpoint, also, see interview of a Federal Deputy of the SPD, in *Jornal do Brasil*, 9 April 1977, p. 17; the editorial of the German newspaper, *Süddeutsche Zeitung*, reprinted in *Jornal do Brasil*, 12 February 1977, p. 4; and Theo Sommer, "Carter e as Exportações Nucleares Alemãs," *Tribuna Alemã* (Monthly Review of the German Press), nº 139 (April 1977), p. 2.

the possibility of leaving out any of the proposed undertakings, but the Brazilian government made it clear to Germany that any unilateral modification of the terms of the accord would call for the cancellation of the whole deal.<sup>295</sup> The possibility of losing such a huge contract would not only strike a severe blow to the highly export-dependent German nuclear industry, but also would put in jeopardy the political future of the Schmidt government. Both the Christian Democratic Party (CDU), in the opposition, and the Liberal Party (FDP), a crucial ally in the ruling coalition headed by the Social-Democrats (SPD), were strong advocates of the nuclear agreement with Brazil, for its political and economic implications. During the nuclear controversy, in general, the SPD had tended to adopt a more conciliatory position vis-à-vis Washington, whereas the Foreign Relations Minister, belonging to the FDP, would prefer a tougher stance. Without the support of the Liberals, the SPD could not have the necessary parliamentary majority to remain in power. Hence, any concession to Washington's demands, that could threaten the implementation of the Brazilian deal, might precipitate a political crisis for the Schmidt government, bringing to an end the coalition with the Liberals and, therefore, a decade of Social-Democratic government in Germany.<sup>296</sup> Furthermore, the high probability of serious damage to Germany's commercial credibility among potential clients in the Third World constituted a strong motivation for keeping the German government away from any move that could result in the cancellation of the agreement.

Schmidt, thus, was caught in the same trap as Giscard on the Pakistani deal, facing United States pressures to forsake its commitment to Brazil and, simultaneously, domestic and

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295 "Senador Diz que Brasil Não Cede," *Jornal do Brasil*, 16 March 1977, p. 14.

296 Araujo Netto, "Diplomata Italiano Não Crê em Revisão," *Jornal do Brasil*, 8 February 1977, p. 3; "PDC Alemão Pede Que Acordo Seja Mantido," *Jornal do Brasil*, 5 March 1977, p. 15.

international counter-pressures to keep it. As Giscard had done, Schmidt tried to reconcile non-proliferation and non-discrimination, and followed a similar approach to his French counterpart. Therefore, Bonn declared that it would stand behind its contractual obligations, although it would not oppose the cancellation of the enrichment and reprocessing plants, if the Brazilian government asked for such modification in the accord. Since Germany had refused to take the initiative to forsake the export of those materials, it was left to the United States to persuade Brazil to do so.

The Brazilian government did not encounter any of the constraints facing Germany and, in addition, enjoyed a more comfortable position vis-à-vis the United States. Consequently, the Brazilian round was shorter and stiffer. Despite the fact that Brazil is a semi-peripheral economy and has strong economic links to the United States on the nuclear issue, the latter had less leverage over Brazil than Germany. This is because Brazilian links to the United States are primarily through private channels, such as commerce, financing, and North American private investments in the Brazilian economy. Although a heavy borrower, Brazilian financial needs have gradually evolved from an almost exclusive dependence on United States governmental assistance programs and multilateral financial agencies to a strong reliance on the international private banking system. With the progressive integration of Brazilian economy into the world economy, the country has become much less dependent on North American economic and military aid. Consequently, the United States government possessed fewer foreign policy instruments to influence Brazilian behavior on the non-proliferation issue. Such assessment was made in Brasília at the very moment that the United States administration's pressures on Brazil were at their highest. A Brazilian diplomatic source was quoted as saying that Brazil would not be liable to any

United States attempt to use foreign aid for non-proliferation purposes, since it got hardly any military or economic aid from the latter. He went on to observe that Brazil's economic relations with the United States mainly involved private North American banks, adding, "we are an important client, and it would be to their own disadvantage to lose such a client."<sup>297</sup>

The immediate reaction from the Brazilian government was to reject Washington's demands for postponing the implementation of the agreement, since Brazil would not agree to any modification that would deprive the country of receiving the enrichment and reprocessing plants. Those two phases of the fuel cycle were deemed essential for releasing Brazil from a disturbing foreign dependence on enriched fuels, a situation that was aggravated, according to Brasília, because of the already high external dependence on other fuel supplies, mainly oil. With its potential reserves of fissionable raw materials, such as uranium, planned the Brazilian authorities, the country could attain nuclear self-sufficiency, and use that form of energy to accelerate its economic development. Without those plants, Brazil would remain dependent on foreign supplies, despite its domestic uranium reserves.<sup>298</sup>

As a conscious strategy of behavior, the Brazilian government did not take the initiative to approach the United States government to discuss the matter, leaving the latter to bring up the subject for conversation since, it was argued, the nuclear deal did not constitute a problem for Germany or Brazil, but for the United States. When approached by the State Department to initiate such talks in early February, the Foreign Relations Ministry agreed only

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297 "Brasil Não Teme Posição dos EUA sobre Auxílio," *Jornal do Brasil*, 3 March 1977, p. 4. Such a statement was issued just after Secretary of State Cyrus Vance had declared, before the US Congress, that the administration might link US foreign aid programs to Carter's non-proliferation policy. No specific country was mentioned by Vance.

298 Brasil, *O Programa Nuclear Brasileiro*, pp. 10-11.

to discuss the general question of nuclear proliferation. Brazil was saying, in fact, that it objected to discussing the particular issue of the German deal.<sup>299</sup> In early March, Deputy Secretary of State Warren Christopher went to Brasília for first talks with the Brazilian authorities. There, he proposed to discuss those alternatives that, from the United States' standpoint, would obviate Brazil's need to buy the enrichment and reprocessing facilities. Now the Brazilian position was even tougher than it had been earlier. The Foreign Relations Minister, Azeredo da Silveira, made it clear to the United States representative that his government would not even consider those alternatives, since it objected to discussing the agreement in the first place. To make his position straightforward, the Foreign Minister added that Brazil would not agree to changes or revisions of the accord; that the country had a tradition of keeping its contractual obligations; and that the accord had been approved by the Brazilian Congress, with the support of the opposition party. Brazil made no concessions, and, moreover, it resisted United States efforts to transform what for the government was a strict bilateral matter into a trilateral one.<sup>300</sup> Indeed, the success of the Brazilian position was predicated on Germany's resoluteness in resisting the pressures from the Carter administration. A tough Brazilian stance, on the other hand, would raise the cost of a German retreat.

The Germans did not, however, back out from their commitment to Brazil. After a second round of negotiations

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299 "‘Não’ – A Resposta do Itamaraty aos EUA," and "Brasil Não Aceita a Dependência Externa" *O Estado de São Paulo*, 2 February 1977, p. 9; "Brasil Fixa Posição Frente aos EUA," *O Estado de São Paulo*, 3 February 1977, p. 14; and "Uma Semana de Aflições," *Veja*, 2 February 1977, pp. 14-19.

300 "Reuniões Sobre Questão Nuclear Terminam no Primeiro Dia," and "Quatro Horas e Meia Sem Que Se Chegasse ao Entendimento," *Jornal do Brasil*, 2 March 1977, pp. 4-5; "Informe JB – O Que Houve," *Jornal do Brasil*, 3 March 1977, p. 6; and Andre Gustavo Stumpf, "Sim as Relações com os EUA não Andam Boas," *Isto É*, 9 March 1977, pp. 24-25.



between Washington and Bonn, beginning in early March, the two governments, in fact, had been able to reconcile their differences and reach a solution satisfactory to both. From then on, United States non-proliferation diplomacy receded from its earlier confrontational approach and accepted the German-Brazilian deal as a *fait accompli*. In different public statements, Carter's and that of his National Security Adviser, Zbigniew Brzezinski, the administration conceded it had no way to stop the immediate phases of the deal.<sup>301</sup> The Carter administration had underestimated the depth of German-Brazilian determination and had backtracked when it finally realized that the stakes in United States-German relations were too high to risk a serious confrontation with the latter over that particular issue. Besides, the controversy over nuclear exports could "undermine the administration's attempt to reopen the proliferation debate through a cooperative international dialogue."<sup>302</sup>

Germany, on the other hand, found itself agreeing with most of the goals of Carter's non-proliferation policy, although it might disagree with the means the administration had chosen – mainly technological denial – to control the proliferation of nuclear weapons. Hence, Germany did not yield on the issue of transferring sensitive technologies to Brazil, but agreed in furthering new multilateral instruments to strengthen the non-proliferation regime. In early April, Bonn announced the approval of the export licenses of the enrichment and reprocessing blueprints to Brazil. That announcement was preceded by a public statement in which the German government made clear "both the agreements and

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301 See David F. Belknap, "Brazil's Nuclear Program Aimed at Filling Energy Gap," *Los Angeles Times*, 30 May 1977, p. 6; and President Carter's interview by European broadcast journalists on 2 May 1977, reprinted in *U.S. Department of State Bulletin* 76 (30 May 1977): 543.

302 Kaiser, "The Great Nuclear Debate," p. 99.

the differences in perspective between the American and the German approaches.” Moreover, the statement tried to reconcile non-proliferation and non-discrimination, by reaffirming German support of the NPT regime and, simultaneously, declaring the need to involve “as many countries as possible, notably the threshold states in the Third World,” in any attempt to strengthen the regime.<sup>303</sup> The delivery of the first blueprints to Brazil had been delayed since late February for a combination of political and bureaucratic reasons. The three major political parties praised the decision, and it was welcomed by the German nuclear industry, which had begun to fear that Bonn would succumb to the international pressures.<sup>304</sup> In June, West Germany announced the decision to discontinue the export of reprocessing technology “until further notice.” The decision was announced at the end of a German-French regular summit, and its terms paralleled those of the French statement of December 1976. But the Brazilian deal had also been excluded from the embargo.<sup>305</sup>

Both Germany and Brazil had won. After the May 1977 economic summit in London, when the Germans had been able to outrun the United States on the two contentious issues of its domestic economic policy and the nuclear deal with Brazil, a West German newspaper observed that “the notion that West Germany is an economic giant but a political dwarf is outdated. The London summit marks a turning point.”<sup>306</sup> Bonn had stood up to its contractual commitments with Brazil, although, after the

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303 Ibid., p. 99.

304 Bonn Diverge dos EUA e Libera Usina de Reprocessamento,” *Jornal do Brasil*, 9 April 1977, p. 17; Dorrit Harazin, “Alívio Certo para a Indústria Alemã,” *Jornal do Brasil*, 10 April 1977, p. 8; Hermano Henning and Sérgio Buarque, “Jogada Tática em Bonn,” *Isto É*, 20 April 1977, p. 16.

305 Lellouche, “Giscard’s Legacy,” p. 60; and Kaiser, “The Great Nuclear Debate,” p. 100.

306 Quoted in Courtney, “Brazil and Argentina: Strategies for American Diplomacy,” p. 383.

June statement, that agreement might have been the last transfer of a complete fuel cycle to a Third World country. Brazil, on the other hand, had scored a victory in defending the right to enjoy the full benefits of the fuel cycle without foreign interferences. Furthermore, to quote a *Washington Post's* correspondent in Brasília:

*Brazil now seems almost taken aback at what it regards as the overwhelming success of its audacity. The Brazilians feel they have proven, for the first time, that a developing country, highly dependent on U.S. trade and support, can strongly disagree and live to tell about it.*<sup>307</sup>

The Carter administration did not give up on its efforts to convince Brazil to forego reprocessing technology, but receded to a low profile diplomacy. In his visit to Brazil in November 1977, United States Secretary of State Cyrus Vance restated United States concerns with plutonium reprocessing, and sought to convince the Brazilian authorities that it was inefficient and unnecessary. The uncommitted response he got was a demand for a suggestion of alternative technological solutions for Brazil's energy needs. The only suggestion the United States could offer was to wait for new technological developments.<sup>308</sup>

As for the United States, it had been pointed out that "the Carter administration's first diplomatic test on non-proliferation had ended in embarrassment, greater because the administration had sought to maintain such a high profile in its approach."<sup>309</sup> The United States' failure in the German-Brazilian nuclear export

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307 Karen DeYoung, "Brazil Adamant on Nuclear Policy," *The Washington Post*, 7 December 1977, p. A20.

308 Andre Gustavo Stumpf, "Um Novo Tom nas Relações Brasil-Estados Unidos," *Isto É*, 30 November 1977, pp. 30-31; DeYoung, "Brazil Adamant on Nuclear Policy," pp. A1, A20; and Wesson, *The United States and Brazil*, p. 81.

309 Courtney, "Brazil and Argentina: Strategies for American Diplomacy," p. 382.

controversy has been seen as test case of the dubious efficacy of policies of denial in furthering non-proliferation goals, in light of the lost United States predominance in world nuclear trade. “This lesson of U.S. diplomacy is clear,” observed one of the critics of such an approach.<sup>310</sup> Contrariwise, the non-proliferation approach on which Germany relied to defend its exports of sensitive nuclear materials to Brazil appeared to be much more promising. In fact, German non-proliferation perspective was nothing more than that of the NPT regime, and its arguments derived from the same basic premises of the latter. Actually, during the controversy, Washington was constantly reminded by Bonn of the early guarantees that were given by the former, in the context of the NPT negotiations, that the new regime would not restrict to its non-weapons parties the full development of the peaceful uses of nuclear energy. Germany argued that the supply of such sensitive technologies, under safeguard controls that would prevent its misuse for weapons purposes, best served non-proliferation objectives. To deny such materials to prospective clients in the Third World, Germany warned, would only lead them to try to develop such technological capability domestically or to find another source that might be less interested in exercising bilateral controls. In both instances, those countries would develop nuclear capability without any sort of safeguard controls. Those were exactly the same cooperation-under-control premises upon which the Atoms for Peace, the IAEA, and the NPT had been founded.<sup>311</sup> The reverse argument

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310 Ibid., p. 385.

311 For Germany's non-proliferation approach, see Gunter Hildenbrand, “Nuclear Energy, Nuclear Exports, and the Non-proliferation of Nuclear Weapons,” in *Internationalization: An Alternative to Nuclear Proliferation*, ed. Eberhard Meller (Cambridge, MA: Oelgeschlager, Gunn & Hain, 1980), pp. 100-4. Also, see Sommer, “Carter e as Exportações Nucleares Alemãs,” p. 1; and Erwin Hackel, “The Politics of Nuclear Exports in West Germany,” in *Nuclear Exports and World Politics*, eds. Boardman and Keeley, p. 75. It is noteworthy that similar arguments had been raised to justify some US sales of sensitive materials to Third World countries, during the Nixon-Ford-Kissinger years. See

was aptly utilized by the Brazilian government during the height of the controversy. The Foreign Minister, Azeredo da Silveira, had observed once that if deprived of the technology and materials prescribed in the German deal, Brazil would mobilize all of its domestic resources to achieve nuclear self-sufficiency, but would undertake this action without any sort of international control. The same possibility is also mentioned in the official document of the Brazilian nuclear program, released in March 1977.<sup>312</sup> Actually, in more recent years, consensus among major nuclear suppliers has moved to a formula in which the "problem is not sensitive materials and technologies as much as sensitive countries."<sup>313</sup> Even the United States has shifted from the previous formula advocated by the Carter Administration, to the other approach, in which the key issue, as put by Lellouche, "is to draw the line between those 'safe' countries (whether nuclear or non-nuclear weapons states), which can have these facilities on their territories, and the rest of the world."<sup>314</sup>

### 3.3 United States Responses and North American Commercial Interests

It has been pointed out that the United States' strong objections to the German-Brazilian nuclear agreement, first through Congress and the press and later through the Carter administration, were motivated out of strict commercial

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Statement of Under Secretary Sisco in "The Export of Nuclear Technology," Special Report nº 9, Department of State, Bureau of Public Affairs, October 1974, quoted in Baker, "Commercial Nuclear Power and Nuclear Proliferation," p. 1897.

312 "Silveira Diz Que Tecnologia Nacional Garantirá Acordo," *Jornal do Brasil*, 23 February 1977, p. 2; and Brasil, *O Programa Nuclear Brasileiro*, p. 22.

313 Mason Willrich, "A Workable International Nuclear Energy Regime," *The Washington Quarterly* (Spring 1979), quoted in Lellouche, "International Nuclear Politics," p. 349.

314 Ibid. Also, see Arnold Kramish, "Four Decades of Living with the Genie: United States Nuclear Export Policy," p. 30.

interests.<sup>315</sup> The argument has some weight in light of the following considerations. First of all, the magnitude of that deal had the effect of practically eliminating the opportunity, in the near future, for the United States to play a major part in Brazil's nuclear program, and, accordingly, brought Brazil more closely to the German nuclear trade domain. Closely related to that, the deal represented for Germany the possibility of establishing a firm foothold in the Latin American nuclear market. Indeed, as it has been observed, if the United States had succeeded in preventing the agreement at the onset, "the German nuclear industry would probably have been eliminated from many Third World markets for some time."<sup>316</sup>

In more concrete terms, the German accord, in fact, had aborted a similar deal that Brazil had been negotiating with Westinghouse since early 1970. Concrete discussions with that North American corporation had been initiated late in 1973, and in June 1974, Westinghouse had proposed a program which comprised "the establishment of a nuclear engineering company in Brazil, licensing of fuel fabrication and nuclear plant equipment technology, and management assistance in the development of a heavy component manufacturing facility."<sup>317</sup> According to the testimony of Westinghouse's executives, since that company

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315 This viewpoint was widespread in both Germany and Brazil. For an assessment of West German perceptions of commercially motivated US non-proliferation diplomacy, see Edward Wonder, "Nuclear Commerce and Nuclear Proliferation: Germany and Brazil, 1975," *Orbis* 21 (Summer 1977): 291-94. In Brazil this point of view cut across the whole political-ideological spectrum. See, e.g., "Físico Diz Que Pressão Tem Origem Econômica," *Jornal do Brasil*, 25 February 1977, p. 13; and "Araripe Diz Que Monopólios Comerciais Atacam o Acordo," *Jornal do Brasil*, 15 March 1977, p. 17.

316 Kaiser, "The Great Nuclear Debate," p. 88. Kaiser, however, explicitly denies that there were uniquely commercial purposes behind US actions, "despite some German allegations to the contrary." According to him, "the object of American policy was, and still is, non-proliferation, even at the expense of its own industry." *Ibid.*, p. 88.

317 Testimony of Dwight Porter, Director of International Government Affairs, Westinghouse Electric Corporation, in *Non-proliferation Issues, Hearings*, p. 125.

sale to Brazil of its first nuclear power reactor, it had developed a "good relationship" with the Brazilian National Atomic Energy Commission (CNEN) and, therefore, had strong beliefs of a substantial participation in in Brazil's comprehensive plans for nuclear energy development, elaborated in 1973. The newly formulated Brazilian program planned for up to eight nuclear plants, to be constructed for operation between 1980 and 1990, expecting to reach an estimated 60,000 to 70,000 megawatts nuclear generating capacity by the year 2000. It also had as its major objective the domestic development of fuel fabrication capability, as well as the attainment of capability in producing uranium compounds. Reprocessing and enrichment capabilities were also foreseen as eventual developments.<sup>318</sup>

In July 1974, the United States Atomic Energy Commission (AEC) notified the Brazilian government that it could not guarantee the delivery of previously contracted enriched fuels that would have been used in connection with the Westinghouse sale to Brazil. Because of backlog of the existing enrichment services facilities in the United States, similar notifications were also given to other countries that had uranium enrichment supply contracts with the United States. According to Westinghouse's representatives, before that Brazil had not pressed for other elements of the fuel cycle in its negotiations with that company, but after the AEC notification, development of a domestic enrichment capability was given a high priority in Brazilian nuclear plants. Westinghouse then proposed that Brazil consider an equity participation in an enrichment plant being considered for construction in the United States as part of the Ford administration's plans for the privatization of enrichment facilities in the country. In mid-1974, Westinghouse learned that

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318 See *ibid.*; and "Política Nuclear, Projetos, as Alternativas e o Mistério," *Visão*, 9 September 1974, pp. 25-36.

negotiations were taking place between Brazil and West Germany. After that, no substantive progress was made on its discussions with Brazilian authorities. Subsequently, the United States government made it known to Brazil that there was no near term possibility for the construction of an enrichment plant in Brazil. In Westinghouse's assessment, it had "lost" the deal out of the United States government's policy on prohibiting the sale of an enrichment plant to Brazil, in addition to the impossibility for the AEC to guarantee an assured supply of enriched fuels to Brazil.<sup>319</sup>

The Brazilian government also had held discussions with another North American firm, the Bechtel Power Corporation. Bechtel had offered to sell a uranium enrichment plant to Brazil. Details of such negotiations are rather fuzzy. The Bechtel offer was made at the very moment Brazil and West Germany were finalizing their own arrangements, and, apparently, without the explicit authorization of the State Department. It caused a serious embarrassment to the State Department, since, at the same time that a North American company was offering an enrichment plant, the United States government was trying to discourage West Germany from selling such equipment. That episode, according to State Department sources, fueled German suspicions that the United States' criticism of its deal with Brazil stemmed from commercial interests.<sup>320</sup>

Although Westinghouse had lost the Brazilian contract to the Germans, the argument that United States efforts to block that deal were motivated by strict commercial interests does not explain why the Ford and Carter administrations had behaved differently

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319 *Non-proliferation Issues, Hearings*, pp. 125-32, 147, 154. Also, see remarks by L. Bethel, Vice-President and General Manager, Water Reactor Division, Westinghouse Electric Corporation, in *Nuclear Proliferation: Future U.S. Foreign Policy Implications*, pp. 209, 213-14.

320 For the Bechtel episode, see Robert Gillete, "Nuclear Exports: A U.S. Firm's Troublesome Flirtation With Brazil," *Science* 189 (25 July 1975): 267-69; and *Non-proliferation Issues, Hearings*, pp. 18-84.



on the same issue. In fact, the non-proliferation drive that had moved the United States Congress and the Carter administration was at odds with the commercial interests of North American nuclear industry. As the unsuccessful story of Westinghouse in Brazil illustrates, a tight United States export control policy was detrimental to the short – and long-term interests of its nuclear industry, in light of the competition in the world market and the existence of other suppliers willing to impose fewer restrictions on their sale than the United States. In the eyes of United States industry, such a policy not only would not restore the United States commercial competitive edge, but, worse, would put them out of business. "The scramble for business," warned a Westinghouse executive, "is going to put the five U.S. reactor manufacturers at a disadvantage if Washington continues to take a 'hard-line' position."<sup>321</sup> Commenting on the same issue, Westinghouse's Vice-President, Albert Bethel, stated, "the unrealism I think exists in the approach that we pretend we have a nuclear power monopoly when in fact we do not."<sup>322</sup> During the congressional debates on non-proliferation, in 1977 and 1978, the nuclear industry's lobby had fought against the imposition of any unilateral legislation to tighten United States export controls. The nuclear establishment's allies were people like Senator McClure of Idaho, a state dependent on public and private sector jobs in the nuclear field, and executive agencies, such as ERDA, a traditional supporter of more liberal nuclear trade policies.<sup>323</sup>

As for the appropriate means for United States foreign nuclear policy in an age of foreign competition, those preferred by

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321 Quoted in Bowen Northrup, "How Westinghouse Lost Out," *The Wall Street Journal*, 2 July 1975, reprinted in *Non-proliferation Issues, Hearings*, p. 129.

322 *Nuclear Proliferation: Future U.S. Foreign Policy Implications*, p. 213.

323 Jacobsen and Hofhansel, "Safeguards and Profits," pp. 207-11.

the industry were quite distinct from those advocated by Congress and implemented in the early days of the Carter government. Their views were predicated on the assumption that the United States could not exercise ultimate control over the nuclear options of other countries by the unilateral manipulation of its own policy. Hence, flat denial policies, such as some Congressmen's suggestion for denial of enriched fuels to force a country to comply with United States non-proliferation regulations, would be self-defeating in the long run, and, therefore, would undermine more realistic non-proliferation strategies. Accordingly, the industry would favor a multilateral approach for United States policy, through the development of cooperative measures with other suppliers to control the dispersion of sensitive technologies.<sup>324</sup> A similar viewpoint was expressed by Nelson Sievering, Jr. of ERDA in testimony to the House Subcommittee on International Security and Scientific Affairs, in 1975. He also warned of the limited efficacy of a strategy based on the imposition of unilateral controls by the United States, favoring, instead, an approach to undertake a common policy among major suppliers. He pointed out the self-defeating consequences of enriched fuel embargoes, explicitly mentioning the case of the Federal Republic of Germany, and also of policies of technological restrictions in stimulating the domestic development of nuclear programs free of safeguard controls. In his testimony, Sievering praised the safeguard mechanisms of the German-Brazilian accord, which were, according to him,

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324 For the North American nuclear industry's view on US nuclear export policy and non-proliferation approach, see "U.S. Nuclear Export Policy," statements by the Atomic Industrial Forum's Committee on Nuclear Export Policy; Carl Walske, former President of the Atomic Industrial Forum, "Nuclear Electric Power and the Proliferation of Nuclear Weapon States;" and Dwight J. Porter, Director of International Government Affairs, Westinghouse Electric Corporation, in *Nuclear Non-proliferation Act of 1977, Hearings*, pp. 394-97, 410-11, 625-47, respectively. The Atomic Industrial Forum is a nonprofit association interested in the various peaceful applications of nuclear energy. Although it includes labor unions and universities among its 600 member organizations, it is heavily represented by the nuclear industry.

totally satisfactory to the IAEA security norms.<sup>325</sup> The need for the United States to work through a multilateral approach in order to maintain its early role as the prime regime definer, in the face of the diffusion of technology, is clearly expressed in the following remarks by a Westinghouse executive:

*Our predominant influence in the past has resulted from our cooperative and helpful attitude with other countries in bringing them the benefits of the peaceful atom, from our leadership in reactor sales abroad, and from our position as the leading supplier of enriched fuel. If we lose the edge in our nuclear exports, it will not be long until we lose the edge in our capacity to influence world non-proliferation policies. We are very close to the point now...*

*Our concern is that our inability to export, because our export policies are not harmonized with, or agreed to, by other supplier or consumer nations, will have the end result exactly opposite to that intended by our export policies. The United States will lose, rather than gain, influence, as we lose export business.*<sup>326</sup>

Porter's statement not only reaffirms the intrinsic link between the promotion of nuclear power and the control of nuclear weapons, which, as we saw, has been the core of mainstream United States non-proliferation policy, but some of his observations are quite in line with the European perspective on non-proliferation. Thus, he points to the "deep concern and fear among our friends that the United States is withdrawing its support from the international non-proliferation edifice which has been built so painstakingly."

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325 *Nuclear Proliferation: Future U.S. Foreign Policy Implications*, pp. 146-54, 165-67. By comparison, see statement of Representative Jonathan B. Bingham, in *ibid.*, pp. 22-25.

326 Statement by Dwight J. Porter, *Nuclear Non-proliferation Act of 1977, Hearings*, pp. 638-39.

He also agrees with the European critical view of the United States' insistence on "technical fixes." He advocates instead a political approach to the problem of nuclear weapons proliferation. "The role of alliances, nuclear free zones, regional compacts, and other political factors is much more important than technological constraints on weapons proliferation decisions."<sup>327</sup> In light of the North American nuclear industry's view on non-proliferation, it might be argued that, indeed, there existed a tactical alliance, uniting the interests of the former to those of the other nuclear exporters, such as France and West Germany, and of importers, such as Brazil, against the non-proliferation measures sought by the United States Congress and the Carter administration.

Although solid North American commercial interests had been jeopardized in the particular case under study, it is questionable, from what we have seen, that nuclear industry would particularly favor the confrontational approach of Congress and the Carter administration on that specific controversy over nuclear exports. Such an approach vis-à-vis Germany would certainly undermine efforts for a common understanding among suppliers, vital for the long-term interests of North American nuclear industry. Not necessarily all segments of the United States' nuclear establishment would prefer a cartel-like organization along the lines of the Ford-Kissinger Nuclear Supplier's Group framework, but certainly all of them favor a multilateral, as opposed to a unilateral, approach to the issue of non-proliferation.<sup>328</sup>

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327 Ibid., pp. 634-35.

328 The multilateral framework envisaged by Dwight Porter of Westinghouse stands, in fact, closer to the concept of an informal mechanism of consultation among key supplier and recipient nations, a formula preferred by the European exporters, than to the more exclusive supplier association of the NSG type. See *Non-proliferation Issues, Hearings*, p. 639, 647; Lellouche, "International Nuclear Politics," pp. 348-50; and Keeley, "Containing the Blast," pp. 226-27.

While the United States had enjoyed a virtual monopoly in the world nuclear market, the reconciliation between nuclear power development and non-proliferation had been easier for United States nuclear foreign policy, albeit that successive administrations had consistently ranked the promotion of the former over the latter. With Congress in the forefront of nuclear policy formation and Carter in the White House, however, non-proliferation objectives took precedence over commercial ones. In the aftermath of the political struggle over non-proliferation policy formation, with the enactment of NNPA in 1978, "the Right [nuclear establishment] current was clearly a loser and Congress clearly a winner."<sup>329</sup> Although both the Ford and Carter administrations shared the same objectives – to restore the United States' competitive edge and its credibility as a reliable enriched fuel supplier – they disagreed on the means to achieve such goals. Ironically, the success of those means sought by Congress and Carter, in the early days of his administration, was predicated on two conditions that did not exist anymore: the dominance of United States manufacturers in reactor exports, and the United States' technological monopoly in all aspects of the nuclear fuel cycle. The North American nuclear industry was painfully aware of these conditions. In view of that, some reaccommodation between nuclear power development and non-proliferation would have to be met. Such reconciliation had started already during the Carter term, gradually shifting Carter from "his early 'hard-line, purist, anti-plutonium position' toward the Right current."<sup>330</sup> With the Ronald Reagan administration further steps were taken to remove impediments to United States nuclear trade, and to restore the United States' leadership role in the non-proliferation regime

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329 Jacobsen and Hofhansel, "Safeguards and Profits," p. 213.

330 Ibid.

through greater flexibility in cooperation with other nuclear suppliers, although no revision of the NNPA was undertaken during his first term of office.<sup>331</sup>

### 3.4 Brazil on the Offensive

Beyond the Carter administration's effort to modify the terms of the 1975 German agreement, Brazil's nuclear program was exposed to a mounting chorus of international protest during the first months of 1977. Thus, the Soviet Union had been extremely critical of the accord and of the fact that it had been concluded with a country that was not a party to the NPT. The Canadian government also had tried to convince Brazil to sign the Treaty.<sup>332</sup> But a more serious threat to Brazilian nuclear plans came from Holland. Together with West Germany and England, Holland is part of the Urenco consortium, which was expected to supply the enriched uranium for the first two reactors to be built under the 1975 agreement. For exactly the opposite motives that had led the German government to stand behind its Brazilian commitment, the Dutch government had demanded some non-proliferation assurances from the Brazilian government, in the form of additional safeguard controls over spent rods of Urenco-supplied fuel. Discussions between Holland's Foreign Minister and the Brazilian authorities were held in Brasília a few days before United States Deputy Secretary of State Warren Christopher's talks there. Urenco's enriched fuel supply to Brazil depended on the enlargement of the Almelo enrichment plant, located in

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331 Ibid., pp. 213-14; Kramish, "Four Decades of Living With the Genie," pp. 25-31; and Margarete K. Luddemann, "Nuclear Power in Latin America: An Overview of Its Present Status," *Journal of Inter-American Studies and World Affairs* 25 (August 1983): 378.

332 Dev Muraska, "União Soviética Amplia Campanha Contra Acordo Nuclear," *Jornal do Brasil*, 7 January 1977, p. 4; "Geisel e Jamieson Conversam Reservadamente Por Meia Hora," *Jornal do Brasil*, 13 January 1977, p. 15; and "Visita Não Trouxe Acordo Sobre Energia Nuclear," *Jornal do Brasil*, 14 January 1977, p. 5.

Holland, The Dutch Parliament had made Brazil's agreement to the non-proliferation assurances a condition for the approval of the plant's expansion. Brazil had refused any control system that would include a full-scope safeguard clause, but agreed to a storage regime, controlled by the IAEA, for plutonium produced from spent Urenco-furnished fuel. The government had accepted that those controls would be applied to shipments made after 1985, but the Dutch Parliament demanded that the safeguard controls cover the first fuel shipment to be made in 1982. The Brazilian decision was backed by the other two Urenco partners, and, in the meantime, Germany had accelerated the construction of an enrichment plant on its soil. In June 1978, the Dutch government announced it was prepared to lift its veto on exports of enriched fuels to Brazil, despite Brazilian failure to comply with all non-proliferation assurances demanded by the Dutch Parliament.<sup>333</sup>

Foreign criticism of the nuclear agreement coupled with Carter's direct pressure on both Germany and Brazil stirred manifestations of support among sectors of the Brazilian politics and society. Supportive manifestations also came from the Argentine government, which watched carefully its neighbor's hardships, fearing that if Brazil could not resist international pressures against its nuclear agreement, it would be much more difficult for Argentina to proceed with its own nuclear plans. There were also suggestions for both countries to establish some mutual technological cooperation that not only would foster their respective nuclear programs, but also would give them more political leverage to meet future foreign pressures against their activities

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333 "Cronologia de uma Acelerada Negociação," *Jornal do Brasil*, 28 February 1977, p. 16; "Holanda Só Fornece Urânio Com Garantia," *Jornal do Brasil*, 29 April 1977, p. 12; "Holanda Fornece Urânio ao Brasil Sob Condições," *Jornal do Brasil*, 2 February 1978, p. 12; "Urenco Não Chega a Acordo sobre Urânio para o Brasil," *Jornal do Brasil*, 8 April 1978, p. 14; and Victoria Johnson, "Brasil," in *Nuclear Power in Developing Countries*, eds. James Everett Katz and Onkar S. Marwah (Lexington, MA: Lexington Books, 1982), pp. 102, 104.

in the field.<sup>334</sup> Supportive reaction from the opposition and from the scientific community – the latter had held strong objections to the 1975 nuclear agreement on technical grounds, in addition to criticizing the exclusion of the Brazilian scientific community from any participation in the nuclear policy formation process – prompted a North American observer of the Brazilian scene to point out that Carter’s non-proliferation “blunt diplomacy... may have had just the opposite of their intended effect... [It] seems only to have succeeded in uniting the country in its determination to resist that policy.”<sup>335</sup>

It is questionable, however, to infer from those events that mounting international pressures had been conducive to broadening political support for the authoritarian regime, although it certainly had the effect of strengthening military support for General Ernesto Geisel’s government (1974-1979). This distinction is crucial to understand the defensive-offensive strategy followed by the Brazilian government during the critical early months of 1977. In their public statements, members of the scientific community clearly distinguished between what they consider an undue foreign interference on an exclusively domestic affair, which they condemn, and their particular objections to the nuclear agreement with Germany, which they continue to maintain

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334 Domestic manifestations of support for the government’s refusal to comply with international pressures to modify the 1975 accord, from members of the governmental and the opposition parties, as well as from those of the scientific community are found in *Jornal do Brasil*, 3 February 1977, p. 8. Also, see “MDB Apoiará o Governo,” *Jornal do Brasil*, 23 December 1976, p. 13; and “Físico Diz Que Pressão Tem Origem Econômica,” *Jornal do Brasil*, 25 February 1977, p. 13. For Argentine supportive manifestations, see “El Clarín’ Apóia Posição Brasileira de Manter sua Programação Nuclear,” *Jornal do Brasil*, 1 February 1977, p. 3; “Uma Semana de Aflições,” *Veja*, 2 February 1977, pp. 18-19; “Diretor do Programa Nuclear Argentino Mostra Afinidade com a Posição Brasileira,” and “Presidente do CNPq Sugere Formar Eixo,” *Jornal do Brasil*, 18 February 1977, p. 3; and Velasco, “El Acuerdo Brasil-RFA y el Principio de No Proliferación Nuclear,” pp. 118, 121-22.

335 Allen L. Hammond, “Brazil’s Nuclear Program: Carter’s Non-proliferation Policy Backfires,” *Science* 195 (18 February 1977): 658-59.



in spite of the international controversy over it. Actually, scientists saw in those international pressures a confirmation of their early warnings as to the perilous foreign dependence resulting from the choice of acquiring nuclear technology from abroad, instead of developing it at home. In fact, Brazilian scientists sensed an opportunity to stir a wide public debate over nuclear policy, a debate they had been seeking since the agreement had been signed, but which the government had prevented from occurring. The members of the MDB, the opposition party which, contrariwise to the scientists, had supported the accord since its inception, added to their supportive remarks a warning note that foreign pressures could best be neutralized through the democratization of the country.<sup>336</sup> The military regime, however, declined to debate its nuclear choices, either in foreign or in domestic areas. As far as Brazil is concerned, a more damaging outcome of Carter's non-proliferation drive was, indeed, to hinder domestic debate on the wisdom of the Brazilian nuclear program.<sup>337</sup>

While domestic support would help bring more strength to the government's determination not to modify the terms of the 1975 deal, the Brazilian rulers deliberately avoided expanding the scope of the controversy with the United States. This strategy was

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336 "Físico Vê no Boicote Pressão de Washington," *Jornal do Brasil*, 4 January 1977, p. 4; "Físico Repele Intromissão Norte-Americana no Caso do Acordo com Alemanha," *Jornal do Brasil*, 9 January 1977, p. 22; "Montoro Sugere Que Melhor Garantia do Acordo É País Sem Ato Institucional nº 5," *Jornal do Brasil*, 2 February 1977, p. 2; "Tancredo Identifica AI-5 Como Agravante da Crise Com os EUA," *Jornal do Brasil*, 9 March 1977, pp. 1, 15; and "Senador Não Vê Limite para Direitos Humanos," *Jornal do Brasil*, 23 March 1977, p. 12.

337 The government's determination to avoid a public debate of the nuclear program went as far as prohibiting the TV and radio broadcasting of an interview with José Goldemberg, in which that nuclear physicist had avoided mentioning the political and diplomatic problems facing the agreement, but suggested that Brazil had enough manpower and technological capability to carry out an indigenous nuclear program. A similar hypothesis was raised by Foreign Minister Azeredo da Silveira to his Dutch counterpart a few days later. "Cientista Estranha a Censura a Sua Proposta," *Jornal do Brasil*, 2 February 1977, p. 2; and "Silveira Diz Que Tecnologia Nacional Garantirá Acordo," *Jornal do Brasil*, 23 February 1977, p. 2.

intended not only to prevent an undesired national debate over Brazilian nuclear policy, but also to avoid an anti-North American, nationalistic overreaction. A low profile approach was believed also to help Brazil's German partner resist the pressures from the Carter non-proliferation drive. Those constraints accounted for the cautious behavior of Brazilian diplomacy during the early stages of the controversy. The government then adopted a double-standard private-public behavior, avoiding the issuance of public statements on the subject, but, simultaneously, keeping a tough stance at the private conversations with foreign representatives. Secrecy concerns were upgraded and even the text of the trilateral safeguard agreement was withheld from the public eye. In the meantime, the government had accelerated the business contracts, in connection with the implementation of the 1975 accord, in an effort to establish a solid network of banking and industry commitments, both in Germany and Brazil, thus raising the cost of forsaking the nuclear deal.<sup>338</sup>

After Deputy Secretary of State Warren Christopher's trip to Brazil, there was a perceptible change in the government's behavior, which moved from the prior defensive approach to an offensive, albeit cautious one. Increased pressures from the United States had contributed to hardening the Brazilian position, but domestic political considerations had been important as well. Carter's human rights policy had fueled the controversy between the two countries, but the Brazilian government saw in the event an opportunity to expand the scope of the conflict, reaping international and domestic benefits with its action. The United States International Security Assistance Act of 1976 had required the State Department to submit

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338 Oliveira S. Ferreira, "Um Esforço de Contenção Para Impedir o Confronto," *O Estado de São Paulo*, 2 February 1977, p. 9; Luiz Barbosa, "Itamaraty Não Fala e Alega Que Técnica Afasta Público," *Jornal do Brasil*, 31 January 1977, p. 3; "Nuclebrás Garante Que Acordo Nuclear Está Acelerado," *Jornal do Brasil*, 25 January 1977, p. 4; and Eduardo Pinto, "Brasil Faz Obras Contra Pressão," *Jornal do Brasil*, 30 January 1977, p. 8.

to Congress annual reports on the human rights situations of all countries receiving United States military assistance. In early March 1977, the United States embassy in Brasília handed a copy of the report's section on Brazil to the Brazilian authorities. The immediate reaction of the latter was to return the report as "intolerable interference" on its domestic affairs, and to refuse the \$50 million military aid for the 1977-1978 fiscal year. A few days later, in a calculated gesture, the Brazilian government denounced the military agreement with the United States, in effect since 1952.<sup>339</sup> Actually, human rights as a basis for United States foreign policy had been in the forefront of congressional legislation long before Carter's inauguration. Successive denunciations of violations of human rights in Brazil, at congressional hearings during 1973 and 1974, had not received any further action from the State Department.<sup>340</sup> With Carter, human rights had become a significant concern although the administration had not applied that policy consistently, the most visible targets being countries and regions where security interests of the United States were not at stake.<sup>341</sup> It has been argued that "it would not appear that the Carter administration especially desired to press Brazil on that topic. It came to the fore because of a law for which Carter had no responsibility." Besides, the section on Brazil was mild.<sup>342</sup> Although Carter might not have intended to mingle

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339 Arturo Borja Tamayo, "La Crisis del Sistema Capitalista Internacional y las Relaciones Estados Unidos-Brasil" (Thesis for the Licentiate degree in International Relations, Universidad Nacional Autónoma de México, 1980), pp. 149-51; Andre Gustavo Stumpf, "As Razões do Atrito e as Consequências," and Tão Gomes Pinto, "Direitos Humanos e/ou os Megatons," *Isto É*, 16 March 1977, pp. 6-8, 10-12; and Hugo Abreu, *O Outro Lado do Poder* (Rio de Janeiro: Editora Nova Fronteira, 1979), pp. 56-59. General Hugo Abreu was Head of the Military Cabinet and General-Secretary of the National Security Council during the Geisel government.

340 For an appraisal of US human rights policy and its effects on Brazil, see Tamayo, "La Crisis del Sistema Capitalista Internacional," pp. 123-57; and Wesson, *The United States and Brazil*, pp. 89-99.

341 Tamayo, "La Crisis del Sistema Capitalista Internacional," pp. 145-49; and Monica Hirst and Maria Regina Soares de Lima, "Estados Unidos y América Latina: Cerrando una Época en Descomposición," *Estudios Internacionales* 14 (October/December 1981): 530-52.

342 Wesson, *The United States and Brazil*, p. 93.

human rights with the nuclear controversy, the Brazilian response certainly helped to link the two.

The twenty-five-year-old military agreement was ended by the Brazilian government primarily for a political reason. United States' military assistance to Brazil had been decreasing over the years, and the rejected \$50 million military aid package accounted for only 2.5 percent of the Brazilian military budget in 1976.<sup>343</sup> A gradual lessening of Brazilian dependence on United States security aid had been the outcome of two developments. In the first place, United States legislation over military assistance had become progressively more restrictive as regards the transfer to advanced technological military equipment to Third World countries, causing those countries to turn to other suppliers for sophisticated hardware. On the other hand, since the late 1960s, Brazil had initiated a comprehensive modernization program of its Armed Forces, aiming to develop its own domestic military industry. The Brazilian military, in fact, considered the 1952 military agreement with the United States an impediment to their modernization goals, since it did not provide for transfer of technology. At least a year before its formal ending, consideration had been given to terminating that accord. The decision to cancel it, in which the President had a the advice of the Foreign Relations Minister, the Heads of the Civilian and the Military Cabinets and of the Brazilian Intelligence Service (SNI), and the President of the Senate, was taken after an informal consultation with members of the Armed Forces High Military Command, and, apparently, only the Navy had expressed reservations about the cancellation.<sup>344</sup>

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343 Tamayo, "La Crisis del Sistema Capitalista Internacional," p. 152.

344 Tarcísio Holanda, "Desinteresse Foi Progressivo," *Jornal do Brasil*, 13 March 1977, p. 14; "Comandante do I Exército Quer União Para a Busca de Soluções Brasileiras," *Jornal do Brasil*, 15 March 1977, p. 17; "Uma Diplomacia de Golpes e Contragolpes," *Veja*, 16 March 1977, pp. 20-27; and Walder de Góes, *O Brasil do General Geisel* (Rio de Janeiro: Editora Nova Fronteira, 1978), p. 39.

The decision, therefore, had no practical consequences for the Armed Forces, and more significant than the decision to end the agreement itself was the timing chosen to implement it. The military regime intended to show the United States that nuclear policy and human rights were both non-negotiable issues, but the government also had domestic considerations in mind. Simultaneous with the announcement of the cancellation, the government delivered for the first time the most complete dossier of the 1975 nuclear agreement.<sup>345</sup> The issuing of the volume, *O Programa Nuclear Brasileiro*, which became known as the nuclear agreement's White Book, in the midst of a controversy with the United States over questions of "national sovereignty," signaled Brazil's determination to proceed with the 1975 nuclear agreement despite United States pressures, and helped to rally domestic support for that decision. A conspicuous target of such an offensive approach had been the government's own military constituency. The implementation of all the phases of the deal with Germany commanded strong support among the Brazilian military, which saw in it a secure path to the long-time aspiration for nuclear self-sufficiency. The pressures from the Carter administration had, in fact, united the military in the defense of nationalistic principles, principles which have been ingrained in the history of Brazilian Armed Forces.<sup>346</sup> By acting forcefully on that question, the government not only responded to the aspiration of its most important constituency, but also attempted to neutralize those military factions that opposed Geisel's own political projects as regards the political evolution of the Brazilian regime.<sup>347</sup>

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345 "Brasil Adverte Que o Acordo Nuclear É Intocável," *Jornal do Brasil*, 11 March 1977, pp. 14-15.

346 Góes, *O Brasil do General Geisel*, pp. 170-76.

347 The Geisel government's political reform Project and the presidential succession were the two contending issues among the military. For an analysis of the decision-making style of General Geisel's government, and the President's deliberate effort to attenuate the political influence of the Army

From the standpoint of the government's interests, the visibility of the human rights issue, as a result of Carter's policy, would have damaging effects on the government's ability to deal not only with the regime's domestic opposition, but also with the European governments, pressed by their own domestic constituencies to avoid close links with countries showing a record of human rights violations. The cancellation of the military agreement with the United States, in connection with its human rights policy, was thus intended to neutralize some of the unavoidable domestic and international reverberations of that policy. In an effort to evade public discussion of the State Department's human rights report on Brazil, the government deliberately played down the report's content itself, and emphasized the question of the "inexcusable" foreign interference on its domestic affairs.<sup>348</sup> Such strategy paid dividends to the government in the form of a widespread rejection of Carter's onslaught on Brazilian national sovereignty.<sup>349</sup> To bring the issue of "national sovereignty" into United States-Brazilian relations posed, however, the same dilemma as the NPT episode. Therefore, efforts were made to avoid a nationalistic overreaction. The nuclear exports and human rights controversies were, thus, presented to the public not as an anti-American crusade, but as an instance in which long-time accepted international juridical principles, such as self-determination and non-interference,

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and, therefore, to keep in his hands the control of the regime's political evolution, see *ibid.*, pp. 63-71. Military politics was at its highest during the year of 1977, with those military factions that opposed Geisel's political reform project working for an alternative military candidate to succeed Geisel in the Presidency. *Ibid.*, pp. 75-102. For an insider's account of the military crisis in October 1977, see Abreu, *O Outro Lado do Poder*, pp. 127-51.

348 See Geisel's press secretary's briefing to the press, "Camargo Acha Que Relatório dos EUA Não Deve Ter Resposta," *Jornal do Brasil*, 15 March 1977, p. 16; and "Rezende Acusa EUA de 'Arvorar-se em Juiz,'" *Jornal do Brasil*, 24 March 1977, p. 16.

349 "Geisel Recebe Apoio Nacional," *Jornal do Brasil*, 8 March 1977, pp. 1, 15; and "Uma Diplomacia de Golpes e Contragolpes," *Veja*, 16 March 1977, pp. 21-22, 25.

were at stake.<sup>350</sup> The government's cautious behavior led to the prohibition of radio and television comment on United States-Brazilian divergences.<sup>351</sup>

There was also some concern that the controversy might result in politicizing United States-Brazilian economic relations. Such an outcome, however, was not perceived as probable by North American industry's representatives in Brazil. The Brazilian economy is so integrated into the world capitalist economy as to resist politico-diplomatic quarrels with the United States, and business was expected to proceed as usual.<sup>352</sup> It has been, perhaps, in the military area that the controversy with the United States has had the most lasting effects, which have been defined in terms of North-South issues. In these issues, such as the transfer of sensitive technology, the interests of the Brazilian military were clearly at odds with United States policy. The divergence, however, does not appear to have affected global strategic issues.<sup>353</sup>

The controversies over nuclear exports and human rights had provoked the most serious diplomatic crisis in Brazil-United States relations since the military coup of 1964. On balance, Carter's policies had been defeated, and Brazil had scored a diplomatic victory. The 1975 nuclear agreement demonstrated both an increasing ability on the part of Brazil to assert and defend its own interests against those of the United States, and the sharp decline

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350 "Petronio Condena Intromissões Externas," *Jornal do Brasil*, 23 March 1977, p. 12; and "Rezende Acusa EUA de 'Arvorar-se em Juiz,'" *Jornal do Brasil*, 24 March 1977, p. 16.

351 Stumpf, "As Razões do Atrito e as Consequências," p. 7.

352 "Governo Não Teme Represália dos EUA na Área Econômica," *Jornal do Brasil*, 13 March 1977, p. 51; and "Uma Diplomacia de Golpes e Contragolpes," *Veja*, 16 March 1977, p. 24.

353 A few days after having denounced the 1952 military agreement, the government announced it would ratify a modified version of the Inter-American Treaty of Reciprocal Assistance, negotiated in 1947, that had been revised in 1975. "Brasil Acha Crise com EUA Fato Isolado e Ratificará Acordo Americano de Defesa," *Jornal do Brasil*, 21 March 1977, p. 4; and Adauto Novaes, "OTAS, ou a OTAN com o Brasil," *Isto É*, 6 April 1977, pp. 20-21.

in the ability of the latter to directly shape events and policies in Brazil in accordance with its objectives. Our argument is, however, that power resources are not easily transferable from one issue area to another. The following section examines how Brazil's decision to attain nuclear self-sufficiency scored in technological and commercial issue areas.

### 3.5 Brazil's Vulnerabilities

Analysts of the non-proliferation regime have tended to establish a parallelism between the nuclear and the conventional arms trade, in the sense that tough competition among nuclear suppliers has resulted in loosening non-proliferation controls, with "potentially disastrous effects on international stability."<sup>354</sup> A very competitive marketplace, the argument goes, has increased the bargaining power of prospective clients to exploit the market to the fullest, leading to the commercial sale of proliferation-prone technologies, such as enrichment and reprocessing. The increase in the number of nuclear vendors has indeed created more favorable conditions to buyers than those which had prevailed when the United States held the monopoly in such commerce. But in contrast to the arms trade, which may be approaching a buyer's market situation, conditions in the international nuclear market still favor suppliers. This is because nuclear trade is much more concentrated in a few supplier nations, and it is much more regulated than arms trade, which is hardly regulated at all on the international level. Since new suppliers entered the market in the early 1970s, non-proliferation advocates have been raising the specter of an inexorable movement towards the nuclearization

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354 Baker, "Commercial Nuclear Power and Nuclear Proliferation," p. 1898. Also, see Paul L. Joskow, "The International Nuclear Industry Today: The End of the American Monopoly," *Foreign Affairs* 54 (July 1976): 798-800.



of the South. Such predictions did not come true, however. In the meantime, Third World countries were caught in the worst economic recession in the post-war era, bringing a halt to their ambitious nuclear plans. On the other hand, unwrapping those comprehensive nuclear-package deals, of which the Brazilian-German accord stands as the sole and paradigmatic example, nuclear buyers have come to realize that barriers to entry into the nuclear field are still quite high.

Brazil's European option, and above all its nuclear deal with West Germany, was predicated on the existence of stiff competition between the United States, as the leader of the capitalist economy, and the remaining industrialized nations willing to defy United States worldwide economic preponderance. It was expected that Brazil, the most likely area for capitalist expansion in the Third World because of its size, population, natural resources endowment, and the complexity of its economic infrastructure, could reap benefits from such contradictions inside the industrialized world.<sup>355</sup>

The world economic structure has in fact evolved from the previous post-war unipolar configuration to a multipolar one. In high-technology industries, such as nuclear, however, competition among industrialized countries has not superseded their common interest in avoiding the erosion of the barriers to entry into those fields. Indeed, the nuclear area is a good example of such competition *cum* cooperation dynamics that characterizes commercial undertakings in such advanced technological fields. France and West Germany have followed a much more liberal nuclear export policy than the United States. In the early 1970s, both countries, but particularly West Germany, had been willing to offer "sweeteners" for Third World sales, in order to

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355 For an assessment of Brazil's European options, see Walder de Góes, "Carter Reavalia o Brasil," *Jornal do Brasil*, 19 February 1978, special section, p. 1.

get a competitive advantage over other suppliers. What was in fact a market penetration mechanism to face North American predominance was presented as a United States-distinct, European non-discriminatory orientation vis-à-vis Third World economic demands. Actually, such a non-discrimination doctrine has fostered European economic interests in Third World areas.<sup>356</sup> On the other hand, German and French stakes in the nuclear market are such that some form of regulation of that market is clearly to their own long-term interests. Both countries have been at odds in reconciling a non-discrimination stand in public with non-proliferation support in private. It might even be argued that they have taken a free ride on United States efforts to foster the non-proliferation regime, profiting from the introduction of controls to regulate the transfer of nuclear technology, without having to incur a loss of prestige among Third World countries.<sup>357</sup> In fact, in the latter part of the 1970s, the controversy over nuclear transfers to the Third World has faded as France and West Germany have gradually reversed their previous orientation and agreed to exercise restraint in the exports of sensitive materials.

When the Brazilian government decided to buy a complete nuclear fuel cycle there were quite a few countries willing to supply a full nuclear package, but less countries willing to sell the sensitive facilities included in it. Canada, Britain, the Soviet Union, and the United States were not viable alternatives, for various reasons. Canada's nuclear exports were confined to the

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356 For a revealing view of Brazilian-German economic cooperation, see the speech by Hans-Dietrich Genscher, West Germany's Minister of Foreign Relations, before the German-Brazilian Chamber of Commerce and Industry, in São Paulo, on 19 November 1975, in Brasil, Ministério das Relações Exteriores, *Resenha de Política Exterior do Brasil*, nº 7 (October/November/December 1975), pp. 99-100.

357 Negotiations at the Nuclear Supplier's Group were held in secret because of threats of withdrawal by France and the Soviet Union if the proceedings were made public. Mabry, Jr., "The Export Policies of the Major Suppliers," p. 196.

heavy water moderated CANDU reactor, and the country was not in the business of reprocessing and enrichment. Besides, after the Indian explosion, Canadian export policy has required ratification of the NPT or acceptance of the full-scope safeguards clause of all recipients of its nuclear cooperation. Britain had no significant role in the conventional reactor market. The British nuclear program was well advanced in reprocessing, and enrichment was undertaken within the framework of the tripartite-Urenco consortium with West Germany and the Netherlands. As Britain had concentrated on the market for fuel-handling services, it was not interested in sharing those technologies with potential clients. The Soviet Union has followed a very consistent restraint in export policy, and it has required the application of full-scope safeguards to all of its nuclear exports. Up to the early 1970s, recipients of the Soviet Union's nuclear cooperation have been virtually restricted to Eastern bloc countries. As for the United States, we have already mentioned that its refusal to sell enrichment and reprocessing facilities to Brazil was a crucial factor in turning down negotiations with Westinghouse Corporation.<sup>358</sup>

The only other two countries with well-developed nuclear industries, and, compared to the four mentioned above, with less restrictive export policies were France and West Germany. France had sold reprocessing facilities to South Korea and Pakistan, though both deals were later canceled. But, apparently, conditions offered by France were not conducive to a complete nuclear package, similar to that negotiated with West Germany.<sup>359</sup> Different from

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358 For an assessment of the export policy of those countries and the development of their respective nuclear industry in the early 1970s, see Joskow, "The International Nuclear Industry Today," pp. 788-803; and Mabry, Jr., "The Export Policies of Major Suppliers," pp. 173-99.

359 Nuclear technical cooperation with France had been established in 1967, through an agreement for joint research in thorium technology, uranium exploration and research, and power-reactor construction. In July 1975, a French-Brazilian accord was signed for the development of a fast-breeder

its German counterpart, French nuclear industry is much less dependent on exports, and has its own uranium supply, giving France much more leeway in international nuclear negotiations. A glance at the international nuclear industry indicates there was hardly any alternative for Brazil's ambitious nuclear plans besides Germany. Furthermore, in the early 1970s, the world market for nuclear reactors was growing, fueled by the search for new energy alternatives after the sharp increase in oil prices.

In bilateral negotiations with the Federal Republic, Brazil, however, did have some leverage. The German economy is highly dependent on exports, and foreign markets have become vital for the survival of the nuclear industry. Since the European and the North American nuclear markets are relatively closed, emphasis has been placed on exports to the newly industrializing countries, areas with expansive potential for nuclear sales. In fact, the German-Brazilian deal was the largest export project in the history of German industry, and the Brazilian market was expected to grow even more over the next fifteen to twenty years. Moreover, it was believed that nuclear exports would act as stimulus to a much broader range of German industrial exports, with a significant impact on other sectors of the German economy. Besides, through bilateral agreements, such as that signed with Brazil, Germany would get privileged access to raw materials. An assured supply of Brazilian uranium is thought to have constituted a significant incentive for the nuclear agreement with Brazil.<sup>360</sup>

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reactor, but eventually Brazil abandoned plans for buying breeder reactors from France. Johnson, "Brazil," p. 101; and Luddemann, "Nuclear Power in Latin America," p. 398.

360 The benefits to the German economy and to its nuclear industry, to be derived from the Brazilian deal, are examined in Wonder, "Nuclear Commerce and Nuclear Proliferation," pp. 295-301. According to Wonder, negotiation in Germany had been conducted, almost exclusively, by the Ministry for Research and Technology, working closely with the private companies, "with little input from the Foreign Office and its Disarmament Division." Apparently, Chancellor Helmut Schmidt took a full cognizance of the deal only at the final stages of the negotiations. In Wonder's assessment, "it would not be unfair to

Those conditions accounted for the enrichment and reprocessing "sweeteners," included to sell the whole package. Furthermore, although Brazil was given access to proliferation-prone technology, Germany had not required the former to join the NPT or to accept full-scope safeguards on all of its nuclear activities. The fact that those two conditions had not been required might indicate, at first glance, that Brazil's negotiating position was strong on the question of safeguards and non-proliferation controls. The examination of the safeguards actually required and of their implications for Brazil's future nuclear options reveals that it was not quite so. On paper, the German-Brazilian nuclear accord appeared as the most comprehensive transfer of nuclear technology ever concluded between an industrialized and a Third World country, whereby, "not only materials, products and facilities were to be supplied, but also technological know-how, training, production capabilities, skills and blueprints."<sup>361</sup> In reality, however, there was no "generosity," as suggested by a German analyst, in the Kraftwerk Union's (KWU) being "willing to share its knowledge... with a developing country and to stake its prestige so firmly on a partnership of unprecedented duration, breadth and ambition."<sup>362</sup> If Brazil had shown plenty of muscle in the ensuing diplomatic battle with the United States, the same had not been true in negotiating the nuclear agreement with Germany. An examination of three distinct aspects of that accord, mainly safeguard coverage, transfer of technology, and some of its commercial features, suggests that Germany, not Brazil, had been in a position to exploit the market to its own benefit.

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describe the agreement set before the German cabinet as a *fait accompli*, carried off by a coalition of corporate and governmental actors who went farther than the more diplomatically aware would have allowed had they been better informed." Ibid., p. 300.

361 Hackel, "The Politics of Nuclear Export in West Germany," p. 71.

362 Ibid.

We have already mentioned that the deal with West Germany included provisions for a system of safeguard controls more stringent than those called for by the NPT. Thus, the requirements agreed upon stipulate: (1) all equipment, materials, as well as technological information, transferred in the agreement will be subject to safeguards, and, therefore, cannot be used for manufacturing any sort of nuclear explosive device; (2) re-export of any of those items to a third country will also be under similar safeguards; and (3) Germany's approval must be obtained before Brazil can export any sensitive nuclear materials, equipment, and relevant technological information to a third party. Specifically, safeguards on transferred nuclear know-how require that any facility or equipment constructed or operated in Brazil based on the use of the same or similar technological information transferred under the agreement will also be safeguarded, even should the trilateral safeguards accord, concluded with IAEA, be terminated.<sup>363</sup> As we saw in the analysis of Brazilian non-proliferation diplomacy, Brazil had refused to waive its future nuclear options. By remaining outside the NPT regime, it sought to preserve, in principle, the capacity to develop and autonomous nuclear program, free of the regime's controls. As a non-party to the NPT, Brazil *de jure* is not bound to the full-scope safeguards clause required by parties to the NPT. Nevertheless, Brazil's first major initiative to achieve nuclear capability through the acquisition of a complete fuel cycle amounted, *de facto*, to an acceptance of such a safeguard clause. The consequences of the so-called replication safeguards on transferred technology upon Brazil's freedom of action in the nuclear field are neatly pointed out in the following statement:

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363 Brasil, *O Programa Nuclear Brasileiro*, pp. 30-51.

*These... replication safeguards effectively preclude Brazil from building any significant reprocessing or enrichment plants on its own without safeguards until near the end of the century. While these are not full-scope safeguards, they may have a nearly equivalent effect on Brazil's ability to undertake any nuclear weapons program during the time involved...*

*The only way Brazil could produce unsafeguarded weapons-grade materials would be to develop its own sensitive technologies unrelated to the technologies furnished by West Germany. This may not be beyond its capacity in the late 1980s.*<sup>364</sup>

The transfer of technology for all the phases of the nuclear cycle, which caused the bitter controversy with the United States, since it would give Brazil potential nuclear weapons capability, constitutes, possibly, one of the most serious flaws of the "deal of the century." Such deficiencies were indicated by Brazilian scientists, immediately after the accord was signed. They particularly regretted that the agreement did not provide for any sort of research and development activity in reactor know-how, since all foreseen research and development undertakings were to be concentrated on the enrichment and reprocessing activities. Thus, they argued, in the crucial area of reactor manufacturing, the know-how provided by nuclear cooperation with Germany would be restricted to the reactors' components, with no technological information on the process of building them being transferred.<sup>365</sup> Scientists warned that for an effective absorption of technological

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364 William H. Courtney, "Nuclear Choices for Friendly Rivals," in *Non-proliferation and U.S. Foreign Policy*, ed. Yager, pp. 246, 275.

365 "A Participação dos Físicos no Programa Nuclear Brasileiro," Report of the Special Commission of the Brazilian Society of Physics, *Boletim SBF*, nº 5, 1975.

information, emphasis should be placed on a comprehensive human resources training program, as well as the intimate involvement of the Brazilian scientific community and research institutes in the implementation of the activities foreseen by the 1975 nuclear agreement. They also suggested that an independent complementary effort should be undertaken in the area of reactor know-how, through the development of a domestic reactor prototype.<sup>366</sup>

Brazilian access to enrichment-reprocessing-sensitive technology had created a delicate political problem for Brazil. That particular feature of the 1975 agreement constitutes, possibly, the clearest example of Brazil's weak negotiating position. The commercially unproven, high-energy-consuming jet-nozzle process of enriching uranium had not exactly been a Brazilian choice, but was the only enrichment process it was able to obtain. In fact, Brazil had wanted access to the gas centrifuge technology developed by the Urenco consortium, but it was vetoed by Britain and the Netherlands. Besides being still at a laboratory stage and not yet technically proven, the nozzle process had the inconvenience of consuming much more energy than the gaseous diffusion and the gas centrifuge process.<sup>367</sup> Because of its high-power consumption, the jet nozzle would produce enriched uranium at a substantially higher cost than that produced by the other two proven technologies, and therefore, remain non-competitive vis-à-vis them. Because of that liability,

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366 For Brazilian scientists' critical assessment of the 1975 agreement, also see "Moção Sobre o Acordo Nuclear," IX Annual Meeting of the Brazilian Society of Physics, *Boletim SBF*, nº 3, 1975; José Goldemberg, "As Incertezas da Política Nuclear Brasileira," *Dados e Ideias* 2 (October/November 1976): 16-17; José Murilo de Carvalho, "A Política Científica e Tecnológica do Brasil," Rio de Janeiro, 1976 (Mimeographed), pp. 76-83; and Regina Lúcia de Moraes, "Considerações sobre a Política Científica do Brasil" (Master's thesis, Universidade de Brasília, 1975), pp. 139-41.

367 José Goldemberg, "O Acordo Nuclear," Special Issue on Energy, *Boletim SBF*, nº 4, 1977, pp. 8-9; Hartmut Krugmann, "The German-Brazilian Nuclear Deal," *Bulletin of the Atomic Scientists* 37 (February 1981): 34.



unlike the gaseous diffusion and gas centrifuge, it had remained unclassified.<sup>368</sup> For Brazil, which had nowhere else to turn for such sensitive technology, the nozzle process had the single advantage of West Germany's exclusive access to it, which made Brazil a co-owner of the nozzle's patent, if ever commercially developed. A greater advantage accrued for Germany from such association with Brazil, however. According to an analyst, the nozzle's "high power consumption made it unsuitable for testing in Western Europe."<sup>369</sup> For that reason, since the early 1970s, STEAG, the German energy corporation that had a contract for further development work on the Becker aerodynamic jet-nozzle process, had considered offering uranium-producing countries a partnership in the project. In Wonder's assessment:

*Inclusion of the nozzle in the technology package offered Brazil presented several advantages to the West German government. Bonn was reluctant to finance a project whose commercial viability was still uncertain and which, in any case, seemed destined for export to low-energy-cost areas. Thus, the nozzle was, in Bonn's view, primarily a bargaining chip which could be traded for something of commensurate or higher value, such as a guaranteed uranium supply. Brazil offered an excellent opportunity for this kind of transaction.*<sup>370</sup>

In fact, when the Brazilian government finally realized the technical problems of the nozzle process, an alternative nuclear

368 Courtney, "Nuclear Choices for Friendly Rivals," p. 244.

369 Wonder, "Nuclear Commerce and Nuclear Proliferation," p. 298.

370 Ibid., p. 299. Also, see Gillette, "Nuclear Proliferation: India, Germany May Accelerate the Process," p. 912. To make that barter look even "sweeter" to Brazil, Germany, apparently, underestimated the actual costs for developing the nozzle process. Frederico Fuellgraf, "Uma Revelação: Como o Brasil Decidiu Assinar," *Isto É*, 7 November 1979, p. 95.

program, independent of the cooperative undertaking with Germany, began to take shape. Such an alternative program, geared to the development of an autonomous fuel cycle capability, has been initiated in the early 1980s. One of its major objectives is to concentrate research and development in the gas centrifuge and laser methods of enriching uranium.<sup>371</sup> With successive delays in the execution of the nuclear cooperation with Germany, access to reprocessing technology has become extremely problematical. Since the late 1970s, it has become clear that a reassessment of the 1975 agreement is underway. Brazilian officials in the energy sector have stated that the government will make construction of nuclear plants compatible with resource availability and domestic energy requirements. West Germany, on the other hand, has declared that transfer of technology for all the phases of the fuel cycle be made conditional to the full-term execution of the 1975 accord. In view of that, Brazilian access to reprocessing, the critical issue in the mid-1970s controversy with the United States, may not be forthcoming in the near future. In recent times, Brazilian officials have stated that there is no need now for a reprocessing facility, since the nuclear program will need such a plant only after 1995.<sup>372</sup> In any renegotiation with Germany, Brazil would have considerable bargaining power, since worldwide decrease in

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371 Eneas Macedo Filho, "Pesquisa Nuclear Terá Cr\$ 10 bilhões em 83," *Jornal do Brasil*, 16 January 1983, p. 34. More recently, the government has announced that the enrichment plant, based on the German-supplied nozzle process, is scheduled to begin operation in 1985. The plant will produce enriched uranium at only 1% level. Because the process is costly and time consuming, no consideration is given now to raising the enrichment level to 3%, necessary for using in power reactors; also, no exports are foreseen in the near future. See "País Começa a Enriquecer Urânio em Fevereiro de 85," *Folha de São Paulo*, 6 November 1984, p. 13.

372 "Brasil Poderá Rever o Programa Nuclear," *DCI*, 15 December 1978, p. 8; "Nuclear: Prazos em Revisão," *DCI*, 27-29 January 1979, p. 4; "Ciclo Nuclear Só Com Quatro Usinas," *DCI*, 31 May 1979, p. 16; "CNEN Admite Novo Cronograma," *Jornal do Brasil*, 13 June 1979, p. 17; "KWU Acha Que Atraso em Usinas Retarda a Tecnologia," *Jornal do Brasil*, 13 January 1983, p. 24; and País Começa a Enriquecer Urânio em Fevereiro de 85," *Folha de São Paulo*, 6 November 1984, p. 13.

nuclear investments has badly affected West Germany's nuclear industry – which was particularly hurt by Iran's cancellation of its ambitious nuclear cooperation program with Germany.

Since 1978, domestic criticism of the nuclear agreement has mounted. Public debate on that controversial deal was stirred by disclosures in the Brazilian and German press of wrongdoings in the execution of the nuclear program and by a congressional investigation to assess such irregularities. Of significance were revelations of some particular features of the commercial contracts that attested to the quite advantageous conditions accorded to German interests. Among other things, they granted almost veto power over the decision of Nuclen, the nuclear engineering joint-company, to the German KWU, a minority partner in that company, of which Brazilian Nuclebrás' share is 75 percent, in addition to assuring significant participation of German industry in the supply of components for the nuclear power plants. Besides, not only would Brazil have to pay an over-price for the equipment and services supplied by the German companies, but much of that equipment could be produced in Brazil. In his testimony to the Senate, the head of Nuclebrás explained that commercial agreements were held confidential because their disclosure might endanger Brazilian-German common undertakings to export, in the future, nuclear equipment to Latin America. Nogueira Batista denounced the disclosure of that information as serving the interests of the superpowers to control the dissemination of nuclear technology and accused the United States and the Soviet Union of stimulating Brazilian opposition to the nuclear agreement. Press reaction was extremely critical of Nogueira Batista's "conspiracy theory," with a magazine suggesting that secrecy was a cover for bad business.<sup>373</sup>

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373 The text of the agreement of shareholders between the KWU and the Nuclebrás, signed in December 1975, for the constitution of Nuclen, first came to light in August 1979, published in the newspaper

The work of the congressional investigation in 1978-1980 also proved in depth the technical and economic unfeasibility of the 1975 nuclear agreement, revealed in the testimony of numerous scientists, representatives from industry, and even top officials of the government's energy sector. Noteworthy was the evidence that began to emerge as regards Brazil's actual hydroelectric reserves. Based on studies that state-owned Eletrobrás had been conducting since 1977, it pointed to a much different view of Brazil's hydroelectric potential than that upon which, in 1975, the government had based its decision to initiate a large nuclear-powered electric program with German cooperation. These studies indicated that hydroelectric potential is sufficient to meet domestic demand up to the year 2000. In fact, the government had underestimated Brazilian reserves, and overestimated future energy demand.<sup>374</sup> A widespread consensus including scientists, businessmen, representatives from the Catholic Church, and even governmental officials has been formed, calling for a scaling down of the Brazilian nuclear program and the renegotiation of the 1975 agreement, more in tune with Brazil's actual energy requirements and present economic difficulties.<sup>375</sup>

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*Gazeta Mercantil* of São Paulo. That issue was immediately confiscated by the police on orders from the Ministry of Justice. "Jornal Revela o Acordo Nuclebrás-KWU e É Apreendido," *Jornal do Brasil*, 23 August 1979, p. 20; "Nuclebrás Diz Que os Prejudicados É Que Atacam o Acordo," *Jornal do Brasil*, 7 September 1979, p. 20; "Nogueira Batista Acusa EUA e URSS de Boicotarem o Acordo," *Jornal do Brasil*, 13 September 1979, p. 24; Luiz Roberto Serrano, "As Explicações Secretas da Nuclebrás," *Isto É*, 12 September 1979, p. 101. Also, see Laercio Silva, "CPI Alterou Julgamento Sobre o Acordo Nuclear," *Jornal do Brasil*, 6 July 1980, p. 29; Mirow, *Loucura Nuclear*, pp. 100-13, 127-31; and Wesson, *The United States and Brazil*, p. 86.

374 This point has been emphatically raised by university professors and independent technicians. They have severely questioned the government's urgency in deploying a vast nuclear power program to meet electricity demand. See "Simpósio-Energia Hidroelétrica: Avaliação e Perspectivas," Special Issue on Energy, *Boletim SBF*, nº 4, 1977, pp. 15-54; Sociedade Brasileira de Física, "Simpósio Nacional de Energia, 'Energia Elétrica,'" Rio de Janeiro, vol. 1, March 1978; and Krugmann, "The German Brazilian Nuclear Deal," pp. 32-34.

375 "Ermiro: Rever Acordo Nuclear," *DCI*, 7-9 October 1978, p. 16; "Antonio Carlos Diz na CPI Que Programa Nuclear Precisa Ser Revisto e Readaptado," *Jornal do Brasil*, 1 November 1978, p. 19;

A scale-down of the Brazilian nuclear program was in fact underway, caused by a combination of Brazil's balance-of-payments situations, rising foreign indebtedness, lowering of energy consumption, and skyrocketing costs of nuclear energy. Furthermore, the nuclear program, which also includes a Westinghouse-supplied nuclear power reactor, Angra I, has been beset by all kinds of difficulties, ranging from site-related problems for the nuclear reactors; a handful of technical problems and serious mismanagement that delayed the construction of Angra I for more than eleven years; and a total failure of the training program envisaged in the German-Brazilian cooperation.<sup>376</sup>

Although General João Figueiredo (1979-1985) announced, at the beginning of his Presidential term, the government's determination to execute the terms of the German-Brazilian agreement, Brazil's increasing economic hardships caused a virtual freezing of nuclear reactor construction. In 1983, the decision was taken to postpone, for an unlimited period of time, the deployment

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"Saturnino Rotula Acordo Nuclear de Megalomania," *Jornal do Brasil*, 2 November 1978, p. 17; "Cotrim Propõe na CPI Nuclear Revisão de Prazo do Programa," *Jornal do Brasil*, 28 March 1979, p. 20; "O Grande Debate Nuclear," *DCI*, 4 April 1979, p. 16; "CNI Quer Rever Nuclear," *DCI*, 8 May 1979, p. 16; "Plano 90 da Eletrobrás Pede Reexame do Programa Nuclear," *Jornal do Brasil*, 14 May 1979, p. 15; and "Brasil Não Precisa de Energia Nuclear até 2000," *Jornal do Brasil*, 13 June 1979, p. 17. Even those that once held top positions in Nuclebrás have questioned the wisdom of the 1975 agreement. See articles by former Director of Nuclen, the Nuclebrás subsidiary, Joaquim Francisco de Carvalho: "Transferência de Tecnologia e o Acordo Nuclear Brasil-Alemanha," *Jornal do Brasil*, special section, 14 September 1980, p. 5; and "As Premissas e Desatinos do Acordo Nuclear," *Jornal do Brasil*, special section, 14 March 1982, p. 2.

376 Angra I was originally scheduled to begin operating in 1977, but was inaugurated only in 1982. Of the eight nuclear plants envisaged in the agreement with Germany, only the first, Angra II, has been initiated albeit its construction has proceeded in a very slow pace. A top official of Nuclep, Nuclebrás' heavy parts fabricating plant subsidiary, admitted that the government sought to "burn stages" by recruiting mostly Brazilians of German descent to be trained in Germany. Lacking a large pool of talent from which to recruit, the training program has selected mostly inexperienced people. That program has been so poorly executed that, had the implementation of the 1975 agreement proceeded at its original schedule, Brazil would seriously lack adequately trained manpower for running it. Henrique Gonzaga, "A CPI Visita Angra e Acha uma Bomba," *Isto É*, 18 April 1979, p. 17; and Therezinha Costa, "Milhões pelo Ralo," *Veja*, 19 January 1983, pp. 74-75.

of the third and the fourth nuclear power plants foreseen in the 1975 agreement, and to delay for one year the construction work on Angra II and Angra III, the first two plants within the framework of that accord. A year later, budgetary restrictions forced Nuclebrás to postpone the beginning of the construction of Angra III.<sup>377</sup>

By the early 1980s, the 1975 agreement had lost its appeal for even its strongest earlier supporters: the military. The decision to initiate an alternative nuclear program, outside the framework of the German deal, indicates, from the standpoint of the military, the failure of the “agreement of the century” to meet Brazil’s goals of nuclear self-sufficiency. In 1975, through the accord with Germany, Brazil had sought to develop, simultaneously, an independent full nuclear fuel cycle capability and an advanced nuclear power industry. In the late 1970s, a decision was taken to separate those two undertakings: the 1975 agreement would be geared mainly to the fulfillment of commercial objectives and energy needs, and a separate program would be initiated to develop indigenous capability in fuel cycle technology. It was expected that the completion of a long process of acquisition of know-how and manpower training, initiated at that time, would give Brazil by 1990 total technological independence in the fuel cycle.<sup>378</sup> Although the nuclear-powered electric program has been badly hurt by growing economic problems, the alternative program seems to have proceeded steadily.<sup>379</sup>

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377 “Brasil Não Abre Mão do Acordo Nuclear com Alemanha,” *Jornal do Brasil*, 4 April 1979, p. 4; “Desacordo Nuclear,” *Veja*, 19 January 1983, pp. 72-73; Wilson Thimóteo, “Adiamento de Usinas em SP Paralisa Programa Nuclear,” *Jornal do Brasil*, 16 October 1983, p. 17; and “Corte no Orçamento Faz Nuclebrás Adiar Angra 3,” *Jornal do Brasil*, 5 January 1984, p. 16.

378 Eneas Macedo Filho, “Pesquisa Nuclear Terá Cr\$ 10 Bilhões em 83,” *Jornal do Brasil*, 16 January 1983, p. 34.

379 The decision to scale down the execution of the 1975 agreement has been aimed mostly at its nuclear-power electricity component. The postponement of power plants has not affected the uranium enrichment plant, scheduled to begin operation in 1985. “Corte no Orçamento Faz Nuclebrás Adiar Angra 3,” *Jornal do Brasil*, 5 January 1984, p. 16; and “País Começa a Enriquecer Urânio em Fevereiro de 85,” *Folha de São Paulo*, 6 November 1984, p. 13.

The alternative nuclear program, totally independent of the Bonn-Brasília nuclear agreement, is being undertaken under the supervision of the Navy and the Air Force. The Navy program aims to build a prototype of a nuclear reactor to be used in submarines and to develop the gas centrifuge method of enriching uranium. Research and development is being conducted at the Energy and Nuclear Research Institute (IPEN or Instituto de Pesquisas Energéticas e Nucleares), a civilian research institute subordinate to the National Atomic Energy Commission (CNEN), which has been working mostly with military-type classified projects. The Air Force's nuclear activities, which have the collaboration of the Army, are being developed at the Aerospace Technical Center (CTA or Centro Técnico Aeroespacial), in São José dos Campos, São Paulo. There, approximately three hundred military and civilian researchers – physicists, engineers, mathematicians, and chemists – are working, in CTA's Institute for Advanced Studies, on three projects being developed simultaneously: a laser method of enriching uranium, the fabrication of a fast-breeder reactor fueled with thorium, and the assembly of an electron linear accelerator. Such complex military endeavors to gain nuclear self-sufficiency are complemented by a modernization program in the naval industry and the development of a quite advanced aerospace program, the latter being developed at CTA's Institute of Space Activities.<sup>380</sup> For a period of time, the government systematically

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380 Roberto Godoy, "Brasil Decide em 1990 se Terá a Bomba," *O Estado de São Paulo*, 9 December 1983, p. 5; Eneas Macedo Filho, "Brasil Terá Submarino Atômico até 91," *Jornal do Brasil*, 16 January 1984, p. 16; idem, "Brasil a Partir de 1990 Poderá Ter Bomba Atômica," *Jornal do Brasil*, 22 January 1984, p. 13. Information supplied by *O Estado de São Paulo* and the *Jornal do Brasil* came from quite reliable sources, including: five high-ranking officials of the Army, the Navy, and the Air Force, directly or indirectly linked to the nuclear research and the definition of its strategic conception; a Director of CNEN and an area-Director of IPEN. Also, see Eneas M. Filho's interview with Admiral Maximiano da Fonseca, at that time Figueiredo's Naval Minister, in *Jornal do Brasil*, 22 January 1984, p. 13.

denied the existence of an alternative program. Since late 1983, however, information on such endeavors has been released to the press through civilian and military sources. Such a change in the government's behavior may have some connection to Argentina's announcement, in late 1983, that the country has gained control over the gaseous diffusion process for enriching uranium, closing, so to speak, the full nuclear fuel cycle.<sup>381</sup>

### 3.6 Brazil's Strategic-Geopolitical Motivations

The existence of such an alternative military program raises the issue of the strategic-geopolitical motivations for the 1975 agreement. The Brazilian government has emphatically denied any weapons-related motivation for that decision, arguing, instead, the country's increasing energy requirements and its vulnerability to foreign sources of fuel.<sup>382</sup> Whether or not strategic-geopolitical motivations played a significant role in pushing Brazil to sign the nuclear agreement with Germany, that option clearly failed to give Brazil full nuclear capability, not to speak of a military one. As this case study illustrates, dissemination of sophisticated technology, such as nuclear, is highly restricted, despite the commercial competition among suppliers and the inclusion of market-penetration "sweeteners" in nuclear sales. Furthermore, as a scientist has pointed out, "why the transfer of nuclear know-how is hardly apt to lead to technological self-sufficiency is that the movement is from German companies to Brazilian companies."<sup>383</sup>

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381 Compare, e.g., Maximiano da Fonseca's interview to the *Jornal do Brasil*, in 1984, with his declarations to that same newspaper a year and a half before, in "Maximiano Diz Que Brasil Não Pensa em Arma Atômica," *Jornal do Brasil*, 13 July 1982, p. 17.

382 The official justification for the Bonn-Brasília accord are laid down in Brasil, *O Programa Nuclear Brasileiro*, pp. 7-11.

383 Krugmann, "The German-Brazilian Nuclear Deal," p. 34. A KWU top-executive put the issue of technological transfer with blatant candor, when questioned on that subject: "Afterall we are a commercial enterprise, not a university." Quoted in Oscar Pilagallo Filho, "Descaso com a Tecnologia Nuclear," *DCT*, 29 September 1978, p. 8.



The large scope of the Bonn-Brasília nuclear deal, plus its lack of justification, on economic and energy grounds, have been seen as pointing out the existence of geopolitical reasons for signing it. If such was the un-avowed motivation for signing it, the actual decision was based on a faulty technological conception, since, as nuclear experts have argued, to gain nuclear weapons capability Brazil would not have had to embark on a vast program, such as that envisaged in the 1975 accord, but could have done so with a small, less costly, research-oriented program.<sup>384</sup> In fact, the military did just that when they realized that the agreement with Germany would take them nowhere as far as their nuclear aspirations were concerned. Such an assessment has been the major driving force for starting an alternative nuclear program.

That there existed strategic motivations can possibly be better ascertained by considering Brazil's position vis-à-vis the NPT. We argued in the previous chapter that free riding the non-proliferation regime had been a rational choice for Brazil, given the structure of incentives of the NPT regime, and Brazilian nuclear aspirations. Indeed, the 1975 accord constitutes a confirmation of what we have indicated. After all, the "agreement of the century" had been signed with a non-party to the NPT. After the Indian blast and the formation of the NSG, however, there occurred a perceptible change in the structure of incentives of the regime. Now, decisions on nuclear transfers would be based on an agreement, albeit a loose one, among a small group of suppliers and enforced upon members and non-members of the NPT alike. Indeed, the safeguards that Brazil had to accept amounted to a compliance, *de facto*, with the full-scope safeguard clause, although Brazil is not a party to the NPT. On the other hand, had Brazil joined the

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384 See observations of nuclear physicist Rogério Cerqueira Leite in Carlos Alberto Sardenberg and José Meirelles Passos, "As Usinas e o Medo," *Isto É*, 16 June 1980, p. 17.

NPT in 1975, when it signed the accord, it could have avoided most of the ensuing politico-diplomatic battle over that deal. In more recent years, the widening of the suppliers' agreement concept in the direction of an informal mechanism of consultation among key suppliers and recipient nations has increased the incentives for countries outside the NPT with plans to develop large civilian nuclear programs to join the regime. These countries may find themselves in a situation similar to that faced by the smallest firms in an industry that specializes in a narrow set of products. As George Stigler puts it, "If they are not represented in the coalition [of that industry] they may find that their cheap ride is to a destination they do not favor."<sup>385</sup> Although the concept of such informal consultation mechanisms has not been fully worked out yet, indications are that the trade-off offered by participation in that relatively closed nuclear decision-making framework will be a formal assurance of having renounced the goal of nuclear-weapons capability.<sup>386</sup> Therefore, by remaining outside the NPT regime, despite changes in the regime's structure of incentives, Brazil indicates that it is willing to incur whatever costs may be forthcoming to keep its nuclear options open, for the eventuality that, if it so decides, it may deploy a military nuclear program.

Indeed such an eventuality is not discarded in military strategic thinking. According to that view, the country is foremost committed to gaining autonomous capability in the nuclear field. It will not take the initiative to be the first to deploy nuclear

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385 George J. Stigler, "Free Riders and Collective Action: An Appendix to Theories of Economic Regulation," *Bell Journal of Economics and Management Science* 5 (Autumn 1974): 362. Stigler restates the free rider problem as a cheap-rider problem. He argues that when "the frequent or typical asymmetry in the interests of different enterprises in an industry" are taken into account, "the individual incentives of many enterprises to participate in joint ventures are substantial." *Ibid.*, p. 369.

386 For a defense of the formation of such informal consultation mechanisms among key suppliers and recipients, see Lellouche, "International Nuclear Politics," pp. 348-50.

weapons, but it will not renounce the goal of achieving full control of all aspects of the nuclear technological process, including those of a military nature. Whether such capability will be used for military weapons purposes, will depend fundamentally on a political decision to do so.<sup>387</sup> The decision to proliferate will depend on a combination of internal and external factors. As far as proliferation-inducing external factors are concerned, the decision will depend, ultimately, on how the regional security environment evolves in the future. Most analysts agree that Brazil and Argentina face a relatively more tranquil security environment than other areas of regional tension in the Third World, and that the costs of deploying nuclear weapons may outrun the benefits to either country.<sup>388</sup> In both cases, a nuclear weapons option would have primarily a defensive-deterrent purpose, and both fear becoming caught in some form of coercive diplomacy, and advantage which would accrue to the first to acquire a nuclear weapons capability. That advantage, however, tends to be lost soon, as the other side catches up, thus triggering a process of escalation with negative consequences for both. Wise statesmanship on both sides can prevent both from being caught in such a Prisoner's Dilemma situation, typical of any arms race.<sup>389</sup>

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387 Roberto Godoy, "Brasil Decide em 1990 se Terá a Bomba," *O Estado de São Paulo*, 9 December 1983, p. 5. Apparently, the Brazilian nuclear arsenal would include strategic and tactical weapons, such as a version of the North American MRBM (Medium Range Ballistic Missile), armed with a nuclear artifact of approximately 20 to 30 kilotons; a rocket, similar to the Soviet SS-1 Scud, with a nuclear warhead of 12 kilotons; and a 155 millimeter atomic cannon, in addition to a nuclear submarine, armed with heavy torpedoes and missiles. See *ibid.*

388 Courtney, "Nuclear Choices for Friendly Rivals," p. 274.

389 Courtney, "Nuclear Choices for Friendly Rivals," suggests that since both countries see their nuclear forces primarily as strategic deterrents, even if they do decide to deploy nuclear weapons, they "could be expected to place great stress on enhancing stable deterrence. ... Nuclear arms control negotiations between the two countries would therefore seem an attractive option." *Ibid.*, p. 277.

### 3.7 Concluding Remarks

The case study of the 1975 nuclear agreement can be seen as a paradigmatic example of the dual autonomy-vulnerability nature of a semi-peripheral country foreign policy. The deal constituted the riskiest decision of Geisel's pragmatic foreign policy; it challenged the evolving norms of the non-proliferation regime, and proved that Brazil could sustain its determination to acquire sensitive technology in spite of strong pressure from the United States to do otherwise. Brazil's weaknesses, however, are revealed when we move from the diplomatic policy-contingent framework to the commercial and technological ones. The "agreement of the century" was flawed, as far as Brazilian nuclear aspirations were concerned. Although the German-Brazilian agreement was a breakthrough in the history of nuclear cooperation between the First and the Third Worlds, on balance, it remains a model more likely to be rejected than repeated. Thus, the study illustrates the basic fallacy of most power capability analyses in inferring that power resources can be transferred from one issue area to another.

The study also suggests a distinctive effect of domestic and external factors over Brazilian nuclear policy. While external factors account for the failure to achieve nuclear self-sufficiency, they do not explain why the decision was taken to buy a complete and finished nuclear package from abroad, instead of embarking on a long-term research and development domestic program that would gradually bring about the long coveted nuclear independence. Actually, the latter has been the path followed by India and Argentina, and they have met with a great deal of success. External factors, therefore, accounted for the policy outcome, but not for the policy itself. To understand why Brazil chose a different model from India and Argentina, we have to look mainly at domestic determinants. The explanation for the type of decision

lies in the combined effect of two factors: Brazil's late-comer status in the nuclear scene, an outcome of its inconsistent course of nuclear policy over the years, and the military government's haste to "burn stages" in the nuclear field. The perverse combination of these two elements ruled out the Indian-Argentine model for nuclear development, and caused Brazil to seek to get at once, in a single package, technology, equipment, and service. The German agreement thus appeared as a ready-made solution for bridging Brazil's nuclear gap in a short period of time. A country in which nuclear diplomacy had systematically denounced the nuclear powers' attempt to prevent the dissemination of science and technology had been naïve enough to believe that it could obtain such know-how from abroad, without any large-scale effort to develop it at home.<sup>390</sup>

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390 For a quite perceptive appraisal of the government's (mis)conception of the technological problem, see Rogério Cerqueira Leite, "Reinventando a Roda," *Jornal do Brasil*, special section, 4 December 1983, p. 5. The reasons for Brazilian failure, as opposed to Argentine success, are discussed in *ibid.*, and Marcelo Damy de Souza Santos, "Porque no Brasil Não Deu Certo," *Jornal do Brasil*, special section, 4 December 1983, p. 5; and José Goldemberg, "Duas Vezes Independente," *Jornal do Brasil*, special section, 18 December 1983, p. 2.



#### **4. TRADE DIPLOMACY: BRAZIL AND THE “COALITION OF THE WEAK”<sup>391</sup>**

The purpose of this and the following chapter is to analyze two more of the six behavioral patterns that, according to our model, characterize the performance of a semi-peripheral country in international affairs. The issue area of trade provides the domain of international behavior according to patterns V and VI, wherein an actor's participation in a collective endeavor, or in the provision of a collective good, is predicated on the existence of either selective incentives – private benefits accruing to that actor – or sanctions threatened or imposed by other actors to obtain compliance.

This chapter examines Brazilian activism on behalf of the trade-related demands of less developed countries (LDCs) in North-South negotiations, first in the United Nations Conference on Trade and Development (UNCTAD), and later in the General Agreement on Tariffs and Trade (GATT). In both instances that

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391 The expression was used by Robert L. Rothstein, “Regime-Creation by a Coalition of the Weak: Lessons from the NIEO and the Integrated Program for Commodities,” *International Studies Quarterly* 28 (September 1984): 307-28.

we analyze in detail, duty-free treatment for LDCs' exports and market access for their industrial products, the outcomes were likely to be more beneficial to the more advanced developing countries, such as Brazil. Furthermore, Brazil's trade imperatives account for the changing locus of its trade diplomacy activism from UNCTAD to GATT. In fact, Brazilian international behavior has been aimed largely at acquiring new economic opportunities for the country, in this particular case, access to foreign markets. Since the late 1960s, economic imperatives have been the main force behind foreign policy orientations, with the exception of the period immediately following the military coup of 1964, when foreign policy considerations of a political nature became a conditioning factor in Brazilian trade diplomacy. By contrast, in the case of a superpower such as the United States, political and security considerations largely set the parameters for international economic policy.

#### **4.1 UNCTAD: "The Coalition of the Weak"**

The demand for a revision of the international economic order to lessen the disadvantages of the LDCs was first placed on the United Nations' agenda in the early 1960s, chiefly through the organized effort of those countries which felt themselves excluded from the post-war growth that had benefited the developed, advanced market economies. Having almost no weight in the major multilateral economic agencies, they regretted that their interests were not given due account in the deliberations of those agencies. Therefore, they sought changes in the rules and procedures of the various existing economic regimes – trade, commodities, monetary – which would ensure more equitable outcomes for the LDCs.

In any asymmetrical power relationship, non-hegemonic actors cannot impose their views on the more powerful actors, but they can exercise negative power, if they possess something



valuable that they can deny to the latter, at an acceptable cost to themselves. The convening of UNCTAD in 1964, the first major international conference organized around North-South rather than East-West lines, resulted both from a shift in the voting power within the United Nations, brought about by the decolonization process, and from the dynamics of the East-West cleavage, which gave the LDCs the ability to exercise some form of negative power. With the thaw of the Cold War, that sort of negative power vanished.

The emergence of newly independent states in world politics and their admission to the United Nations in the early 1960s eroded the voting power of the developed countries in the United Nations, enabling the LDCs to form a dominant majority on economic and social issues. The sheer power of numbers was sufficient incentive for the Third World countries to minimize their internal differences and arrive at a common position vis-à-vis the developed countries. The formation of the Group of 77, the LDC caucus within UNCTAD, represented a pragmatic solution for the developing countries to overcome their internal differences in terms of social and political organization and level of economic development.<sup>392</sup>

By itself, the pressure from the Third World was not sufficient to account for the convening of UNCTAD I, against the wishes of the United States and the most advanced capitalist countries. Such pressure was effective because it intermingled with the East-West cleavage. In fact, it had been the Soviet Union which first had called for the convening of an international economic conference on trade problems and the creation of a world trade organization

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392 For a detailed account of the origins of the UNCTAD, see Diego Cordovez, "The Making of UNCTAD, Institutional Background and Legislative History," *Journal of World Trade Law* 1 (May/June 1967): 243-328; and Branislav Gosovic, *UNCTAD: Conflict and Compromise* (Leiden: A. W. Sijthoff International Pub. Co., 1972).

within the framework of the United Nations.<sup>393</sup> The Soviet bloc's major concern was to discuss East-West trade, but as the initiative for an international conference passed to the LDCs, the Eastern European countries added their support for such an endeavor. Thus, to preclude the Soviet Union from reaping political benefits that would ensue from a tactical alliance with the LDCs, the Western bloc finally accepted the idea of holding an international conference on trade and development.<sup>394</sup> Although the developed capitalist countries opposed giving a concrete negotiating role to UNCTAD, a successful outcome of the 1964 conference for the LDCs was the establishment of the continuing machinery of UNCTAD. There existed, however, a common interest between the two groups of countries in playing down the issue of East-West economic relations, much to the Soviet bloc's regret. The capitalist developed states, led by the United States, opposed any change in the prevailing trade norms under GATT and feared that Soviet initiatives might disrupt such trade arrangements. Third World countries, on the other hand, feared that East-West trade matters might divert the attention given to their particular economic problems. Therefore, UNCTAD assumed from the beginning a clear North-South configuration, in which the major contenders were on the one side, the capitalist advanced countries, and on the other, the Third World countries. The Eastern Europeans, although supportive of some of the demands of the LDCs, have

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393 The Soviet proposal had been presented in 1956. In 1961, the African and Latin American countries presented specific resolutions calling for practical action in the field of world trade. The African countries took the lead in pressing for an international conference, with the Latin countries adopting a more moderate position. Cordovez, "The Making of UNCTAD," pp. 255-58; and Gosovic, *UNCTAD: Conflict and Compromise*, pp. 15-17.

394 Joseph S. Nye, "UNCTAD: Poor Nations' Pressure Group," in *The Anatomy of Influence – Decision Making in International Organizations*, eds. Robert W. Cox and Harold K. Jacobson (New Haven: Yale University Press, 1973), p. 335. Gosovic, *UNCTAD: Conflict and Compromise*, observes that "the American policy makers, under the prodding of Adlai Stevenson, came to realize that by continued opposition they would only play into Russian hands and embitter the developing countries," p. 18.

maintained a low profile in UNCTAD in particular and in North-South negotiations in general. The Soviet Union and its allies have contended that underdevelopment is mostly a problem of the capitalist world, arguing that since the socialist bloc is not responsible for the problem, it should not be a part of the solution.

The cornerstone of Third World proposals presented at UNCTAD was that all countries were not economically equal and therefore the rules of international trade should reflect the existing of such inequality among nations. As the economic order was made up of units having substantially different economic capability and bargaining power, the argument goes, LDCs had fared badly under the liberal principle of equality of treatment upon which the post-war order had been based, since equality of treatment is truly equitable only among equals. Therefore, a "dynamic international trade policy" was required, which would take into account the disadvantaged position of the LDCs in the international division of labor, providing for compensatory measures in such areas as export of manufactured goods, commodity policies, financing and aid, and invisible trade, particularly shipping.<sup>395</sup>

Gosovic points out that those proposals were both "redistributive" and "innovative," that is to say, they aimed to change existing world economic relationships in favor of the LDCs, but those changes would benefit the developed economies in the long run as well.<sup>396</sup> The idea that the change sought involved some kind of reciprocity, albeit an indirect one, was clearly articulated

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395 The theoretical foundation for Third World proposals rested on the notion of an unequal distribution of the benefits of technical progress between the center and the periphery, and the concept of trade gap between the two poles, as developed by Raúl Prebisch's theory of the periphery's deteriorating terms of trade vis-à-vis the center. Prebisch became UNCTAD's first secretary-general and his report *Towards a New Trade Policy for Development* provided the basis for LDC proposals. See United Nations, *Proceedings of the United Nations Conference on Trade and Development, Geneva, 23 March-16 June 1964*, vol. 2: *Policy Statements* (New York, 1964), pp. 5-64.

396 Gosovic, *UNCTAD: Conflict and Compromise*, pp. 320-21.

on the issue of improved access for Third World exports, and the demand for changing the rules of the trade system. The basic characteristic of the tariff regime negotiated among developed countries within the framework of GATT is the escalation of tariffs from the lower to the higher stages of processing. This pyramid tariff structure in the developed markets, in which duties on crude raw materials are low, rising as one goes from simply processed forms to finished manufactured products, had the effect of discouraging local processing of raw materials in Third World countries. On the other hand, protectionist pressures in the developed countries had affected the sectors in which Third World exports held a comparative advantage, mainly agricultural and labor-intensive products, such as textiles and apparels. Thus, trade liberalization negotiations within GATT had excluded exactly those products of export interest to developing areas. Therefore, it was argued, preferential conditions of access and the removal of barriers to imports from developing countries “would help to promote an export-oriented outlook of the industrialization efforts.” Furthermore, the developed countries would also benefit from such endeavor, namely, “the increased earnings from industrial exports would enhance the import capacity of developing countries and thereby promote exports by developed countries.”<sup>397</sup> Thus, in the early days of UNCTAD, the LDCs’ redistributive demands carried a positive-sum element, whereas in more recent times North-South negotiations have tended to assume a more clear-cut zero-sum confrontation. Actually, it has been argued that “the period up to 1973 was... characterized by a

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397 “A System of Preferences for Exports of Manufactures and Semi-Manufactures from Developing to Developed Countries,” Report by the UNCTAD secretariat, in United Nations, *Proceedings of the United Nations Conference on Trade and Development, Second Session, New Delhi, 1 February-29 March 1968*, vol. 3: *Problems and Policies of Trade in Manufactures and Semi-Manufactures* (New York, 1968), p. 10.

growing, but *still manageable*, ideological and political disharmony between the politically influential countries of the South and the North."<sup>398</sup>

Who were the "influentials" within the Southern camp in the 1960s? According to studies of UNCTAD, leadership within the Group of 77 tended to follow regional lines, and leadership within each regional group was a function of a country's economic strength and size, as well as the personality attributes of a country's representative. States singled out in their respective regional groups were: Brazil and Chile in Latin America; Algeria, Ghana, Nigeria, and the United Arab Republic in the African group; and India, Pakistan, the Philippines, and Yugoslavia in the Asian group.<sup>399</sup> The more developed states within the Group of 77 had the advantage over the other LDCs of superior organizational capabilities with which to bolster their negotiating ability. A crucial organizational asset was having a permanent representation in Geneva, where the UNCTAD secretariat is located, allowing a country to follow the workings of the organization on a continuous basis. In the early days of UNCTAD, the majority of the Latin American and the Asian countries had permanent delegations in Geneva, whereas less than one third of the African states did. The least developed also tended to exhibit a high turnover of personnel in their delegations, an outcome of the low degree of professionalism of their diplomatic services. Another significant leadership resource was whether a country had a policy on the issue under consideration. In general,

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398 Jagdish N. Bhagwati, "Rethinking Global Negotiations," in *Rethinking Global Negotiations – A Statement on North-South Economic Strategy* (New York: International Economics Research Center, Columbia University, Current Policy Papers, n° 1, January 1983), p. 13 (emphasis in the original). Rothstein, "Regime-Creation by a Coalition of the Weak," suggests that "there were both positive-sum and zero-sum elements in these [NIEO] negotiations, but excessive politicization insured that the latter would dominate," p. 317.

399 Gosovic, *UNCTAD: Conflict and Compromise*, pp. 276-79.

the more developed a country the larger the range of issues that concerned it, in contrast to the smaller countries that generally had fewer issues of interest. Accordingly, smaller countries tended to concentrate their negotiating efforts on specific substantive questions of their most direct interest, as for example Afghanistan and Bolivia on landlocked countries, whereas countries such as Brazil, Chile, India, Yugoslavia, and Nigeria tended to initiate both specific substantive issues and general questions, involving substantive and procedural matters. In general, the initiatives at UNCTAD tended to come from the LDCs, with the advanced market countries and the Eastern Europeans adopting a defensive posture. The more developed in their respective regional groups within the 77 tended to take successful initiatives on important issues more frequently.<sup>400</sup> Although there does not appear to exist a perfect correlation between economic strength and leadership within the LDCs' caucus, the evidence presented above suggests that the leading countries within the Southern camp in the early days of UNCTAD tended to be the bigger and more developed countries in their respective regional groups.

This fact might account for UNCTAD's role during the mid-1960s, as the leading agent in prying out new export opportunities for LDCs, in both primary and manufactured products, and in identifying the chief barriers to increases in such exports. The more industrialized LDCs, which had previously adopted inward-looking strategies of growth based on import substitution, were facing diminishing returns in the 1960s from such a model of development. Indeed, Prebisch and ECLA thinking, the main intellectual force for import substitution policies in the South, had become increasingly critical of import substitution for countries at a certain stage of maturity. In the economic thinking prevalent

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400 Nye, "UNCTAD: Poor Nations' Pressure Group," pp. 338-39, 352-53, 357-58.

in developing countries at that time there was a consensus that import substitution tended to wear itself out as the main stimulus of industrial growth once countries achieved a certain stage in their industrialization process. Export of manufactures was thus foreseen as one possible avenue for growth, the others being expansion of the domestic market and regional integration of the import-substitution process to increase the rate of growth in the periphery. The debate of the late 1940s and early 1950s as to the best strategy of economic development based either on export expansion or import substitution, stirred by Prebisch's earlier writings, is set down in the following remark from a report by the United Nations CTAD secretariat, in which a strong case is made for trade liberalization measures in favor of LDCs:

*Under the present conditions of access, developing countries tend to adopt inward-looking industrialization policies. In many cases, in particular at early stages of development, such policies may be difficult to avoid. However, beyond the stage of simple consumer goods which may be sustained by the home market, import-substitution policies tend to become progressively more costly. The removal of trade barriers facing developing countries would help to promote an export-oriented outlook on the industrialization efforts.*<sup>401</sup>

The influential role of the more industrialized Southern nations thus accounted for the salience accorded to the issue of better access for the LDCs' exports in Northern markets, and

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401 "A System of Preferences for Exports of Manufactures and Semi-Manufactures from Developing to Developed Countries," p. 10. The Joint Declaration of the Developing Countries, issued in November 1963, setting the Third World's UNCTAD guidelines, asserted that "international trade could become a more powerful instrument and vehicle of economic development," pointing out three broad objectives to be achieved through UNCTAD: increase in the volume of Third World trade and diversification of their export composition; stabilization of the prices of their commodity exports "at fair and remunerative levels"; and "more favorable conditions for international transfer of capital." Quoted in Gosovic, *UNCTAD: Conflict and Compromise*, p. 26.

particularly to the demand for preferential tariff treatment, under the Generalized System of Preferences (GSP) for manufactured and semi-manufactured products. Agreement by the advanced market countries to introduce schemes of generalized tariff preferences to benefit the developing countries is considered to be the main accomplishment of UNCTAD, mainly for its symbolic value.<sup>402</sup> Under the GSP, tariff preferences for manufactures and semi-manufactures were to be granted on a non-reciprocal and non-discriminatory basis in favor of developing countries. The GSP thus represented a departure from the Most-Favored-Nation (MFN) and the reciprocity principles, the cornerstones of the GATT regime; hence the symbolic value of its acceptance by the United States, a fierce opponent of departures from the MFN. At the time of the negotiations of the GSP, there were other preferential trade arrangements in operation among the European countries, and between them and their former colonies. In fact, the United States dropped its initial opposition to the GSP in an effort to counter what was considered a rising trend towards trade regionalization. It should be noted, however, that preferences were given on a temporary basis only. Furthermore, the abandonment of the principle of reciprocity did not come free. The price to be paid by the developing countries was the adoption, by the countries given preference, of safeguard measures designed to prevent “undue market disruption.”

GSP was introduced in UNCTAD I, but met with the opposition of the United States. In 1967, the United States changed its position on GSP, clearing the way for its acceptance at UNCTAD II,

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402 The following areas were singled out by UNCTAD's officials as representing the principal accomplishment of the organization in the 1960s, in order of importance: GSP, shipping, promotion of Third World development, volume of aid, and relative impact on GATT and other multilateral agencies. Robert S. Walters, “UNCTAD: Intervener Between Poor and Rich States,” *Journal of World Trade Law* 7 (September 1973): 529-41.



although substantial disagreement remained between developed and developing countries concerning particular provisions. In June 1971, the contracting parties to GATT agreed to a ten-year waiver to the MFN principle for trade under the GSP provisions, setting the stage for the implementation of various GSP schemes.<sup>403</sup>

## 4.2 From Globalization to Unconditional Alignment

In the early 1960s Brazil's Third World activism was at its highest. The country had been one of the most outspoken proponents of the LDCs' demands for changes in the international economic order, and took an active part in the elaboration of the agenda for the first UNCTAD. At the regional preparatory meetings, Brazil strove for the unity and cohesion of the Latin America bloc in support of decisive resolutions at the conference. Third World solidarity constituted a major tenet of the "independent foreign policy" of those years which, questioning the traditional orientation of strict alignment with the United States, sought instead to globalize Brazil's international relations.<sup>404</sup> The military coup took place in Brazil while the conference was in progress in Geneva. With military rule, there was an immediate revival of cold war rhetoric,

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403 As the major donors could not agree to a uniform scheme, regulation of the GSP was left to each preference-giving country. There are several distinct schemes that differ along the following lines: the list of beneficiaries, product coverage, and safeguard provisions. Austria, the European Economic Community (EEC), Ireland, Japan, New Zealand, the Scandinavian countries, Switzerland, and the United Kingdom enacted GSP schemes between July 1971 and April 1972. In 1973 Canada and the United States introduced GSP proposals into their legislative bodies. The US GSP was authorized under the Trade Act of 1974. For a detailed study of GSP, see Tracy Murray, *Trade Preferences for Developing Countries* (New York: John Wiley & Sons, 1977). The discussion of GSP in UNCTAD I and II is traced in Gosovic, *UNCTAD: Conflict and Compromise*, pp. 65-92.

404 For an account of Brazil's role in the preparatory workings for UNCTAD, see Keith L. Storrs, "Brazil's Independent Foreign Policy, 1961-1964: Background, Tenets, Linkage to Domestic Politics, and Aftermath" (Ph.D. dissertation, Cornell University, 1973), pp. 345-59. Also, see Brasil, Ministério das Relações Exteriores, Secretaria Geral Adjunta para Assuntos Econômicos, *I Conferência das Nações Unidas sobre Comércio e Desenvolvimento, Genebra de 23 de março a 16 de junho de 1964*, vol. 1: *Instruções e Primeira Parte do Relatório da Delegação do Brasil* (Rio de Janeiro, 1964), pp. 18-28.

and “unconditional alignment” with the United States was selected as the major principle to guide Brazilian foreign policy from then on. Third World solidarity was downgraded, as the strong desire of the new regime to resume friendly relations with the United States dictated a policy of dissociation from the “pressure tactics” of Third World politics.<sup>405</sup> At UNCTAD, previous Third World activism having vanished, Brazil adopted instead a more moderate stance, particularly on highly political issues such as institutional matters. In general, the Brazilian delegation eschewed leading positions, instead being involved either in substantive issues which would accrue benefits to Brazilian interests, or those in which Brazilian interests were at stake, such as the question of special measures in favor of the LDCs.<sup>406</sup>

Brazil did, however, subscribe to the joint declaration of the Group of 77 issued at the conclusion of the conference, but abstained on three of the fifteen general principles of the Final Act adopted by the Geneva conference. The Final Act constituted the LDCs’ platform for changes in the international economic order. It was strongly supported by the socialist bloc but not endorsed by many advanced capitalist states, which either voted against or abstained on the majority of the Final Act’s recommendations. Brazil’s abstention votes concerned elimination of barriers against LDC primary products and stabilization of commodity prices; preferential tariff and non-tariff concessions to the LDCs,

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405 Brazil now was so eager to disassociate itself from Third World pressure tactics, in UNCTAD and other international forums, that, at the United Nations Eighteen-Nation Disarmament Committee in 1964, it conveyed a specific interpretation of the concept of “non-aligned states” to indicate “States which do not belong either to NATO or to the Warsaw Pact and to refer only to the participation of Brazil in the Eighteen-Nation Disarmament Committee.” Quoted in Mohamed I. Shaker, *The Nuclear Non-Proliferation Treaty – Origin and Implementation, 1959-1979*, vol. 1 (New York: Oceana Publications, 1980), p. 74.

406 Brasil, Ministério das Relações Exteriores, *I Conferência das Nações Unidas sobre Comércio e Desenvolvimento. Instruções e Relatório da Delegação do Brasil*, vols. 1 and 2.

on a general and non-reciprocal basis, and elimination of special preferences "enjoyed by certain developing countries in certain developed countries," providing "at least equivalent advantages to the countries concerned"; and adoption of special measures in favor of the least-developed states.<sup>407</sup>

Brazil's abstention on the issue of preferences for the LDCs' exports is indicative of the new priorities of its foreign policy after the military coup. Traditionally, Brazil and other Latin American countries had opposed selective regional preferential trade arrangements as those existing between the European countries and their former colonies, because those arrangements discriminated against Brazilian products in third countries' markets. In fact, the erosion of the relative market position of Brazilian traditional primary products exports, such as coffee and cocoa, between World War II and the mid-1960s, is credited to the existence of regional trading arrangements that had given African exports special advantages in the EEC market unavailable to Brazil or other non-preferential countries.<sup>408</sup> That is why the Prebisch-ECLA idea of general, non-discriminatory preferences was cogent to Brazil. The original instructions for the Brazilian delegation in Geneva were to oppose discriminatory trading schemes, either the thesis of exclusive preferences for the least-developed countries, or selective criteria such as advocated by the so-called "Brasseur Plan." Instead, the instructions called for supporting the thesis

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407 United Nations, *Proceedings of the United Nations Conference on Trade and Development, Geneva, 23 March-16 June 1964*, vol. 1: *Final Act and Report* (New York, 1964), pp. 18-25, 66-68. Voting studies of UNCTAD I show Brazil within the 77 consensus, but with a score significantly lower than the mean scores for the Latin American, African, and Asian groups. Storrs, "Brazil's Independent Foreign Policy," pp. 410-12; and Wayne A. Selcher, *The Afro-Asian Dimension of Brazilian Foreign Policy, 1956-1972* (Gainesville: University of Florida Press, 1974), pp. 201-2.

408 William G. Tyler, *Manufactured Export Expansion and Industrialization in Brazil* (Tübingen: J.C.B. Mohr [Paul Siebeck], 1976), p. 115.

of general preferences, as embodied in the Charter of Alta Gracia, which consolidated Latin American guidelines for the Geneva conference.<sup>409</sup> Brazil's vote on the Final Act's recommendation on preferences suggests that after the military coup it no longer adamantly opposed the idea of special, selective preferences.

Immediately following the military takeover in 1964, the new regime no longer sought to globalize Brazil's international relations, but to revive the old concept of a close partnership with the United States. The foreign policy project of the first military government was predicated in part on the assumption that unconditional alignment with the United States on hemispheric affairs and Washington's acknowledgment of Brazil's "preferential ally" condition would result in concrete contributions to Brazilian economic development goals. Among the benefits sought in negotiations with the United States, the establishment of a special trade arrangement for Brazilian exports stood out. This view was strongly advocated by Planning Minister Roberto Campos, who exercised the preponderant influence in economic policy formation during the Castelo Branco government (1964-1967).<sup>410</sup>

Two issues attracted the attention of Latin American countries in the mid-1960s: regional economic integration and discrimination against Latin American products in the EEC market. In 1965, President Eduardo Frei of Chile called for greater supranationality in the Latin American integration movement.

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409 "Instruções para a Delegação do Brasil à Conferência das Nações Unidas sobre Comércio e Desenvolvimento," in Brasil, Ministério das Relações Exteriores, *I Conferência das Nações Unidas sobre Comércio e Desenvolvimento*, vol. 1, pp. 179-80, 182. The Brasseur Plan put forward by Belgium, France, and Italy advocated a selective scheme on worldwide bases.

410 It should be noted that the "interdependent foreign policy" of the Castelo Branco period cannot be understood in strictly economic terms, since it fulfilled a crucial legitimizing role for the new regime. An analysis of the "interdependent foreign policy" and the specific economic contributions Brazil sought can be found in Carlos Estevam Martins, "A Evolução da Política Externa Brasileira na Década 64/74," *Estudos Cebrap* (April/May/June 1975): 58-68.

At his request, four well-known Latin economists put forth a set of proposals for the creation of a Latin American Common Market, in which special measures were devised for the case of low-income countries. Regional integration was envisaged also as strengthening Latin American "capacity for effective negotiation" and securing "greater political influence internationally."<sup>411</sup> Argentina, Colombia, and Mexico were also in favor of moving ahead toward a regional common market. Brazil, instead, not only remained aloof from the integration movement, but expressed the hope that in the near future economic integration would move beyond Latin America to include also the United States and Canada. The idea of a Western Hemisphere integrated zone was not popular in Latin America, and in fact President Díaz Ordaz of Mexico made it explicit that such integration should be confined to Latin America and not include the United States, Canada, or other industrialized countries.<sup>412</sup> As for the other issue, Colombia and Brazil took the lead in advocating a selective, hemispheric preferential arrangement between the United States and Latin America to compensate for the discrimination that Latin American products faced in the European market. In a letter from the Chairman of the Inter-American Committee on the Alliance for Progress (CIAP) to the Presidents of the American Republics, as of August 1965, a strong recommendation was made for a "policy

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411 "Proposals for the Creation of the Latin American Common Market," reprinted in U.S., Congress, Joint Economic Committee, *Latin American Development and Western Hemisphere Trade, Hearings before the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee*. 89<sup>th</sup> Cong., 1<sup>st</sup> sess., 1965, pp. 229-44 (hereafter cited as *Latin American Development and Western Hemisphere Trade*). The authors of the "Proposals" were: Felipe Herrera, President of the Inter-American Development Bank; Carlos Sanz de Santamaría, Chairman of the Inter-American Committee on the Alliance for Progress; José Antonio Mayobre, Executive Secretary of ECLA; and Raúl Prebisch, Secretary-General of UNCTAD.

412 Sidney Weintraub, *Trade Preferences for Less-Developed Countries* (New York: Praeger, 1967), pp. 161, 169; and *Latin American Development and Western Hemisphere Trade*, p. 153.

of transitory, defensive measures” of selective arrangements with the United States, to “be worked out pragmatically on a commodity-by-commodity basis.”<sup>413</sup> Prebisch, a firm supporter of general, rather than selective, preferences, warned that vertical preferences would give the United States greater influence in the region, and he fought a diplomatic battle within Latin America to persuade the dissenting countries to drop their support for selective arrangements.<sup>414</sup>

In the United States, the issues of regional integration and hemispheric preferential arrangements were debated in the context of the idea of a special United States relationship with Latin America to face the rising tide of nationalism in the region, as advocated by some officials within the Johnson administration, Congressmen, and representatives of the business community. A link between the two appeared in proposals for the establishment of a free trade area in the Western Hemisphere, in which raw materials originating in the United States, Canada, and Latin America “would circulate freely throughout the whole of the Western Hemisphere,” and the creation of a Latin American common market, in which “all goods – raw materials and industrial products – originating in Latin America would circulate freely throughout Latin America.”<sup>415</sup> It was also suggested that the United States unilaterally extend tariff preferences to manufactures from Latin America, and in

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413 The letter was endorsed by Brazilian Planning Minister, Roberto Campos, and United States representative at CIAP, Walt Rostow, among others. For the text of the CIAP document, see *Latin American Development and Western Hemisphere Trade*, pp. 220-28.

414 For UNCTAD's Secretary-General's efforts to arrive at a common Latin American position on the GSP, see Anindya K. Bhattacharya, “The Influence of the International Secretariat: UNCTAD and Generalized Tariff Preferences,” *International Organization* 30 (Winter 1976): 80-84.

415 See proposal by William L. Clayton, former Under Secretary of State for Economic Affairs, in *Latin American Development and Western Hemisphere Trade*, p. 170. Senator Javits' suggestions, similarly, called for a Latin American common market and a Western Hemisphere free trade area in raw materials. *Ibid.*, pp. 211-29.

turn the more industrialized countries of the region, Argentina, Brazil, and Mexico, would extend similar preferences to the lesser-developed ones.<sup>416</sup>

Contrariwise, a telling argument against preferential trading arrangements with Latin America was presented by Anthony M. Solomon, Assistant Secretary of State for Economic Affairs. Arguing from the viewpoint of United States "worldwide interests and responsibilities," Solomon warned that a policy of preferential access for Latin American products in the United States market would discriminate against other LDCs outside the hemisphere, "in whose peaceful progress we have a deep interest." It could also do injury to their trade interests, "if the quotas they now enjoy [in raw materials] were withdrawn in favor of Latin American suppliers." Furthermore, were a hemisphere trading bloc to trigger "similar arrangements in other parts of the world where trade now moves on a non-discriminatory basis, U.S. trading interests outside the hemisphere could be substantially injured." In his statement, Solomon declared that the United States was studying the question of GSP in a "non-doctrinaire" but "pragmatic" way. He also observed that the United States perceived "with alarm this increasing tendency to proliferate EEC preferential arrangements with more and more African countries." In the eventuality that the United States could not succeed in curbing an ascendant trend of selective preferential schemes, Solomon added, "we may want to reconsider our own historic trade policy of non-discrimination."

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416 See statement by George S. Moore, of the First National City Bank. Ibid., pp. 50-57. Thomas C. Mann, Assistant Secretary of State for Inter-American Affairs, favored the idea of nonreciprocal trade concessions for Latin American manufactured goods and even would consider concessions on primary products. "Calming a Latin Tempest," *Business Week*, 1 February 1964, pp. 64-68. David Rockefeller was also in support of special trade arrangements with Latin America in order to gain some leverage on expropriations of United States property in that region. See Bhattacharya, "The Influence of the International Secretariat," p. 85.

Solomon did not mention the GSP, but given his highly critical appraisal of vertical, selective preferences, he was probably thinking in terms of it when he suggested that the United States might depart from the MFN principle.<sup>417</sup> Nevertheless, Solomon favored the creation of a Latin American common market. In relating the benefits of regional economic integration, he pointed to the trade-creating effects of such regional groupings, and the attractiveness that the prospect of an areawide market represented for United States investment.<sup>418</sup>

In early 1967 the United States government had made up its mind on the issue of preferences. The official announcement of a change in policy in favor of the GSP came at the meeting of the American Heads of State in Punta del Este, Uruguay, in April 1967. There, President Johnson declared: "We recognize that comparable tariff treatment may not always permit developing countries to advance as rapidly as desired. Temporary tariff advantages for all developing countries by all industrialized countries would be one way to deal with this."<sup>419</sup> The announcement that the United States was dropping its previous opposition to the GSP was coupled with a pledge to support Latin American efforts to move ahead toward a common market in the region. On the other hand, United States support for the GSP signaled that the Johnson

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417 *Latin American Development and Western Hemisphere Trade*, pp. 152-60.

418 *Ibid.*, pp. 147-49, 175-76. For both a favorable consideration of economic integration among developing countries and a quite critical appraisal of preferential inter-bloc arrangements, and particularly of a Western Hemisphere free trade area, see Lincoln Gordon, "Economic Regionalism Reconsidered," *World Politics* 13 (January 1961): 245-53. It is noteworthy that Gordon suggests "universalization" of tariff preferences to counter the expansion of preferential inter-bloc arrangements. According to him, "the United States should press for general adherence to a policy of inter-regional non-discrimination, under which the industrially advanced groups would give equal access to food, raw materials, and manufactured goods from all underdeveloped areas, and the underdeveloped regions would... offer to all outsiders equal facilities for sales of capital goods and investment." *Ibid.*, p. 252 (emphasis added).

419 U.S., *The Department of State Bulletin* 56 (8 May 1967): 707.



administration would not go along with the idea of special trading arrangements with Latin America as advocated by some in the United States and Latin America. In fact, it had been reasonings such as those put forward by Solomon, himself a fierce opponent of vertical preferential schemes, which had convinced the Johnson administration and the Congress that the GSP would be the most effective way to curb the proliferation of trade blocs or at least to reduce the damaging impact of those in existence upon United States trade interests.<sup>420</sup>

As the concept of a special relationship with Latin America did not take root within the Johnson administration, the economic rationale for unconditional alignment with the United States became difficult to discern. The realization that the days of the "Good Neighbor Policy" and the "Alliance for Progress" were over may be at the origin of the reversal of Brazilian foreign policy in the late 1960s, and the return of some of the pre-1964 foreign policy themes, namely the globalization of Brazilian foreign affairs. A departure from the strict United States alignment tone of Brazilian foreign policy in the aftermath of the military coup was also an outcome of changes within the military regime. The Costa e Silva government, different from its predecessor, put a premium on the strategic value of self-sufficiency, as observed in the case of the Brazilian stance on the NPT. Indeed, many foreign policy initiatives of that period foreshadowed the "pragmatic foreign policy" of the mid-1970s.

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420 The reasons for a favorable change in the United States' position on GSP are presented in "United States Foreign Trade Policy and the Developing Countries," a statement by Anthony M. Solomon before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, on 12 July 1967, reprinted in U.S., *The Department of State Bulletin* 57 (7 August 1967): 180-90. Also, see U.S., Special Representative for Trade Negotiations, *Future United States Foreign Trade Policy*, Report to the President submitted by the Special Representative for Trade Negotiations (Washington, D.C.: Government Printing Office, 1969), pp. 62-63.

### 4.3 Trade Diplomacy and UNCTAD

In 1967, Brazil again favored the LDCs' collective negotiating strategy for changing the prevailing rules of the trade regime and resumed its previous leading role within the Group of 77. Brazilian Ambassador Azeredo da Silveira served as president of the Group of 77's coordinating committee to prepare for the Algiers ministerial meeting of the Group of 77 held in October 1967, and was elected chairman of the 77 for the final phase of the second UNCTAD which met during February and March 1968 in New Delhi.<sup>421</sup> To demonstrate its full support for the LDCs' demands, the Brazilian delegation at UNCTAD II announced that the government of Brazil had withdrawn its previous reservations on general principles seven, eight, and fifteen of the Final Act adopted at the Geneva conference.<sup>422</sup> In a study of influence in UNCTAD in the period 1968-1969, measured by actual behavior rather than potential capacity, Brazil achieved the third highest score on positive influence, surpassed only by India and Chile. By contrast, the highest values on negative influence were achieved by the United States, France, and the United Kingdom.<sup>423</sup> The representative of Brazil, in addition to those of Chile, India,

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421 "II Conferência de Comércio e Desenvolvimento," *Revista Brasileira de Política Internacional* 11 (September/December 1968): 14; and Brasil, Senado Federal, *Missão em Nova Delhi*, Relatório apresentado pelos Senadores Victorino Freire, Vicente Bezerra Neto e Antonio Carlos Konder Reis, observadores do Senado à II Conferência das Nações Unidas sobre o Comércio e Desenvolvimento, realizada em Nova Delhi, Índia, de 1 de fevereiro a 26 de março de 1968 (Brasília, 1968), p. 296.

422 United Nations, *Proceedings of the United Nations Conference on Trade and Development, Second Session, New Delhi, 1 February-29 March 1968*, vol. 1: *Report and Annexes* (New York, 1968), p. 59.

423 Nye, "UNCTAD: Poor Nations' Pressure Group," pp. 360-63. Nye's behavioral index of influence consists of the unweighted sum of positive and negative influence in different types of decisions. Direction of influence was measured by two distinct ordinal scales of negative (prevents on important issues) and positive (initiates on important issues). Countries were scored on the basis of interviews, analysis of documents, and observation of meetings. The three most influential states, according to Nye's index were France, the United States, and the United Kingdom, with scores over 20. A second group (scores 15 to 19) included Brazil, Australia, India, Chile, and Japan (maximum score = 42). *Ibid.*, p. 362.

Nigeria, and the Philippines were identified by all the members of a panel of UNCTAD's experts as influential individuals within the organization.<sup>424</sup>

It is noteworthy that Brazil attempted to shed its more assertive role in the defense of the Third World platform of any political or ideological connotation, a trait that would become a cornerstone of later "pragmatic foreign policy." Since Algiers, Brazil had urged the conference to keep strictly to the common economic goals of the Group of 77 in UNCTAD, and any attempt to impute a political nature to the meeting would be met with the strong opposition of the Brazilian delegation. Brazil also made a distinction between the "loyalty to the ideological commitments" of the regime, and the defense of Brazilian economic interests at UNCTAD.<sup>425</sup> The attempt to keep politics and economics apart was indeed a result of the conservative nature of the Brazilian regime, and would calm down a foreseeable domestic opposition to Brazil's resumed Third World activism. On the other hand, it also signaled a new foreign policy orientation in which Brazil's unquestionable loyalty to the West would not preclude it from pursuing its own economic interests in the international arena. Therefore, by separating economics from politics, Brazil could more easily pursue a hard-line approach vis-à-vis the industrialized countries, which in fact it did at the final stages of the New Delhi conference.

When it became clear that the industrialized countries were determined to delay a vote on the proposals put forward by the LDCs' the Brazilian representative suggested that if negotiating efforts failed, the proposals of the 77 should be carried to a

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424 Ibid., pp. 357-58.

425 Brasil, Ministério das Relações Exteriores, Secretaria Geral Adjunta para Assuntos Econômicos, *Reunião Ministerial do Grupo dos 77, Argel de 10 a 25 de outubro de 1967. Instruções e Relatório da Delegação do Brasil* (Rio de Janeiro, 1967), pp. I: 172-74; and Brasil, Senado Federal, *Missão em Nova Delhi*, pp. 45, 248.

vote. Brazil's stance was that a clear acknowledgment of the failure of the conference and of the major parties responsible for it would be preferable to a compromise solution which would betray the principles agreed upon by the 77 in Algiers.<sup>426</sup> In his closing statement as chairman of the Group of 77, Azeredo da Silveira blamed the failure of UNCTAD II on the developed states' unwillingness to tackle seriously the problems of the developing world. He saw in the unity of the 77 a major positive outcome of the conference, and suggested that the latter should create their own permanent organization to function as a counterpart of the developing countries' Organization for Economic Cooperation and Development (OECD).<sup>427</sup>

By 1967, then, UNCTAD had again become a prime locus for Brazilian multilateral economic diplomacy, a change closely linked to modifications in its foreign policy. Brazil not only had rejoined in the LDCs' collective endeavor to modify the international economic order, but had also played a leading role within the Group of 77. Why had Brazil been willing to play such a role? In other words, what incentives existed for Brazil to bear the cost of leading the 77? A most potent incentive for leadership exists when such a role can further a country's private (i.e., national) aims in foreign or domestic arenas. When leading the "coalition of the weak" accrues private benefits to a country, it will be willing to invest organizational resources to play such a role.<sup>428</sup>

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426 For the divergence on the issue of voting within the LDCs' caucus between the hardline faction led by Brazil and the conciliatory line advocated by Prebisch, see Branislav Gosovic, "UNCTAD: North-South Encounter," *International Conciliation* 568 (May 1968): 71-75; and idem, *UNCTAD: Conflict and Compromise*, pp. 317-18, 328.

427 For the text of Silveira's speech, see *Missão em Nova Delhi*, pp. 313-18.

428 The domestic source for Mexico's Third World activism is described, among others, in Rosario Green, "Una Respuesta Tercermundista a la Crisis de la Economía Mundial," *Revista Mexicana de Sociología* 38 (October/December 1976): 779-81; and Stephen D. Krasner, "Transforming International Regimes: What the Third World Wants and Why," *International Studies Quarterly* 25 (March 1981): 145-58.

Brazilian foreign policy during the Costa e Silva government had rediscovered the value of the North-South dimension to bolster the regime's national goals. This was particularly the case with its nuclear diplomacy, whereby the formation of a non-proliferation regime clashed with Brazil's nuclear aspirations. The assessment that the North-South cleavage had replaced the East-West conflict, in face of the growing understanding between the superpowers, was clearly articulated in the Foreign Ministry thinking in 1967.<sup>429</sup> Brazil's Third World solidarity, however, had been impaired after a phase of unconditional alignment with the United States. Thus, UNCTAD II offered an opportunity for Brazil to reestablish its Third World credentials. The payoffs of a militant defense of LDCs' demands would be felt in other arenas, such as the NPT negotiations, in which Brazil's stance was framed within a North-South dimension.

It was not accidental that in the opening speech in New Delhi of Brazilian Foreign Minister José de Magalhães Pinto, a long paragraph was dedicated to nuclear energy and to the attempts of the superpowers to deny access to nuclear technology to developing countries.<sup>430</sup> As a matter of fact, the theme of nuclear energy, or even the issue of technology transfer, was not a priority for the majority of the LDCs, but only to a few of the more developed

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By contrast, the argument has been made that particular national priorities had kept Argentina away from playing a leadership role within the Latin American group of the LDC caucus. Gosovic, *UNCTAD: Conflict and Compromise*, pp. 276-77.

429 See fragments of a conference by diplomat Paulo Nogueira Batista to the 11<sup>th</sup> Regional Military Command, Brasília, 26 June 1967, in Martins, "A Evolução da Política Externa Brasileira na Década 64/74," pp. 68-73 passim. In that same conference, Batista referred to the widening economic gap between the North and the South as the key issue to be confronted by Brazilian foreign policy. He was critical of the idea of selective preferential arrangements with the US, observing that because of its global interests and responsibilities, the US would not go along with the idea of establishing a special trade relationship with Latin America.

430 The text of Pinto's statement is reprinted in *Missão em Nova Delhi*, pp. 269-74.

among them. The mobilization of Southern support for the LDCs' autonomous nuclear development, in face of NPT negotiations, had been attempted earlier at Punta del Este in 1967. At New Delhi, Brazil and Chile, supported by India and Pakistan, proposed that UNCTAD deal with the transfer of technology to developing countries on a regular basis, by establishing a separate committee on science and technology.<sup>431</sup>

Other selective incentives were also present to induce Brazil to invest organizational resources to affect UNCTAD negotiations. Since the Geneva conference there were clear indications that economic imbalance within the LDCs, rather than political and ideological differences among them, represented a more serious threat to the unity of the 77. Thus, the key norm of the LDCs' caucus was that on every significant issue of the agenda, equivalent advantages must accrue to all. Because LDCs differ in factor endowments and levels of development, the more industrialized would be expected to get larger material benefits from a change in the rules and procedures of the various economic regimes. Accordingly, special measures were envisaged for the least advanced among them. Being the "richest among the poorest," Brazil feared that a changing world economic order might place the country prematurely in the position of a "contributor" before it could fully enjoy the benefits of economic development.<sup>432</sup> Therefore, Brazil's negotiating objectives at UNCTAD were to avoid a revision of the trade regime which could cause harm to its peculiar intermediate-developed status. For Brazil, the principal

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431 According to Gosovic, *UNCTAD: Conflict and Compromise*, the proposal was blocked by Argentina, within the Latin American group, but "against the practice of group solidarity and the unanimous backing of various demands, the four sponsors presented the resolution to the New Delhi Conference on their own," p. 255.

432 Brasil, Ministério das Relações Exteriores, *I Conferência das Nações Unidas sobre Comércio e Desenvolvimento*, vol. 2: *Segunda Parte do Relatório da Delegação do Brasil*, pp. 85-87.

objective of the conference was the dialogue with the developed countries aiming at restructuring international trade to the benefit of all developing countries. The instructions for the delegation were to behave defensively, and even with caution, on those items pertaining to the relationship among developing countries, and to play an offensive and active role on those measures involving the developed countries intended to favor the LDCs.<sup>433</sup> A militant defense of Third World unity vis-à-vis the industrialized countries, therefore, would help to retain a primarily North-South focus to UNCTAD, beneficial to Brazil's intermediate status.

At Algiers and New Delhi, Brazil had become a most vocal supporter for the establishment of a non-reciprocal and non-discriminatory system of preferences for Southern manufactured exports. The more advanced LDCs stood to gain the most from the GSP. This was certainly the case of Brazil for two sets of reasons. In the first place, Brazil, as the other Latin American countries, did not enjoy preferential treatment in any Northern market. Moreover, with North American support for the GSP, an exclusive preferential arrangement with the United States was out of the question. Secondly, since 1964, Brazilian economic policy had been geared towards the promotion of exports. Beginning in the late 1960s, a host of special incentive programs had been introduced to encourage export expansion, especially of manufactured goods.<sup>434</sup> A vigorous defense of the GSP represented

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433 "II Conferência de Comércio e Desenvolvimento," *Revista Brasileira de Política Internacional*, pp. 76-89. Brazil was particularly concerned to avoid the discussion of the existing LDCs' regional integration schemes, the thesis of "self-help," and the question of preferential treatment for the least advanced developing countries. *Ibid.*, pp. 78-79.

434 For a discussion of the various policies affecting Brazil's manufactured exports enacted after 1964, see Tyler, *Manufactured Export Expansion and Industrialization in Brazil*, pp. 180-253; and *idem*, *Advanced Developing Countries as Export Competitors in Third World Markets: The Brazilian Experience* (Washington, D.C.: The Center for Strategic and International Studies, Georgetown University, Significant Issues Series, vol. 2, n° 8, 1980), pp. 31-58.

the multilateral counterpart of efforts at the bilateral level to seek out new export outlets for Brazilian manufactured goods. Indeed, the establishment of the GSP for the LDCs' manufactured exports was Brazil's major objective in UNCTAD II.<sup>435</sup>

As a matter of fact, in the discussion of a system of preferences for LDCs' manufactured exports the cleavages were both North-South and South-South. As for the first, the differences between the industrialized countries and the Group of 77 referred to the criteria for choosing GSP's beneficiaries, product coverage, extent of tariff reduction, safeguard provisions, and duration of preferences. The LDCs also argued that an agreement on the GSP should be reached at UNCTAD II, while the industrialized countries conceded only to take into account the former's viewpoint on the GSP, but maintained that decisions were to be made among themselves. Brazil accorded a special significance to an international regulation of safeguard mechanisms to avoid unilateral application by the developed states. The latter maintained that the nature of safeguards should be examined and agreed upon by developed countries. In his final speech, Azeredo da Silveira regretted that UNCTAD II could do no more than recognize the agreement that general preferences should be established, and blamed the industrialized states for the conference's inability to arrive at concrete definitions on the principal features of the GSP.<sup>436</sup>

Cleavages within the Group of 77 related to the existence of selective preferential arrangements between some LDCs and some developed countries, and to the question of special measures for the least advanced developing countries. Those two questions were of special concern to Brazil, and accounted for its

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435 Brasil, Ministério das Relações Exteriores, *Reunião Ministerial do Grupo dos 77*, p. 24.

436 *Missão em Nova Delhi*, pp. 76-82, 252-57, 288-89, 299-300, 307-9, 314.



active participation during the Algiers conference in trying to avoid that the 77 position on preferences would be detrimental to its interests. As a fierce opponent of the preferential treatment enjoyed by the African products on the EEC market, Brazil took the lead of the Latin American bloc for the abolition of the existing special preferences. For tactical reasons it would prefer to keep separate the discussions over selective, discriminatory preferences and general preferences for the LDCs' manufactured exports. On the latter, Brazil acknowledged its weak bargaining position, since there were few countries with an immediate interest in the establishment of a global preferential regime for the export of manufactured products.<sup>437</sup> Eventually a compromise was struck between the Latin American group and those African countries enjoying special preferences. The former withdrew their demand for the immediate abolition of selective preferences and the latter agreed to the concept of "effective beneficial participation" in the GSP, instead of their previous insistence on "equality of benefits," in exchange for a commitment from the Group of 77 to press for wider product coverage and special measures for the least developed developing countries (LDDCs).<sup>438</sup>

The issue of the LDDCs represented a more serious concern for Brazilian interests at UNCTAD. As far as the question impinged on the negotiations of the GSP, Brazil did not object to the idea of special measures for the LDDCs that either would guarantee time and space for the latter to benefit in the future from a preference regime for manufactured exports, or would involve financial and technical assistance for the establishment of export industry in

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437 Brasil, Ministério das Relações Exteriores, *Reunião Ministerial do Grupo dos 77*, pp. 15-20, 114-20, 125-28.

438 For the question of the relationship between selective preferences and the GSP within the LDCs caucus, see Gosovic, *UNCTAD: Conflict and Compromise*, pp. 79-81, 88-89, 288-300.

those countries. What it strongly objected to was the LDDCs' demand to have their special status recognized at UNCTAD, since such recognition would weaken the bargaining position of the more advanced developing countries, such as Brazil, vis-à-vis the industrialized countries. Brazil thus was prepared to oppose measures that would require a previous classification of the LDDCs, insisting that special benefits should be decided on a case by case basis.<sup>439</sup> During the Algiers conference a cross-regional alliance of most African states and the smaller Latin American countries was formed around the issue of special measures for the least developed. The LDDCs, led by the African bloc, presented an elaborate package of special measures in the areas of commodities, manufactured good, financing, regional economic integration, and technical assistance that would favor those countries. Stiff opposition came from the larger Latin American countries, particularly Argentina, Brazil, and Colombia, which insisted on general formulations, trying to narrow down the area in which such measures would be applied. Simultaneously, Brazil fought inside the Latin American bloc with the smaller countries over the inclusion of a clause that would have the more advanced developing countries grant non-reciprocal concessions to the least advanced within their respective regional integration schemes. With diplomatic pressure and an appeal for regional solidarity, the larger Latin American states prevailed. A compromise formula, worked out by Prebisch, which was acceptable to both the African bloc and the larger Latin American countries, ruled out an a priori definition of the LDDCs. Although the final resolution on special measures for the least advanced was acceptable to Brazil, its representatives realized that in the future it would be increasingly

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439 Brasil, Ministério das Relações Exteriores, *Reunião Ministerial do Grupo dos 77*, pp. 26, 34-36, 122-25.

difficult to avoid the discussion of concrete measures in favor of the LDDCs.<sup>440</sup>

Several features of the GSP schemes have undermined the effectiveness of such trade arrangements as far as substantial benefits to the LDCs are concerned. The most significant have been the exclusion of processed and semi-processed agricultural products, as well as of certain industrial products of export interest to the LDCs, such as textiles and apparel. Also of significance were the special safeguard measures introduced by the donors to protect their domestic producers from "unanticipated injurious import competition" such as the ceiling system of the EEC and Japan, and the "competitive-need" criteria of the United States. Be that as it may, the impact of the GSP has not been meager. It has been estimated that the LDCs' total exports would have been around US\$ 2-4 billion less without the GSP, approximately 10 percent of the value of their manufactured exports.<sup>441</sup>

Although the results of the GSP may have been debatable, the more industrialized Third World countries stood to benefit most from its implementation. Since the bulk of the LDCs' exports consist of primary products, there were few countries in a position to gain from tariff preferences for manufactured products in the short run. In 1965, nineteen developing countries, in addition to Hong Kong, accounted for 82.7 percent of the total of the LDCs' exports

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440 Ibid., pp. 152-62.

441 IBRD, "Trade Liberalization and Export Promotion" (Washington, D.C., 1977), quoted in Guillermo Perry, "World Markets for Manufactures and Industrialization in Developing Countries," in *Latin America and the New International Economic Order*, eds. Ricardo French-Davis and Ernesto Tironi (New York: St. Martin's Press, 1982), p. 130. An extensive account of product coverage and safeguard measures of the major preference-giving countries' GSP schemes (US, EEC and Japan) is found in Murray, *Trade Preferences for Developing Countries*, pp. 53-83. Murray's evaluation of GSP operation is: trade benefits are quite meager; benefits are unevenly distributed among LDCs; and the impact of the GSP on donor country's production and employment is negligible. Ibid., pp. 95-113, 148-50.

of manufactures and semi-manufactures into developed market economy countries. Six of them, plus Hong Kong, accounted for 57.7 percent, with the following distribution: Hong Kong (20.2); India (13.2); Yugoslavia (7.1); Mexico (5.0); Algeria (4.5); Taiwan (4.1); and Brazil (3.6).<sup>442</sup> Because of the great disparity among the LDCs in their ability to export manufactures, as well as the limited product coverage of the preferences schemes, the benefits of the GSP have tended to be quite unevenly distributed among Third World countries. Based on 1970 trade flows of products covered by the GSP schemes, Murray estimated that nine LDCs, in addition to Hong Kong, would account for 72 percent of the GSP imports of the three major donors.<sup>443</sup> Data on the actual operation of the United States' GSP indicates a concentration of GSP benefits among relatively few countries. Annual figures for the period 1976 to 1981 show that five major beneficiaries (Taiwan, Hong Kong, Korea, Mexico, and Brazil) have accounted for at least 60 percent or more of the total GSP duty-free imports of the United States in those years. In 1981, ten countries, out of 140 LDCs and dependent territories, accounted for 76 percent of the total GSP imports of the United States, divided as follows: Taiwan (26.5); Hong Kong (9.5); Korea (10.6); Mexico (7.5); Brazil (6.0); Singapore (4.5); Israel (4.0); Argentina (3.0); Yugoslavia (2.0); and Thailand (2.0). In fact, this concentration of GSP beneficiaries has prompted the United States to implement "graduation" schemes since 1981. Under this approach, the GSP treatment "for more economically advanced developing countries... is being limited, on a product-by-

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442 See Table 6 in "Review of the Trade in Manufactures and Semi-Manufactures," Report by the UNCTAD secretariat, *Problems and Policies of Trade in Manufactures and Semi-Manufactures*, p. 132.

443 Murray, *Trade Preferences for Developing Countries*, p. 60. Murray's estimated figures show the nine principal beneficiaries to be: Taiwan, Mexico, Yugoslavia, South Korea, Hong Kong, Brazil, Singapore, India, and Iran. Minor beneficiaries included: Zambia, Chile, the Philippines, Argentina, Peru, and Malaysia.

product basis, in order to expand GSP benefits for less competitive developing countries."<sup>444</sup>

#### 4.4 Trade Diplomacy and GATT

The salience accorded to market access for the LDCs' manufactured exports during the first years of UNCTAD can be attributed to the influential role of the more advanced developing countries. In the 1970s, with the oil producing countries playing the leading role in North-South negotiations, the emphasis was shifted to commodities. As Bhagwati observed, "just as GSP had become the symbol of the New Delhi UNCTAD II in 1968, commodity schemes were the symbol of the early 1970s and indeed at the Nairobi UNCTAD IV in 1976 where the negotiations on the integrated Program for Commodities were agreed upon."<sup>445</sup> The 1970s saw a broadening of the agenda of North-South negotiations. The demand for a New International Economic Order (NIEO) included the following main issues: sovereignty over economic activity and natural resources, control over the activities of multinational corporations, stable and higher prices for raw materials and commodity exports, market access for manufactured goods, greater access to existing technology, increased official development aid, renegotiation of the LDCs' growing external debt obligation, and greater decision-making power for LDCs in trade and financial international organizations.<sup>446</sup> The main

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444 U.S., President, *Twenty-Sixth Annual Report of the President of the United States on the Trade Agreements Program, 1981-82*, transmitted to Congress, November 1982 (Washington, D.C.: Government Printing Office, 1983), appendix L, p. 213, and table L-1.

445 Bhagwati, "Rethinking Global Negotiations," p. 15.

446 Jeffrey A. Hart, *The New International Economic Order: Conflict and Cooperation in North-South Economic Relations, 1974-77* (New York: St. Martin's Press, 1983), pp. 33-51; also, see Branslav Gosovic and John G. Ruggie, "On the Creation of a New International Economic Order: Issue Linkage and the Seventh Special Session of the UN General Assembly," *International Organization* 30 (Spring 1976):

arenas for NIEO negotiations in the 1974-1977 period were the United Nations General Assembly, United Nations CTAD, and the Conference on International Economic Cooperation (CIEC). Most of the NIEO issues were discussed in typical North-South forums; market access for the LDCs' exports, however, was also dealt with in GATT in the context of the Multilateral Trade Negotiations (MTN). The Tokyo Round, as it became known, was launched at a ministerial trade meeting in Tokyo in September 1973, and concluded in Geneva in November 1979.<sup>447</sup>

The reason for the intrusion of a North-South issue in a chiefly First World arena is twofold. First, there was the industrialized countries' endeavor to attract the LDCs' participation in GATT trade negotiations. Thus, the Tokyo Declaration of 1973, which set out the objectives and ground rules of the negotiations, made specific reference to the need to secure benefits for LDCs and provided that participation in the MTN be open to all states and not only to GATT contracting parties. Second, the more industrialized LDCs, who had experienced in the past years a growing diversification of their exports, now had a higher stake in the world market for

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309-45; and Celso Lafer, "A Nova Ordem Mundial num Sistema Internacional em Transformação," *Revista Brasileira de Estudos Políticos*, nº 55 (July 1982), pp. 7-63.

447 The machinery for the conduct of the negotiations was established in February 1975. A delay was caused by the US Executive's need to secure legislative authority to enter trade negotiations. Formal US commitment to the Tokyo Round came with the Trade Act of 1974. Very little substantive progress was made in the months following because of a major divergence between the US and the EEC over agricultural issues. In July 1977 they finally came to terms on matters of policy and procedure, and negotiations were able to move forward. The Tokyo Round covered both industrial and agricultural products and also considered non-tariff barriers to trade. Negotiations were structured as follows: (1) tariffs; (2) non-tariff measures, with subgroups on quantitative restrictions, subsidies and countervailing duties, technical barriers, customs matters, and government procurement; (3) agriculture, with subgroups on grains, meat, and dairy products; (4) tropical products; (5) sector approach; (6) safeguards; and (7) "framework." A record of the developments of the MTN from 1973 to 1979 can be found in GATT, *The Tokyo Round of Multilateral Trade Negotiations: Report by the Director-General of GATT* (Geneva, April 1979) (hereafter cited as GATT, *The Tokyo Round*); and GATT, *The Tokyo Round of Multilateral Trade Negotiations*, vol. 2: *Supplementary Report by the Director-General of GATT* (Geneva, January 1980).

manufactures and consequently were anxious to have a voice in the international trade regime. In the past, basic concern in GATT for those LDCs which had adopted an inward-looking strategy of growth, based on import substitution, had been to ensure that they could deviate from the GATT liberalization norm by using import controls for economic development purposes. As they became exporters of manufactured goods their concern was market access, the overriding GATT domain. As observed by an analyst:

*Many of the more industrialized LDCs – states such as Brazil, India, or Mexico – now conducted such substantial two-way trade in manufactured goods with the DCs that they could no longer be suffered as free riders on the western trade system as in the past, while, for their own part, they now stood to gain more by adherence to the GATT than by continuing to ignore it.*<sup>448</sup>

Although there were seventy-eight developing countries officially declared as participants, only the more advanced LDCs, such as Argentina, Brazil, South Korea, India, Yugoslavia, Egypt, and Nigeria, had been actively involved in the MTN. Active participation in the Tokyo Round required a relatively high input of human and material resources, since each participating country had to bear the cost for attending the negotiations. Thus, "the degree of participation in MTN is a function of the gain prospects each country projects for itself from MTN."<sup>449</sup> The majority of the LDCs had neither the ability nor the disposition to participate in the Tokyo Round of negotiations. For them,

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448 Charles A. Jones, *The North-South Dialogue – A Brief History* (New York: St. Martin's Press, 1983), p. 106.

449 Tigani E. Ibrahim, "Developing Countries and the Tokyo Round," *Journal of World Trade Law* 12 (January/February 1978): 15. There were 99 participating countries in the MTN. This number also includes non-contracting parties to GATT as well as those provisionally acceded to GATT. For the list of participating countries, see GATT, *The Tokyo Round*, Annex A, p. 184.

improved terms of trade for raw materials and commodity exports were overwhelming, since they depended on those products as their only sources of foreign exchange earnings. Because GATT negotiations have concentrated on trade in manufactures, the economic payoff for them from participation in the MTN was nil. They would rather concentrate their energy and resources on the negotiations over the Common Fund for individual commodities conducted under UNCTAD.<sup>450</sup> The incentive for participation was higher for the more advanced LDCs, the major beneficiaries from any concession achieved during trade negotiations over industrial products. Their negotiating strategy involved GATT recognition of both differential treatment for LDCs and their exemption from the obligation to offer reciprocal concessions. Of greatest concern to them was the potential erosion of the value of the GSP preferential tariff margins under a new round of tariff reduction on an MFN basis; as well as the growing use of non-tariff barriers to trade which have tended to affect more products as LDCs have become more competitive. In cases in which tariff reductions could narrow GSP benefits, the LDCs demanded compensation in the form of GSP improvements. Differential treatment was requested regarding any new rules negotiated on non-tariff trade measures.<sup>451</sup>

During the late 1960s and early 1970s Brazil experienced rapid economic and export growth. In the so-called "Brazilian miracle" period (1968-1973), gross domestic product (GDP) grew at an annual rate of over 11 percent. The Brazilian export drive from 1967 on was based on an expanding world market and an

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450 The African countries had been the least active, with the exception of Egypt and Nigeria and occasionally Ghana. Ibrahim, "Developing Countries and the Tokyo Round," pp. 15-16.

451 Ibid., pp. 16-19; Abdulqawi A. Yusuf, "'Differential and More Favourable Treatment': The GATT Enabling Clause," *Journal of World Trade Law* 14 (November/December 1980): 492-98; and GATT, *The Tokyo Round*, pp. 48-107 passim, 109-15, 154-79.



aggressive export promotion policy. During the period from 1964 to 1974 the annual real growth rate of Brazilian exports was 12.6 percent, "classifying Brazil as one of those countries achieving most rapid export growth."<sup>452</sup> A significant feature of the Brazilian export drive has been the growing share of industrialized products in Brazil's foreign sales. The real growth rate of industrialized exports was 24.8 percent annually for the 1964-1974 period.<sup>453</sup> As shown in table 1, manufactured exports have been the most significant component within the latter category, reflecting Brazil's increased industrial diversification. After 1974, Brazilian export expansion has been slower due to the increases in oil prices beginning in 1973, and the world economic recession of 1974-1975. The annual real growth rate of total exports fell to 5 percent for the 1974-1978 period, with the sharpest reduction occurring in primary product exports. Industrialized product exports grew at a slower rate than the previous period (11.8 percent), and exports of manufactured goods have remained the fastest growing component, albeit at a reduced pace.<sup>454</sup> Export diversification has proceeded steadily throughout the 1970s. In 1979, for the first time, manufactured exports overtook exports of primary products.

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452 Tyler, *Advanced Developing Countries as Export Competitors in Third World Markets*, p. 16. For annual real growth rates of Brazilian GDP, see *ibid.*, table 3, p. 10. From 1946 to 1964, Brazilian exports grew at an annual rate of only 2.1%. *Idem*, *Manufactured Export Expansion and Industrialization in Brazil*, table V-7, p. 124.

453 *Idem*, *Advanced Developing Countries as Export Competitors in Third World Markets*, p. 17.

454 For the period 1974-1978, exports of manufactures grew at an annual rate of 14.5%, while for semi-manufactured exports the rate was 4.3%. *Ibid.*, pp. 16-19.

**Table 1 – Evolution of Brazilian Exports Composition, 1964-1981  
(Percentage of Total Exports)**

Year	Primary	Semi- Manufactured	Manufactured
1964	85.4	8.0	6.3
1965	81.5	9.6	8.1
1966	82.9	8.1	8.7
1967	78.7	8.9	11.8
1968	79.3	9.5	10.8
1969	77.7	9.1	12.3
1970	74.8	9.1	15.2
1971	68.5	8.3	20.0
1972	68.3	7.8	22.8
1973	66.1	7.7	23.6
1974	57.6	11.5	28.5
1975	58.0	9.8	29.8
1976	60.5	8.3	27.4
1977	57.4	8.6	31.7
1978	47.2	11.2	40.1
1979	43.0	12.4	43.6
1980	42.2	11.7	44.8
1981	38.3	9.1	51.0

SOURCE: *Brasil, CACEX, Brasil: Comércio Exterior, 1981.*

Despite growing export diversification and the rapid expansion of manufacturing exports, Brazil has continued to derive a substantial portion of its export earnings from primary products, although primary export composition has itself undergone important diversification.<sup>455</sup> Thus, Brazil also had a

<sup>455</sup> In 1964, coffee accounted for over 50% of total Brazilian exports. Over the years nontraditional primary products such as meat and fruit products and soybeans have been added to Brazil's exports. In 1978, coffee exports had dropped to 18.1% of the country's foreign sales. *Ibid.*, p. 18.

stake in commodity trade, but because of its more diversified primary product exports composition it had reservations about the concept of a Common Fund for LDC commodities as proposed in the NIEO negotiations. Brazil preferred the idea of a separate fund for each commodity in which a country's contribution would be based on its market share in that commodity instead of the common fund scheme, in which each member would contribute to an integrated fund of eighteen commodities, according to the combined values of its market shares in each of the commodities included. According to Selcher, "a lump treatment would be disadvantageous for Brazil because it is a major LDC producer trading in several high-price commodities... and so would find its financial participation inflated by this formula."<sup>456</sup>

Industrial diversification and export performance have made Brazilian interests not quite consistent with those of the majority of LDCs. For a true Third World leadership stance, Brazil would have to forego some of its immediate economic self-interest, as in the case of a Common Fund for LDCs' commodities. On the other hand, issues such as market access for LDCs' manufactures, which were highly salient to Brazil, were of scanty interest to most developing countries. In a study of the NIEO negotiations during the 1974-1977 period, Hart found that the level of industrialization and power of a country relative to other countries in the region best accounted for differences in foreign policies of fourteen Latin American countries toward NIEO issues. The more industrialized countries tended to be more concerned with issues such as access to Northern markets and debt relief than did the less industrialized Latin states. Brazil accorded higher salience to those two issues, although it did oppose a moratorium or a

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456 Wayne A. Selcher, *Brazil's Multilateral Relations – Between First and Third Worlds* (Boulder: Westview Press, 1978), p. 138.

concessional rescheduling. Brazil's activism on behalf of the NIEO was ranked as medium.<sup>457</sup>

Differentiation within the Third World and the broadening of the agenda of the North-South debate had increased the cost of leading the Third World coalition for the more advanced LDCs and simultaneously added an incentive for them to participate in the GATT regime. Although the prospective gains from participation in the MTN are higher for the more industrialized developing countries, as opposed to the core of the LDCs, the former's bargaining power in GATT negotiations is rather weak. This is because influence in GATT is a function of a country's share in world trade, and therefore the LDCs lack either the ability to give positive incentives in the form of reciprocal concessions to other parties, or the ability to give negative incentives in the form of economic or political retaliation. In the trade system, "the ability to retaliate against protectionist measures," says Krasner, "depends on the relative opportunity costs of change for the parties involved." For the LDCs such costs are much higher than for the industrial countries. Therefore, they cannot resort to retaliation, since they would suffer much more from a trade war than industrial countries.<sup>458</sup> Major actors during the Tokyo Round were thus the United States, the EEC, and Japan – the major suppliers of most products and those with the largest import markets.

While the United States was the "demander" in the MTN, the EEC and Japan played a "damage limitation strategy." A central issue for the EEC was supporting its Common Agricultural Policy in face of United States pressure to liberalize trade in agricultural

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457 Hart, *The New International Economic Order*, pp. 89-102. For the salience of various NIEO issues to Brazil, see table 4.1, p. 93.

458 Stephen D. Krasner, "The Tokyo Round: Particularistic Interests and Prospects for Stability in the Global Trading System," *International Studies Quarterly* 23 (December 1979): 526-27.

products. For Japan the issues were the United States' attempt to get Japan to agree to a unilateral opening of its economy, and protectionism against Japanese exports.<sup>459</sup> The LDCs were "demanders" in a twofold sense. On the one hand, they asked for special and differential treatment and exemption from some of the GATT norms, such as unconditional MFN treatment and reciprocity. On the other hand, they called for more liberal trade policies and, particularly the more industrialized LDCs, advocated the regulation of quantitative import restrictions within the framework of GATT. Indeed, their exports have been particularly subject to the so-called safeguard actions by the industrial countries, having already experienced a selective application of safeguard measures under the Multi-Fiber Arrangement (MFA) in textile and apparel trade. Thus, they joined forces with Japan, for a long time also a target of safeguard actions, in pushing for a new safeguard code which would define criteria and procedures for the use of safeguard measures to protect domestic industries from injury resulting from imports. Japan and the more industrialized LDCs supported the GATT norm which held that import restraints should be imposed in a non-discriminatory fashion applying uniformly to all exporters, contrary to EEC insistence that safeguards should be applied selectively against import upsurges from one or two countries. Agreement on a new safeguard code was not reached during the Tokyo Round, the largest failure of the MTN from the point of view of the LDCs.<sup>460</sup> According to Krasner, "the leverage of Japan and especially the NICs was limited since the opportunity costs of severing trade would be much greater for

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459 Ibid., pp. 508-25.

460 For the negotiations of a multilateral safeguard system, see GATT, *The Tokyo Round*, pp. 90-95; GATT, *Supplementary Report by the Director-General of GATT*, pp. 14-17; and Patrizio Merciai, "Safeguard Measures in GATT," *Journal of World Trade Law* 15 (January/February 1981): 55-63.

them than for Europe and the United States.”<sup>461</sup> Because of LDCs’ weak bargaining power in actual negotiations over tariff and non-tariff barriers in the Tokyo Round, their impact was felt primarily in the “Framework” Group, a separate negotiating group formed to deal with the “framework” for the conduct of world trade.

Brazil was particularly active on the issue of the institutional reform of the GATT rules. In fact, it was Brazil’s initiative, widely supported by the LDCs, to propose the creation of a specific negotiating mechanism to consider “improvements in the international framework for the conduct of world trade which might be desirable in the light of progress in the negotiations,” as stated in paragraph 9 of the Tokyo Declaration. In November 1976, the Trade Negotiations Committee of the Tokyo Round set up the “Framework” Group, which would seek those improvements, “particularly with respect to trade between developed and developing countries and differential and more favourable treatment to be adopted in such trade.”<sup>462</sup> The cornerstone of Brazilian proposals for the reform of the trade regime is the concept of collective economic security in which the LDCs’ economic security – understood as their ability to fully enjoy the benefits of international cooperation, as well as the sovereign utilization of their domestic resources – is seen as essential for world economic security. Brazil’s proposals for changing the legal framework of international trade were presented to the MTN in February 1977. Its main proposals concerned the following items of the “Framework” Group’s agenda: an enabling clause for differential treatment for LDCs, safeguard measures for balance-of-payments

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461 Krasner, “The Tokyo Round,” pp. 522-23; and Charles Lipson, “The Transformation of Trade: The Sources and Effects of Regime Change,” *International Organization* 36 (Spring 1982): 430-31.

462 GATT, *Agreements Relating to the Framework for the Conduct of International Trade* (Geneva, 1979), p. 3. An account of the “Framework” Group negotiations can be found in GATT, *The Tokyo Round*, pp. 96-108.

and economic development purposes, and procedures for dispute settlement in GATT. Two other items were also included in the agenda at the behest of the industrialized countries: "fuller participation of developing countries in the framework of rights and obligations" under GATT, and rules on export controls.<sup>463</sup>

Brazil took the leading position among the LDCs in the discussion of a legal framework for differential treatment for developing countries with respect to GATT provisions, in particular the MFN clause. Concretely, Brazilian proposals sought the insertion of a general enabling clause into the GATT rules to formalize the principle of differential treatment for LDCs and the incorporation of the GSP into the GATT rules.

Though the proposals would not bind the advanced market economies to enter into GSP arrangements, they would be given legal status. Brazil also called for the revision of the concept of "relative reciprocity" in order that LDCs were not demanded to make concessions incompatible with their economic development needs. On the issue of safeguard measures taken by developing countries for balance-of-payments purposes, Brazil's proposals insisted that balance-of-payments difficulties experienced by LDCs were of a structural nature and, therefore, they should be granted more flexibility in the use of these measures. LDCs' exports should also be exempted from import restriction measures taken by industrialized countries because of crises in their balance of payments. Similarly, on the question of safeguard actions taken for economic development purposes, Brazil sought to broaden the

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463 Detailed information on Brazil's proposals and negotiating objectives in the "Framework" Group was supplied by a senior Brazilian diplomat with long experience in multilateral trade negotiations, in an interview conducted in Brasília in October 1983. Brazil's main proposals are stated in George Álvares Maciel, "Brazil's Proposals for the Reform of the GATT System," *The World Economy* 1 (January 1978): 163-76. Maciel was Brazil's top negotiator at the Tokyo Round. Besides Brazil, other LDCs to offer specific proposals to the "Framework" Group were India, Mexico, and Pakistan.

current GATT provisions for their use and give greater flexibility to the LDCs in using them. Finally, a set of proposals were presented regarding notification, consultation, and dispute settlement, with the aim of making existing GATT procedures more responsive to the needs of LDCs and, therefore, encouraging them to participate more fully in the trade system. In presenting its proposals for the reform of the trade regime, Brazil tried to appeal to the industrialized countries' enlightened self-interest. Thus, Brazil argued, in order to encourage LDCs to take a more active part in the GATT regime, some inducements had to be offered in the form of special treatment.<sup>464</sup>

Negotiations within the "Framework" Group tended toward a polarization between the industrializing and the industrialized countries. The latter would only agree to an enabling clause for differential measures if linked to an explicit definition of the concept of graduation. In general, Brazilian proposals for unconditional differential treatment of LDCs, covering all aspects of international trade, were rejected by the developed states. The industrialized countries were prepared to accept the concept of differential treatment only if it clearly specified the areas where it might be extended and the conditions under which such treatment would be granted. Of great concern to Brazil was the LDDCs' demand for special treatment in the context of differential arrangements in favor of developing countries. An Enabling Clause was finally agreed upon by the GATT members, providing for differential treatment to LDCs in the following cases: (1) preferential tariff treatment in accordance with the GSP, (2) non-tariff measures subject to negotiations within GATT, (3) regional or global trade arrangements between LDCs, and (4) special treatment for the LDDCs. The text declares that developed

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464 Maciel, "Brazil's Proposals for the Reform of the GATT System," pp. 168, 174.



states to not expect reciprocity from developing countries, but in turn introduces the principle of graduation, stating that LDCs' capacity to make contributions in trade negotiations "would improve with the progressive development of their economies and improvement in their trade situation and they would accordingly expect to participate more fully in the framework of rights and obligations under the General Agreement." Three other substantive agreements referring to trade measures for balance-of-payment purposes, safeguard actions for development purposes, and dispute settlement were also adopted in November 1979.<sup>465</sup>

From the Brazilian point of view the framework agreements did not measure up to what Brazil had proposed and, particularly in the case of safeguard actions and dispute settlement, constituted minor improvements of current GATT norms. On the positive side, a principal achievement had been the provision for differential treatment in the context of the GSP and multilateral codes on non-tariff barriers. Brazil also counted as a plus the exclusion under the Enabling Clause of selective preferential arrangements of the Lomé Convention type. Clearly negative to its interests were the provision of special treatment for LDDCs and the introduction of the principle of graduation.

#### 4.5 Concluding Remarks

Brazil's activism on North-South negotiations as they impinge upon trade issues was accounted for in terms of the existence of private gains accruing from participation in that collective endeavor. As a Third World country, Brazil shares with the rest of the LDCs the common endeavor for a revision of the international

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<sup>465</sup> For the text of those four agreements, see GATT, *Agreements Relating to the Framework for the Conduct of International Trade*. The paragraph on the principle of graduation is on p. 7. Results of the "Framework" Group negotiations are presented in GATT, *The Tokyo Round*, pp. 148-52. Also, see Yusuf, "Differential and More Favourable Treatment" for a detailed analysis of the Enabling Clause.

economic order. Such a change would in principle ensure more equitable outcomes for the South as a whole. But because LDCs differ in factor endowments and levels of development, greater benefits would accrue to the more industrialized countries within the Southern camp. Because of that, and also because transaction costs tend to be less for them than for the smaller LDDCs, the advanced developing states have tended to provide leadership for changing trade norms, first at UNCTAD and later at GATT. Brazil's diplomatic activism on behalf of duty-free treatment for LDCs' exports and market access for their industrial products conforms to this pattern and parallels changes in its trade structure and policies.

The change in emphasis of its multilateral trade diplomacy from UNCTAD to GATT can be seen as a consequence of the expansion and diversification of its manufacturing exports. Industrial diversification and export performance have made Brazilian interests less consistent with those of the majority of LDCs. For genuine Third World leadership, Brazil would have to forego some of its immediate economic self-interest. On the other hand, as Brazil's competitiveness in the world trading system has grown, the incentive to participate in GATT trade negotiations has tended to increase.

## 5. TRADE DIPLOMACY: THE PRICE OF BEING COMPETITIVE

This chapter looks at North-South trade negotiations from a different angle. The main issue here is the peculiar situation in which industrializing developing countries find themselves in these negotiations. Because they are perceived by industrial countries as free riding the trade regime, they are subject to specific restrictive measures which are intended to make them pay a share for the collective good of an open trade system. These measures fall under the broad concept of graduation and are expected to bring the advanced developing countries into the system of “rights and obligations” of the trade regime.

Relatively few developing countries have been successful in exporting manufactured goods on a significant world scale. Of the total LDCs’ manufactured exports in 1974, 79 percent came from nine countries: Hong Kong, Taiwan, South Korea, Yugoslavia, Singapore, Mexico, India, Brazil, and Argentina.<sup>466</sup> By far, the most

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<sup>466</sup> Guillermo Perry, “World Markets for Manufactures and Industrialization in Developing Countries,” in *Latin America and the New International Economic Order*, eds. Ricardo Ffrench-Davis and Ernesto Tironi (New York: St. Martin’s Press, 1982), table 10.1, p. 128.

impressive stories of export-led growth have been the four East Asian countries: Hong Kong, Taiwan, South Korea, and Singapore. Their industrial exports expanded from US\$ 11.7 billion in 1973 to US\$ 47.1 billion in 1979. With much less impressive figures, but still a significant exporter among the LDCs, Brazil, in the same period, increased its manufactured exports from US\$ 1.2 billion to US\$ 5.6 billion.<sup>467</sup> The emergence of the so-called newly industrializing countries (NICs) and their growing world share of manufactured exports – the four East Asian countries, and Mexico and Brazil increased their participation from 2.6 percent in 1963 to 6.3 percent in 1973 and 7.1 percent in 1976 – have produced a twofold response in the advanced industrialized countries.<sup>468</sup> Since the NICs' dynamic export performance has occurred in a period of sluggish economic growth in the advanced market economies, it has stirred the protectionist forces in the latter, particularly in sectors that were losing competitiveness against foreign producers. As successive multilateral trade negotiations have succeeded in lowering tariff rates, protectionism has shifted to non-tariff barriers concentrated in specific product sectors which tend to constitute the principal manufactured exports of the developing world. Sectoral protectionism hits products that exhibit certain features in common: standardized production and labor-intensive processes; price-competitive and mature markets; firms are mostly local or acting as international subcontractors;

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467 Colin I. Bradford, Jr., "The Rise of the NICs as Exporters on a Global Scale," in *The Newly Industrializing Countries: Trade and Adjustment*, eds. Louis Turner and Neil McMullen (London: George Allen & Unwin, 1982), table 2.2, p. 14.

468 For the geographical distribution of world exports of manufactures, see David B. Yoffie, *Power and Protectionism – Strategies of the Newly Industrializing Countries* (New York: Columbia University Press, 1983), table A, p. 11. The list of NICs differs across studies. The six aforementioned countries are present in all classifications. The Organization of Economic Cooperation and Development (OECD) has included the six, plus Portugal, Spain, Greece, and Yugoslavia. The book edited by Turner and McMullen, *The Newly Industrializing Countries*, deals with the four East Asian countries, Mexico, Brazil, Argentina, and India. Together the latter countries accounted for more than three-quarters of all LDCs' industrial exports in 1976. See Bradford, "The Rise of the NICs," p. 10.

and “locational advantages in such production have shifted rapidly, and the lowest-cost producers are now either in the NICs or in the newest, most efficient plants in the United States, the EEC, or Japan.”<sup>469</sup> Another consequence of the NICs’ emergence has been industrial countries’ initiatives aimed at forcing them to comply with the regime’s norms in order to receive the benefits of an open trading system. In attempts to get the NICs to pay their share for any trade barrier liberalization, long-standing trade regime’s norms are undergoing perceptible modifications.

A widespread image of the NICs in Northern circles is that they have enjoyed a free ride in the trade regime. Without actively participating in GATT trade negotiations and while still imposing their own trade restrictions, the developing countries, it is argued, have enjoyed the benefits of a free trade system. Because of their MFN status, tariff concessions exchanged among industrialized countries have been extended automatically to them.<sup>470</sup> On this view, the NICs would be classified as “protectionist free riders,” in David Lake’s typology of international economic actors.<sup>471</sup>

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469 Charles Lipson, “The Transformation of Trade: The Sources and Effects of Regime Change,” *International Organization* 36 (Spring 1982): 429. The classic study of surplus capacity and sectoral protectionism is Susan Strange’s, “The Management of Surplus Capacity: Or How Does Theory Stand Up to Protectionism 1970s Style?” *International Organization* 33 (Summer 1979): 303-34. For the new protectionism, see Béla Balassa, “The ‘New Protectionism’ and the International Economy,” *Journal of World Trade Law* 12 (September/October 1978): 409-36. The issue of protectionism and LDCs’ exports is dealt with in Gary Sampson’s, “Contemporary Protectionism and Exports of Developing Countries,” *World Development* 8 (February 1980): 113-27; and Andrzej Olechowski and Gary Sampson, “Current Trade Restrictions in the EEC, the United States, and Japan,” *Journal of World Trade Law* 14 (May/June 1980): 220-31. Different Latin American strategies followed in industrial trade disputes with the US and their impact on outcomes are analyzed by John S. Odell, “Latin American Industrial Exports and Trade Negotiations with the United States,” in *Economic Issues and Political Conflict: U.S. Latin American Relations*, ed. Jorge I. Domínguez (Boston: Butterworth Scientific, 1982), pp. 142-67. Yoffie’s *Power and Protectionism* is a comprehensive study of Asian NICs’ strategy to overcome the damaging effects of protectionism.

470 See, e.g., Lipson, “The Transformation of Trade,” p. 427.

471 See David A. Lake, “Beneath the Commerce of Nations: A Theory of International Economic Structures,” *International Studies Quarterly* 28 (June 1984): 150, for Lake’s six categories of international economic actors.

A similar argument has been made, this time focusing on the outcomes of the North-South negotiations:

*The larger states, and not their smaller allies, have been closer to being the “free riders” in the Third World coalition. The most powerful and the richest LDCs have indeed earned the largest benefits from the Third World coalition, but they have not been willing to pay a disproportionate share of the costs.*<sup>472</sup>

Arguments such as this are open to question for a number of reasons. It is true that the more advanced developing countries have earned the largest benefits from most of the concessions in the North-South negotiations, the GSP being a conspicuous example. It is also true, however, that since the early days of UNCTAD, the cost of leading the Third World coalition has been borne, in a large degree, by the wealthier LDCs, first by countries such as Chile, Brazil, India, and Yugoslavia, and later by the oil-exporting nations. Because the more advanced developing countries have had a higher stake in the outcomes of the North-South dialogue, they have been willing to invest organizational resources to affect these negotiations. With meager resources, there was very little that the poorest LDC alone could have done in the struggle for changing the international economic order. In fact, if there have been free riders in the Third World coalition, the most likely candidates are the East Asian NICs, which have historically kept a low profile in North-South negotiations while being major beneficiaries of their outcomes, such as the GSP.<sup>473</sup>

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472 Robert L. Rothstein, *Global Bargaining – UNCTAD and the Quest for a New International Economic Order* (Princeton: Princeton University Press, 1979), p. 253. Rothstein cites as instances of “selfishness” on the part of the larger LDCs the following: “reluctance to allow the creation of a category of ‘least developed’ countries at UNCTAD;... reluctance to agree to preferential regimes for the African countries;... refusal by the richer countries to give up their share of the profits from the IMF gold sales for the benefit of the desperately poor.” *Ibid.*, p. 253.

473 Because some of the East Asian NICs were already significant exporters of manufactured goods at the time the GSP was being negotiated at UNCTAD, they feared to be excluded from the ranks of less-

As to the allegation of the NICs free riding the GATT-sponsored trade regime, some observations are in order. Most of the tariff liberalization in the post-war period has produced little benefit for the LDCs, since the bulk of tariff reduction has been concentrated in products supplied by the major industrialized countries. The exclusion of goods of interest to the developing countries has been a result of GATT's bargaining procedure governed by the norm of "reciprocal concessions" among parties. The effect of reciprocity – in which "leverage on barrier reductions requires that states have both larger domestic markets and a high volume of trade with countries whose barriers they want lowered" – in combination with the "major interests" procedural norm have in practice assured that the bargaining has been dominated by the major trading countries and *de facto* has excluded the LDCs from the negotiating table in GATT rounds.<sup>474</sup> Furthermore, as mentioned, LDCs' manufactured exports have faced significant external barriers in Northern markets. Since the 1973-1974 oil crisis and the ensuing recession, import restrictions in the advanced market economies have increasingly affected products such as textiles, clothing, footwear, electronics, and steel, areas of considerable significance for NICs' exports. As the pressures for protection in the industrialized countries have continued to grow over the past years, an analyst has suggested that:

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developed countries in general preferential treatment. While the US was still in opposition to the GSP, seeing it as a literal violation of the MFN principle, Hong Kong representatives "quietly but persistently urged the United States representatives to stick to their guns in favor of non-discrimination." Sidney Weintraub, *Trade Preferences for Less-Developed Countries* (New York: Frederick A. Praeger, 1967), p. 139.

<sup>474</sup> Jock A. Finlayson and Mark W. Zacher, "The GATT and the Regulation of Trade Barriers: Regime Dynamics and Functions," *International Organization* 35 (Autumn 1981): 576. According to Finlayson and Zacher, GATT's rule making and rule implementation have been shaped by what they called a major interests norm. Such a procedural norm "reflects the belief of many members that those with the most obvious stake in a given issue or negotiation should exercise paramount influence in related decision making." Since the major trading nations have the largest stake in any trade negotiation, they "are entitled to exert a degree of influence proportionate with this role." *Ibid.*, p. 590. For a discussion of the reciprocity norm and the major interests norm, see *ibid.*, pp. 574-78, 590-93.

*in the 1980s the principal trade issues for developing countries will no longer be tariff preferences, which generate only very modest benefits... The single most important trade issue will be the maintenance of their current degree of access to world trade markets. The risk is that markets may progressively close.*<sup>475</sup>

Finally, an important feature of Latin American inward-led growth was the combination of a *closed* import regime – mainly through high levels of tariff protection for domestic industries and quantitative and financial restrictions on imports – with an *open* foreign investment regime. In fact, foreign capital was a significant factor in Latin American import-substitution industrialization throughout the 1950s and 1960s. According to Werner Baer, “a large number of the key manufacturing industries in Latin America were constructed by or with the aid of foreign capital. The chief attraction of the latter was the promise of a growing protected market.”<sup>476</sup> This peculiar feature of import substitution industrialization (ISI) might account for the industrialized countries’ tolerance for LDCs’ deviance from GATT liberalization norms in the late 1950s and 1960s.

Be that as it may, the perception of NICs as disturbers of the trade regime was at the root of advanced countries’ policy initiatives aimed at circumventing the free rider problem. These initiatives, falling under the broad concept of “graduation,” involve withdrawing or threatening to withdraw “special concessions”

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475 William R. Cline, “Introduction and Summary,” in *Trade Policy in the 1980s*, ed. William R. Cline (Washington, D.C.: Institute for International Economics, 1983), p. 24.

476 Werner Baer, “Import Substitution and Industrialization in Latin America: Experiences and Interpretations,” *Latin American Research Review* 7 (Spring 1972): 109-10. That was particularly the case of the automobile industry, a sector in Latin America in which the presence of multinational corporations has been overwhelming. It should be recalled that in addition to tariffs, restrictions on imports and multiple ex-change rate systems, an important policy instrument of import substitution industrialization (ISI) in Latin America has been the granting of generous fiscal and financial incentives for investment in sectors deemed strategic for industrial development.



accorded in the trade area because of their LDC status, so that they will bring their policies into the GATT consensus. This chapter is organized as follows: The following section examines the main features of graduation, Brazil's reaction to that concept, and its application in the GSP, with an emphasis on the United States' program. Next, it examines the non-tariff barriers (NTB) codes negotiated in the Tokyo Round. We then analyze the question of the Subsidies Code from the standpoint of Brazilian trade interests and the consequences for its trade policy. The last section deals with current issues in United States-Brazilian trade relations.

### 5.1 Graduation in Principle and in Practice: The GSP

The prevalent mood in the industrialized countries in the late 1970s with regard to the "protectionist free riders" is well captured in the following statement by one unnamed western official, quoted in the *Financial Times*: "The treatment given to developing countries in the past was similar to that given to children. They were allowed to ignore GATT rules because of their weakness. But they are now growing to be adults and must take on more responsibility."<sup>477</sup> The concept of graduation is envisaged in Northern circles as a twofold process whereby differential treatment would be phased out or eliminated for the more advanced LDCs and the latter would progressively bring into line "their own trade policies with the generally applicable rules of the international trading system."<sup>478</sup> The first aspect of graduation implies, for example, losing the duty-free treatment conferred to them as LDCs through the GSP.

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477 *Financial Times*, 14 May 1979, quoted in Charles A. Jones, *The North-South Dialogue – A Brief History* (New York: St. Martin's Press, 1983), p. 107.

478 Isaiah Frank, "The 'Graduation' Issue for LDCs," *Journal of World Trade Law* 13 (July/August 1979): 289. Frank's article makes a strong case for graduating the advanced LDCs and offers specific proposals for a graduation scheme.

The second aspect focuses on the NICs' acceptance of the obligations imposed on the developed countries' GATT members, such as reciprocity in the form of lowering their own trade barriers and offering reciprocal concessions in trade negotiations. In fact, the principle of graduation was the industrialized countries' trade-off for accepting the principle of differential treatment for LDCs. That was certainly the case in the Tokyo Round, as exemplified both in the "Framework Agreements" and in the various codes on non-tariff barriers. The codes, with the exception of the customs valuation code, provided for differential treatment for LDCs along with the principle that as their development progressed, LDCs would be bound by the provisions of the codes.

In the North, those who favor graduation have suggested that in the North-South bargaining context, aid should be dispensed on an equity basis, leaving trade issues to the marketplace. According to this reasoning, LDCs would be faced with a trade-off between the two. In exchange for accepting trade negotiations to be conducted according to the principles of efficiency, compensation in the form of official development assistance would be offered for those who do not benefit from trade agreements. Substantial financial assistance to the least developed countries would induce them "to refrain from using numerical leverage within the Group of 77 to construct trade packages that are non-negotiable or to blackmail other kinds of concessions."<sup>479</sup>

The idea of graduating the advanced LDCs is not new. In the early 1960s, Lincoln Gordon was already pointing out that the Third World did not constitute a homogeneous group, suggesting an

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<sup>479</sup> Rothstein, *Global Bargaining*, p. 252. For a longer discussion of the nature of a possible trade-off between efficiency and equity in improving North-South dialogue, see *ibid.*, pp. 247-59. In fact, the Reagan administration view of North-South negotiations bears strict similarity to such a vision. For the current US administration, the free play of the market forces would make for the economic development of the developing world, in time reducing the gap between the two worlds.

intermediary category of the semi-industrialized LDCs, such as Argentina, Brazil, and Mexico.<sup>480</sup> After the oil shock of the mid-seventies, when interruption of oil supplies was a sufficiently credible threat to bring about a second round of North-South negotiations, serious thought was given in the industrialized countries to the idea of coopting the wealthier and more influential states in the South. This strategy was intended to break the political unity of the 77, in a period when the South was enjoying some leverage in the North-South dialogue. Thus, a former Assistant Secretary of the Treasury for International Affairs suggested that a “comprehensive” Northern response to the demands for a NIEO would require, among other things, “enhancing the role of the South in the decision-making machinery of the international economic system.” He envisioned two steps in that direction. First, adequate representation for all LDCs “*as a group...* in all important decision-making arenas.” Second, “selected *individual* countries from the Third World should participate directly in the smaller decision-making groups that lie at the center of the international machinery.”<sup>481</sup> Bergsten’s proposal sought to strike a balance between rights and obligations for the coopted LDCs. Thus, the “new entrants from the Third World... would have more rights and fewer responsibilities than the developed countries (DCs), and fewer rights and more responsibilities than the less developed countries (LDCs).” Concrete responsibilities would be expected from them in helping the economic progress of the poorest LDCs and in recognizing “the impact of their own actions on the functioning of the entire international economic system.” However, they should not be expected to give concessional aid, or

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480 Lincoln Gordon, “Economic Regionalism Reconsidered,” *World Politics* 13 (January 1961): 234-35.

481 Statement by C. Fred Bergsten in the Panel Discussion on the New International Economic Order, in *The New International Economic Order: The North-South Debate*, ed. Jagdish N. Bhagwati (Cambridge, MA: The MIT Press, 1977), pp. 350-51 (emphasis in the original).

to extend preferential tariffs, although they would be deprived of both. Bergsten suggests “more lenient rules” than those applied to the advanced market economies, with respect to the use of certain trade measures, but not “the full exceptions from the usual rules accorded the LDCs.”<sup>482</sup>

At the time that the Brazilian economy was enjoying high rates of growth North American analysts frequently recommended that Brazil be invited to join the advanced capitalist states in the OECD.<sup>483</sup> Despite predictions made since the late 1960s that unity of the 77 would not stand increasing differentiation within the Third World, the resilience of the LDCs’ coalition has been quite obvious. None of the advanced LDCs have defected from the Group of 77, though, in general, they have abstained from leading the Third World coalition in “weak” forums such as UNCTAD. On the other hand, countries such as India and Brazil have carried the LDCs’ demands into GATT and other multilateral arenas dominated by industrialized countries. Over the years, strategies of cooptation of the more influential LDCs have faded as the ongoing world economic recession eroded oil-based Southern leverage. Instead, in the United States and Western Europe, the emphasis of graduation has rested more and more on the obligations of the advanced LDCs, rather than on their rights.

Certain graduation procedures have long been applied in the field of international development financing, whereby the World Bank has used per capita income as a criterion for terms of credit

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482 Ibid., p. 351. A suggestion was made for the formation of an intermediate group within UNCTAD that would include the less developed Western European nations belonging to Group B, and the more advanced in the Group of 77. See Charles R. Evans, “UNCTAD: Should Group B Remain Group B?” *Journal of World Trade Law* 12 (May/June 1978): 241-44.

483 For instance, see Lincoln Gordon, “Brazil’s Future World Role,” *Orbis* 16 (Fall 1972): 627-31; and Roger W. Fontaine, *Brazil and the United States – Toward a Maturing Relationship* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1974), pp. 125-27.

eligibility. When the GSP was first enacted, the donors introduced graduation procedures in their respective schemes. As mentioned before, such safeguard mechanisms were the price for industrialized countries' enactment of a preferential system for LDC exports. Under the United States' system, for example, any LDC loses duty-free treatment for a particular product when either one of the two conditions is met – the so-called “competitive need” limitations formula: either United States imports of a particular product exceed 50 percent of the total value of United States imports of that article, or United States imports of an LDC's product exceed a specified dollar ceiling, adjusted annually to take into account changes in the United States GNP (US\$ 50.9 million in 1981). The United States President can waive competitive need limits for a particular country under specified statutory circumstances. The EEC and the Japanese use a tariff quota system. A predetermined volume of imports is admitted under duty-free treatment. Beyond a ceiling limit, the product is subject to the regular MFN duty.<sup>484</sup>

As time has passed, concrete steps have been taken by the donors to tighten graduation mechanisms. In 1980, “discretionary graduation” was introduced in the United States' GSP program. Under this mechanism, the President has the authority to withdraw, suspend, or limit GSP duty-free treatment in three areas: adding new products to the GSP list, removing items from the list, and redesignating eligible GSP beneficiaries in products that have gone over the competitive need in one year and under that threshold in a subsequent year. Under this administrative procedure, decisions are made on a product-by-product basis, taking into consideration the following factors: the country's general level of development,

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484 A discussion of graduation mechanisms in the spheres of international development lending and the GSP is found in Frank, “The ‘Graduation’ Issue for LDCs,” pp. 294-97. For a detailed analysis of the major donors' GSP safeguard mechanisms schemes, see Tracy Murray, *Trade Preferences for Developing Countries* (New York: John Wiley & Sons, 1977), pp. 63-83.

its competitiveness in a particular product, and overall United States economic interests.<sup>485</sup> When the EEC renewed its GSP in 1981, an element of discrimination was introduced against the NICs in setting quotas for tariff exemptions. Countries with a large export capacity in a product received reduced quotas.<sup>486</sup> In the International Monetary Fund (IMF) and the World Bank, United States representatives began to insist on the adoption of a more stringent three-tier system which would in fact eliminate the advanced LDCs from receiving Bank loans.<sup>487</sup>

In the United States, the pressure to reform the GSP program came from Congress, pushed by those domestic groups that have been against the program since its inception, labor and industry in "import-sensitive" sectors. The rationale for changing the system, as gauged by testimony in Congress and legislation proposed is threefold. The first two reasons are the same as those behind the introduction of safeguard/graduation mechanisms when the GSP was established by the Trade Act of 1974. On one hand, they intend to provide greater protection for domestic producers, particularly for those import-competitive industries. Thus, for example, operative procedures were suggested to ease the removal of items from the GSP list and widen the product coverage of items excluded by statute because of import sensitivity. On the other hand, they proposed to ensure a wide dispersion of GSP benefits among developing countries. Here the basic concern is the

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485 U.S., Congress, Senate, *Renewal of the Generalized System of Preferences*, S. Rept. 98-485 to Accompany S.1718, 98<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1984, pp. 3-5.

486 "Tougher EEC Trade Quotas Pose New Threat to Latin America," *Latin America Weekly Report*, 2 January 1981, p. 6; and "GATT: Latin America Seeks Lower Protectionist Barriers," *Latin America Weekly Report*, 12 November 1982, p. 6.

487 "Brazil Fights for the Right to Stay in Kindergarten," *Latin America Weekly Report*, 9 October 1981, pp. 6-7. Although the World Bank has in principle worked with a three-tier system, it has used a standard upper limit for International Development Assistance (IDA) credit eligibility, but it has no definite income ceiling for hard loans. The US would like to see the formal adoption of such a system.

excessive concentration of benefits in the most advanced LDCs, especially the top five: Taiwan, Hong Kong, Korea, Mexico, and Brazil. Therefore, suggestions were made for further restricting the competitive need limits, either by lowering ceilings for highly competitive products, or by extending its application from a product basis to an industrial sector approach. More radical proposals called for a country-specific graduation option, by which the most competitive LDCs would be phased out of eligibility for duty-free benefits. Others would like to see the whole program brought to an end, since in their view it was not fulfilling its original function, but was helping the countries which needed it least. Organized labor has been the most forceful proponent of GSP termination. The position of the Administration has been that exclusion of the most competitive would not make room for the most needed, largely because of the latter's lack of capacity to export the products granted duty-free treatment in the United States program. The Administration also worried that the other GSP donors might "question the relative increase in their share of the 'burden'," since the removal of the top five beneficiaries would in fact reduce the level of benefits of the United States' program.<sup>488</sup>

The third rationale for reforming the United States' GSP is noteworthy because it mirrors a widespread demand in the United States, and in other industrialized countries as well, for "reciprocity." By this claim, the United States would retaliate against any country which did not grant comparable market access

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488 U.S., Congress, House, Committee on Ways and Means, *Operation of the Generalized System of Preferences, Hearings before the Subcommittee on Trade of the Committee on Ways and Means*. 96<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1980, p. 20. The views of the Administration are on pp. 9-23; U.S., Congress, Senate, Committee on Finance, *Review of the U.S. Generalized System of Preferences, Hearings before the Subcommittee on International Trade of the Committee on Finance*. 96<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1981; and U.S., Congress, Senate, Senator Heinz and Senator Moynihan speaking on behalf of S.1150, a bill to amend the Trade Act of 1974 to establish certain limitations with respect to the generalized system of preferences, and for other purposes. 97<sup>th</sup> Cong., 1<sup>st</sup> sess., 8 May 1981, *Congressional Record* 127: S4543-47.

to United States exports, services, and investment. Retaliation would take the form of higher protection against United States protectionist trading partners, or other offsetting action.<sup>489</sup> In the spirit of the current United States motto, “free, but *fair* trade,” the GSP would be used as leverage to extract concessions in bilateral trade negotiations.

According to some proposals, GSP duty-free treatment should be limited or withdrawn from countries using “trade distorting practices,” for example the use of investment performance requirements (export and local-content requirements), infringing on United States intellectual property rights, and denying “internationally recognized workers rights” to their workers. In the same vein, but with a slightly different perspective, there were those who preferred that the GSP be used not only as a “stick” but also as a “carrot” to induce GSP beneficiaries to open up their markets to United States goods, services, and investments. The latter was in fact the core of the proposal put forth by the Administration in seeking legislation to extend the program. Thus, the Administration proposed that “the extent to which a beneficiary country has assured the United States of reasonable and equitable access to its markets” be taken into account in considering GSP eligibility not only with respect to the “limitation of benefits,” but also with respect to the “liberalization of benefits on certain products.” The question of increasing Executive discretionary authority to waive competitive need limits on certain products for countries, to induce them to provide significant access to its market, was a matter of dispute among the groups with a stake

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489 The prime target for US Congress reciprocity legislation is Japan. However, the NICs often accused of perpetrating “unfair trade practices,” are likely targets for application of reciprocity pressure. For a critical assessment of US reciprocity approach, the reader is referred to Keith A. J. Hay and B. Andrei Sulzenko, “U.S. Trade Policy and ‘Reciprocity,’” *Journal of World Trade Law* 16 (November/December 1982): 471-79; and William R. Cline, “‘Reciprocity’: A New Approach to World Trade Policy?” in *Trade Policy in the 1980s*, pp. 121-58.



in the program. Until then, Executive latitude was high when it came to limiting or restricting GSP tariff treatment, but much less so with respect to the selection of countries and products to come under the GSP.

Indeed, there is a clear-cut cleavage between using the GSP as a lever to obtain concessions and graduating the advanced LDCs out of the program. The targets for reciprocal concessions are necessarily the leading candidates for graduation, since the most competitive LDCs are also the most significant LDC markets for United States exports, and the ones for which the United States have more leverage because of their stake in maintaining GSP status. Such conflicting perspectives were neatly revealed during congressional hearings on the GSP. Two viewpoints separate those who think the thrust of the program should be towards “opening up additional markets” for the United States, rather than “closing down access” by LDCs into the United States market, from those who, wishing to protect their own market from the influx of duty-free imports, would like to see the United States’ program retain its original purpose, rather than turning itself into a “US export promotion program.” In general, opposition to the renewal of the United States’ GSP came from organized labor, agricultural interests, and manufacturing associations particularly in the leather products, textile, and apparel industries. Support for renewing the GSP was expressed by the Administration, industry, and foreign trade associations.<sup>490</sup>

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490 U.S., Congress, Senate, Committee on Finance, *Renewal of the Generalized System of Preferences, Hearings before the Subcommittee on International Trade of the Committee on Finance*. 98<sup>th</sup> Cong., 1<sup>st</sup> sess., 1983, for the Administration’s proposal, see pp. 4-9, 18-20; U.S., Congress, House, Committee on Ways and Means, *Possible Renewal of the Generalized System of Preferences – Part 1, Hearings before the Subcommittee on Trade of the Committee on Ways and Means*. 98<sup>th</sup> Cong., 1<sup>st</sup> sess., 1984, for the Administration’s proposal, see pp. 3-8; U.S., Congress, House, Committee on Ways and Means, *Possible Renewal of the Generalized System of Preferences – Part 2, Hearings before the Subcommittee on Trade of the Committee on Ways and Means*. 98<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1984; and U.S., Congress, Senate, Committee on Finance, *Proposed Renewal of the Generalized System of*

Mention has already been made of the fact that Brazil has been a significant beneficiary of the United States' GSP. Data for the 1976-1981 years show Brazil occupying fifth place among the major beneficiaries in the United States program, next after Mexico, but farther below the chief receiver of GSP benefits, Taiwan, which has accounted for one-fourth or more of the total GSP duty-free imports of the United States in that period. Since 1980, Brazil's share in the program has dropped from 9 to 6 percent. Brazil's GSP duty-free exports to the United States amounted to US\$ 514.6 million in 1981.<sup>491</sup> The principal beneficiaries, however, have accounted for the greatest share of trade excluded under either the competitive need threshold or discretionary graduation. In 1981, discretionary authority denied redesignation for US\$ 597 million in imports from the top five, in addition to Israel.<sup>492</sup> Furthermore, the ratio of graduation to GSP benefits has been increasing. In 1983, the value of total exclusions, under both discretionary graduation and competitive need, exceeded the value of GSP duty-free imports by a 1:11 ratio.<sup>493</sup>

As a more likely target for graduation, Brazil has firmly objected to the idea, raising arguments of an economic and political nature. Brazilian officials have repeatedly pointed to the still large economic gap between the most advanced of the LDCs and the industrialized countries. By any economic criteria, they

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*Preferences, Hearings before the Subcommittee on International Trade of the Committee on Finance.* 98<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1984. Also, see U.S., Congress, Senate, Senator Heinz and Senator Moynihan speaking on behalf of S.1150, pp. S4543-47.

491 U.S., President, *Twenty-Sixth Annual Report of the President of the United States on the Trade Agreements Program*, 1981-82, transmitted to Congress, November 1982 (Washington, D.C.: Government Printing Office, 1983), appendix L, table L-1.

492 *Ibid.*, pp. 213, 215.

493 U.S., Congress, Senate, *Renewal of the Generalized System of Preferences*, S. Rept. 98-485, table 3, "Product Graduation Under the GSP, p. 5.

have argued, Brazil is far closer to the countries at the bottom of the world economic stratification than those at the top.<sup>494</sup> In fact, a recurrent theme in the diplomatic discourse during Ambassador Ramiro Saraiva Guerreiro's tenure as head of the Foreign Ministry was Brazil's belonging to the Third World.<sup>495</sup> The North-South axis provides another ground for rejecting graduation. The latter is seen as an attempt to weaken the bargaining power of the Third World coalition. With the exclusion of the NICs and the oil-exporting countries from the Southern coalition, argue Brazilian diplomats, North-South negotiations would recede from a current focus on the need for a structural change of the international economic order to a mere question of concessional aid to the poorest LDCs. The message is directed to the Southern nations, in search of their support for an issue of no concern for the majority of the LDCs.<sup>496</sup> Brazilian diplomats, indeed, see graduation as a purely political question, without any sort of technical basis, and argued that, whatever the objective criteria used, they would have been chosen arbitrarily by the industrialized countries, without having been discussed with the whole international community.<sup>497</sup>

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494 A former Finance Minister was quoted as saying: "Per capita income in Brazil is approaching US\$ 2,000, but this is still only one-eighth of the level in the industrialized countries." Quoted in "Brazil Fights for the Right to Stay in Kindergarten," *Latin America Weekly Report*, 9 October 1981, p. 6.

495 This idea was expressed in the Brazilian foreign policy self-definition of a dual world insertion: a member of the Third World and an "Occidental" nation. See, e.g., "Palavras de Sua Excelência o Senhor Embaixador Ramiro Saraiva Guerreiro, Ministro das Relações Exteriores, Perante a Comissão de Relações Exteriores do Senado Federal," 21 September 1983 (Mimeographed), particularly pp. 1-4. This foreign policy concept was intended not only as a response to attempts to graduate Brazil, but also to reassure the more conservative sectors of the regime that Brazil's Third World identification would not go as far as abandoning its "historical commitments" to the West.

496 For the North-South argument for rejecting graduation, see Angela Santangelo, "Guerreiro Diz que Tese da 'Graduação' Prejudica o Brasil," *Jornal do Brasil*, 11 October 1981, p. 14. Also, see Roberto Abdenur and Ronaldo M. Sardenberg, "Notas sobre as Relações Norte-Sul e o Relatório Brandt," paper presented at the International Conference on the Brandt Report and its Impact of Latin America, Canela, R.S., Brazil, 7-9 August 1980, p. 30. Abdenur and Sardenberg are two career diplomats who served in the Foreign Minister's staff during Guerreiro's term.

497 See "Guerreiro Diz que Tese da 'Graduação' Prejudica o Brasil," p. 14.

But the principal argument that Brazilian diplomacy has used against the graduation thesis appeals to the industrial countries' own self-interest, in a context of growing economic interdependence between the North and the South. In their view, graduation harms the "most viable" countries, those that have constituted a dynamic market for the advanced countries' exports, without solving the serious economic problems of the very poor. Graduation, coupled with other restrictive measures against LDCs' exports, would reduce the import capacity of the developing countries with negative consequences for the North, at a time when the latter is beleaguered with problems of inflation and unemployment. Such is the message that Brazilian representatives have conveyed in international forums, such as the Cancun conference and the United Nations.<sup>498</sup>

The advanced countries' self-interest appears to be, indeed, the sole reason for delaying the implementation of tighter graduation procedures. An example of that self-interest was seen when the United States extended the statutory authority of its GSP program without removing from it any of the top leading beneficiaries, a suggestion put forward by the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). It should be recalled that until then, graduation had not excluded countries from the list of beneficiaries, but had only made certain products or portions of their trade ineligible for duty-free treatment. The predominant view in the United States, however, held that it would not be a "wise policy" to graduate countries out of the GSP at that time. Not only would it be contrary to United States

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498 See, e.g., *ibid.*; Angela Santangelo, "Brasil Rejeita Conceito de Ajuda dos EUA," *Jornal do Brasil*, 23 October 1981, p. 13; Angela Santangelo, "Guerreiro Pedir Novas Regras de Jogo para o Comércio," *Jornal do Brasil*, 24 October 1981, p. 13; and Bernard D. Nossiter, "Brazilian Leader, at U.N., Foresees Major Depression," *The New York Times*, 28 September 1982, pp. A1, A10. Speaking at the opening session of the UN General Assembly, the Brazilian President accused the industrial countries' current economic policy of "destroying bridges without building anything in their place."

economic interest – the leading candidates for graduation are also the leading developing country markets for United States exports – but also the GSP could be used as an instrument for bringing the advanced LDCs' trade policy in line with the rules of the trade regime. By excluding the advanced LDCs, the GSP would lose the ability to implement a chief objective of the policy of graduation. Furthermore, the Third World's debt crisis played a role in avoiding a country-specific graduation option, since it would have expelled from the program the two major Third World debtors: Mexico and Brazil.

The Third World's debt situation unfolded to a critical level following the Mexican debt crisis in September 1982. The exposure of the major private banks in the debtor nations is so high that a default of just one of the major debtors could bring the international financial system to the brink of collapse. There has been no major default, but debt renegotiations accelerated in the 1980s. The chief debtors have negotiated "rescue packages" orchestrated by the IMF, agreeing, in turn, to implement IMF's stabilization-adjustment programs. As part of their rescue packages negotiated with the IMF, both Mexico and Brazil agreed to a certain annual export target amount.<sup>499</sup> Certainly, the major debtors could succeed in servicing at least some of their huge debt obligations only if the industrialized countries' markets remain open to their exports. Excluding countries such as Mexico and Brazil from the GSP program would reduce even more those countries' foreign exchange earnings, thereby undermining the efficacy of those same remedies recommended by the current United States administration, the World Bank, and the IMF to manage the debt problem for the health of the international financial community.

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499 From 1982 to 1983, multilateral debt renegotiations jumped from a total amount of US\$ 10 billion to US\$ 37 billion. Robert Henriques Girling, *Multinational Institutions and the Third World – Management, Debt, and Trade Conflicts in the International Economic Order* (New York: Praeger, 1985), table 10.1, pp. 170-81. For an extended examination of Third World debt issues, see *ibid.*, pp. 19-106, 169-79.

The United States' GSP legislation enacted in October 1984 is indicative of the direction United States graduation policy is leaning towards in the 1980s. For the advanced LDCs the message is clear: increasingly GSP benefits are going to be linked to their willingness to "assume responsibilities commensurate with their development level," such as "the removal of trade-distorting barriers and impediments to the free flow of goods and services." The United States' GSP authority was extended until July 1993, but with significant modifications in the program, including criteria for a beneficiary country's eligibility and limitations on preferential treatment. As far as the former are concerned, the GSP statute has added a new mandatory factor dealing with the conditions of "internationally recognized workers rights" in a country, which can bar countries from eligibility for GSP benefits. It also included expropriation of United States *intangible* property (patents, trademarks, and copyrights) among the several mandatory conditions that prevent designation. New criteria also have been added among those discretionary factors which the President must take into account in the designation process and in all other determinations regarding country or product eligibility. They are: the extent to which a country "has assured the United States that it will regain from engaging in unreasonable export practices," whether it provides "adequate and effective" protection for intellectual property, whether it has taken action to reduce "distorting investment practices" and barriers to trade in services, and the extent to which a country affords "internationally recognized workers rights."

With respect to limitations on duty-free treatment, the statute maintains both the automatic graduation mechanism (competitive need limits) and discretionary graduation, but provides additional authority to reduce the benefit limits further. Thus, the President is required to conduct a general review of all GSP-eligible products within two years, and periodically thereafter. The review should take

into account the abovementioned eligibility factors, particularly those related to conditions of access to a beneficiary's market, as well as a beneficiary's competitiveness with respect to eligible products. Based on that review, competitive need ceilings will be reduced by half for all articles for which a country has demonstrated a "sufficient degree of competitiveness relative to other beneficiaries." The President, however, may waive the application of this lower limit, if it is in the "national economic interest of the United States." The statute requires that considerable weight be given to two factors: whether a country provides the United States "equitable and reasonable" market access, and whether it affords "adequate and effective" legal protection to intellectual property rights. There are some statutory limitations to this waiver authority. Finally, the legislation introduces operative procedures for graduating countries out of the GSP program. Thus, whenever a country's per capita gross national product exceeds a specified value level, adjusted annually (US\$ 8,500 in 1984), its competitive need limits will be reduced by half during a two-year period, after which it will lose GSP status. This provision does not affect any beneficiary at the present time, since none have currently attained this level.<sup>500</sup>

Whether or not the debt crisis has delayed the implementation of tighter graduation measures, the issue is certain to continue in the years ahead. Even those sympathetic to the NICs feel that some concessions, in the way of trade liberalization measures, are in their best self-interest, for example, giving the industrial countries' governments more leverage to counter growing domestic pressure

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500 U.S., Congress, House, Trade and Tariff Act of 1984, H. Rept. 98-1156, Conference Report on H.R. 3398, 98<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1984, Title V – Generalized System of Preferences Renewal, pp. 68-74. Also, see U.S., Congress, Senate, *Renewal of the Generalized System of Preferences*, S. Rept. 98-485; and U.S., Congress, House, *Generalized System of Preferences Renewal Act of 1984*, H. Rept. 98-1090 to Accompany H. 6023, 98<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1984.

for protection.<sup>501</sup> The imprecision and ambiguity of the concept of graduation – believed to be a victory from the standpoint of the advanced LDCs, coming out of the Tokyo Round – is in fact a double-edged sword. On the one hand, it provides more room for the NICs by delaying the institutionalization of a two-tier system within the developing world. On the other, the lack of precise definitional parameters opens the door for a unilateral and arbitrary use of graduation as the advanced market economies see fit. Such use has become indeed more frequent, as attested by the EEC proposal for “selective” safeguards, or the United States’ call for “reciprocity.” As seen before, the EEC has wanted the GATT safeguard clause to be amended to allow quotas to be placed on *specific* imports from countries which it considers to be “disruptive” to its internal market, namely Japan and the NICs. The concept is thus discriminatory – directed against the “trouble-makers” – and therefore a violation of the MFN norm, which says that safeguard actions must be taken against *all* exporters of the product in question.<sup>502</sup> Protection or other offsetting measures in retaliation for “unfair trade practices,” as sought by United States reciprocity legislation, also constitute a departure from the unconditional MFN, since sanctions would be imposed only against the alleged non-reciprocal country. The danger of “aggressive reciprocity” is an escalation of counter-retaliatory protective measures, with

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501 See, for instance, Béla Balassa, *The Newly Industrializing Countries in the World Economy* (New York: Pergamon Press, 1981), pp. 144-45; Leslie Stein, “The Growth and Implications of LDC Manufactured Exports to Advanced Countries,” *Kyklos* 34 (Fasc. 1 1981): 44-45; and Tigani E. Ibrahim, “Developing Countries and the Tokyo Round,” *Journal of World Trade Law* 12 (January/February 1978): 18-19.

502 During the debate of a safeguard code at the Tokyo Round, the EEC did play with the discriminatory nature of the new code, in an attempt to weaken the negotiating position of the NICs. Using a divide-and-conquer strategy, the EEC tried to appease the LDCs’ apprehensions, assuring several of their representatives that it “would use selectivity only against a small number of ‘highly competitive countries.’” Patrizio Merciai, “Safeguard Measures in GATT,” *Journal of World Trade Law* 15 (January/February 1981): 58. On the issue of nondiscriminatory application of safeguard measures, see *ibid.*, pp. 51-52.



severe destabilizing effects on the trade system.<sup>503</sup> Because the NICs are weak actors in the trade system, they might be prey to reciprocity demands without being able to resort to the weapon of retaliation. The United States' insistence on liberalization in areas such as services and foreign investment is, according to Carlos Diaz-Alejandro, "already yielding tangible fruit in new bilateral and discriminating treaties between the United States and some LDCs with weak bargaining positions."<sup>504</sup>

Thus, the NICs are caught in a dilemma, facing simultaneously a growing tide of restrictive measures targeted at them and the indifference of most of their peers, unaffected by such measures as selectivity, reciprocity, and graduation. Therefore, it is in the advanced LDCs' best self-interest, Brazil included, that a definition of the parameters of graduation be arrived at in multilateral arenas. By going beyond a mere denouncing posture to an active role in such a multilateral endeavor, they can have a say in whatever graduation system is devised. The history of North-South negotiations shows that every time the North grants anything in the way of "differential treatment," it asks something from those who are in a better condition to give. The operation of agreed norms and rules is, after all, the last resort of those who cannot temper power with power.

## 5.2 Graduation in Practice: The NTB Codes

Mention has already been made of the growing awareness in the North that the unconditional MFN treatment creates a free rider problem in the trade regime. This awareness has become more acute after the NIC phenomenon in world trade and their alleged

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503 For a discussion of those issues, see Cline, "Reciprocity: A New Approach to World Trade Policy?," particularly pp. 131-46.

504 Carlos F. Diaz-Alejandro, "Comments," in *Trade Policy in the 1980s*, pp. 306-7.

unwillingness to accept the rules applicable to the industrialized countries. One way to circumvent the free rider problem is substituting conditional for unconditional MFN treatment in trade negotiations.<sup>505</sup> The non-tariff barrier codes negotiated in the Tokyo Round fall under the conditional MFN, since, by and large, rights and obligations under these agreements accrue only to signatories, therefore preventing a free ride for non-signatories. It has been argued that “an important element in achieving their [the codes] negotiation was the perception, both by Europe and by the United States, that only signatories – countries undertaking the disciplines of the Codes – would receive their benefits.”<sup>506</sup> In fact, there is a legal problem over such interpretation, since it conflicts with the unconditional MFN clause in GATT. Because of that, a GATT decision issued in November 1979 stated that “existing rights and benefits under the GATT of contracting parties not being parties to these Agreements, including those derived from Article I [MFN rights], are not affected by these Agreements.”<sup>507</sup> That was the official legal interpretation of the relationship between GATT and the NTB codes, although the history of GATT

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505 Under the unconditional MFN, any concession exchanged between two parties is automatically extended to a third one, without the latter granting any concession of its own. Under the conditional MFN, a bilateral negotiated concession is extended to a third party only if it grants a similar concession. Cline, “Reciprocity: A New Approach to World Trade Policy,” p. 132.

506 Ibid., p. 135.

507 GATT, *The Tokyo Round of Multilateral Trade Negotiations*, vol. 2: *Supplementary Report by the Director-General of GATT* (Geneva, January 1980), “Action by the Contracting Parties on the Multilateral Trade Negotiations,” Decision of 28 November 1979, p. 47. For a discussion of the relationship between GATT and the NTB codes with respect to the MFN clause, see John H. Jackson, “GATT Machinery and the Tokyo Round Agreements,” in *Trade Policy in the 1980s*, pp. 172-76. Jackson believes that the November 1979 GATT decision suggests “the GATT MFN clause (Article I) continues to have validity, and in most cases would require specific MTN-agreement member countries to apply uniform treatment, even on subject of that agreement, to GATT contracting parties which are not members of the specific agreement.” Ibid., p. 174. Also, see Abdulqawi A. Yusuf, “Differential and More Favourable Treatment: The GATT Enabling Clause,” *Journal of World Trade Law* 14 (November/December 1980): 498; and Balassa, *The Newly Industrializing Countries in the World Economy*, pp. 141-42.

shows that economic power has been a crucial determinant in interpreting GATT rules.

Indeed, with regard to both the Government Procurement Code and the Subsidies and Countervailing Duties Code, the United States' interpretation is that their provisions apply only to signatories. Thus, the United States legislation on the MTN agreements, through the Trade Act of 1979, states that the main provision of the Procurement Code – namely to extend national treatment to a foreign country's firm bidding on official contracts – will not apply to an industrialized country that has not signed the Code, or to signatories that failed to provide "reciprocal competitive government procurement opportunities to United States products."<sup>508</sup> In the case of the Subsidies Code – a subject of particular interest to the advanced LDCs – the clause of "material injury" applies solely to countries that have subscribed to it. Thus, the countervailing duty statute of the 1979 Act, which now requires a material injury determination as a prior condition to levying a countervailing duty, is applicable to imports from only those countries that have signed the MTN Code on Subsidies. The 1979 Act also stipulates that in case of conflict between MTN agreements and a federal statute, the latter shall prevail.<sup>509</sup>

As far as GATT's procedural norms are concerned, the NTB codes appear to fall under the "major interests" norm, rather than under the "multilateralism" norms.<sup>510</sup> Though the negotiations of the NTB codes departed from the usual tariff bargaining procedure and introduced a more multilateral rule-making technique, the

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508 Stephen D. Krasner, "The Tokyo Round: Particularistic Interests and Prospects for Stability in the Global Trading System," *International Studies Quarterly* 23 (December 1979): 515.

509 Richard A. Cohen, "The Trade Agreements Act of 1979: Executive Agreements, Subsidies, and Countervailing Duties," *Texas International Law Journal* 15 (Winter 1980): 103, 105, 114-15.

510 A discussion of these two conflicting GATT procedural norms is found in Finlayson and Zacher, "The GATT and the Regulation of Trade Barriers," pp. 584-96.

developing countries were brought into the negotiations only after the United States, the EEC, and Japan had settled their major differences and an overall agreement concerning all aspects of the Tokyo Round had been arrived at among the “Big Three” and the other industrialized countries.<sup>511</sup> Nothing reveals more clearly the prevalence of the “major interests” norm in the MTN than the fact that non-tariff barrier reductions were negotiated under the form of a separate agreement or code. This procedure of developing “side agreements” to embody the structure of new rules is a direct consequence of the increase in GATT membership, mainly of members from the developing areas, and the industrial countries’ determination to avoid the “Rich Men’s Club” resembling more and more the “Poor Nations’ Pressure Group.” In the view of a GATT legal expert, the industrialized countries’ resorting to separate agreements for changing the regime’s rules reflects their desire to avoid the prevalence of a “one-nation one-vote” negotiating posture. “By negotiating separate stand-alone treaties,” according to the same analyst, “it was not necessary for a minimum of two-thirds of a GATT membership to accept any agreement.” Therefore, as he concludes, “a much smaller group of nations... could enter into an agreement and put it into effect, even over objections by other nations or group of nations among the GATT contracting parties.”<sup>512</sup> It should be noted that amendments to the MFN clause require unanimity of GATT contracting parties and that *the facto*,

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511 An agreed “Framework of Understanding” covering the main issues and setting out the major elements for a “balanced package” at the end of the negotiations, was reached on 13 July 1978, by the United States, the EEC, Japan, Canada, New Zealand, Switzerland, Austria, and the Nordic countries. The LDCs reacted angrily to that document, issuing a strong statement the day after. They objected to being “left on the periphery of the negotiations,” stressing that “a balanced assessment of the current status of the negotiations could only be made with the participation of all the countries involved.” GATT, *The Tokyo Round of Multilateral Trade Negotiations: Report by the Director-General of GATT* (Geneva, April 1979), p. 14 (hereafter cited as GATT, *The Tokyo Round*).

512 Jackson, “GATT Machinery and the Tokyo Round Agreements,” pp. 172-73; also see pp. 164-65.

the NTB codes constitute a breach with the unconditional MFN.<sup>513</sup> In view of what was argued above, we find it difficult to agree with the first part of Finlayson and Zacher's sentence in summing up their analysis of GATT's two procedural norms: "While rule making in the regime has become more multilateral in character since the mid-1960s, the monitoring of behavior and other elements of rule implementation have been increasingly affected by the competing major interests norm."<sup>514</sup>

The practice of changing the locus of decision making as member-ship increases and the industrial nations begin to lose effective control of the organization is not, indeed, a feature peculiar to GATT, but is a practice of all international economic organizations. As remarked, "the old members can always do the real business of the club elsewhere, as in its formal proceedings the institution becomes more of a talking shop."<sup>515</sup> Empirical applications of public choice models of the formation of international organizations have shown that increases in membership or expansion of an organization's activity raise the cost of reaching agreement, adding a successively diminishing amount to the benefits received by each member.<sup>516</sup> One implication of the theory, as pointed out, and taking into account the free rider problem that besets large organizations, is that there is an incentive for large countries to either move the locus of decision to a smaller group – GATT's "side agreements" – or to

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513 Unanimity is also required for amendments to the tariff schedules and Article XXX. A two-thirds majority is required for amending the other GATT articles, but is effective only for those countries accepting the amendments. Finally, "decisions" can be approved by a simple majority. Finlayson and Zacher, "The GATT and the Regulation of Trade Barriers," p. 585.

514 Ibid., p. 593.

515 Fred Hirsch, "Is There a New International Economic Order?" *International Organization* 30 (Summer 1976): 525.

516 M. Fratianni and J. Pattison, "The Economics of International Organization," *Kyklos* 35 (Fasc. 2 1982): 244-62; and Bruno S. Frey, "The Public Choice View of International Political Economy," *International Organization* 38 (Winter 1984): 214-18.

exclude non-members from the benefits of the organization – the conditional MFN.

How effective the conditional MFN has been in inducing LDC adherence to the NTB codes can be ascertained by looking at table 2, which lists the LDCs' signatories to the codes. Very few had subscribed to the agreements as of August 1982. This is not surprising given the LDCs' overall disappointment with the results of the Tokyo Round, which fell short of the MTN's sponsors' initially stated objective to consider the trade problems of the developing world.<sup>517</sup> On the other hand, for a great number of developing countries, reduction of non-tariff barriers is likely to affect their export performance minimally, as opposed to price stabilization of their commodity exports, for example. Therefore, for practical purposes, conditional application of the codes' provisions constituted for the bulk of LDCs a very weak incentive for subscribing to them. From the standpoint of LDCs' trade interests, the Code on Government Procurement is an example of an arrangement in which what is being given is meaningless. As mentioned before, this code attempts to open government purchases to competition from foreign suppliers. The vast majority of trade in such areas consists of purchases by entities from the industrial countries, but few LDC firms are suppliers in such a market. So, the industrial countries have the best chance to benefit from the code. Ironically, this area was one in which there was a consensus that special and differential treatment for LDCs was "feasible and appropriate." To join the code a country is required to make a contribution by way of a list of entities to which the code would apply. The agreement provided that for developing countries contributions would be in relation

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517 See, for instance, "Developing Nations Angry at Big Three in Trade Talks," *Latin America Economic Report*, 21 July 1978, p. 218; "Latin Americans Unhappy Over Trade Package," *Latin America Economic Report*, 11 May 1979, p. 139; and S. Joekes and C. H. Kirkpatrick, "The Results of UNCTAD V," *Journal of World Trade Law* 13 (November/December 1979): 540-42.

to their “individual development, financial, and trade needs,” allowing them to negotiate exclusions from the rule on national treatment with respect to particular governmental entities or products. The least developed LDCs were exempted from making such contribution, which means that even if they do not subscribe to the code they “benefit” from its provisions.<sup>518</sup> As can be seen in table 2, the Code on Government Procurement received the least number of signatories from the developing world. Even the industrializing developing nations, with two exceptions, eschewed subscribing to it, although they would have a better chance of benefiting from it. The reason comes from the high degree of state involvement in the economies of the advanced LDCs, Hong Kong being a conspicuous exception. Apparently, from their point of view the admission price to the Code – liberalizing their methods of government procurement – was much higher than the prospective gains from acceding to it. The opposite situation is represented by the Agreement on Technical Barriers to Trade, the Standards Code for short. It seeks to avoid or reduce the use of standards and certification systems as a hindrance to imports. The Code’s provisions are applicable to both industrial and agricultural products. In this case, LDCs have much to gain and little to lose, since their exports – in particular food products – have been particularly liable to the use of such technical restrictions to limit their entry into the United States’ and EEC markets. Besides, by subscribing to the Code, LDCs would receive technical assistance in the field, relief from certain obligations, and the opportunity to participate in the periodical reviews of the Code’s operation and implementation.<sup>519</sup> Not surprisingly, more LDCs subscribed to this Code than to any of the remaining five.

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<sup>518</sup> For the treatment accorded to the LDCs, see GATT, *The Tokyo Round*, pp. 77, 80, 173-76.

<sup>519</sup> For the benefits to the LDC, see *ibid.*, pp. 66-67, 168-70; and Balassa, *The Newly Industrializing Countries*, pp. 138-40.

**Table 2 – LDCs’ Signatories to the GATT Codes on Non-tariff Barriers  
(As of August 13, 1982)**

Country	Standards	Subsidies	Licensing	Anti-dumping	Valuation	Procurement
Hong Kong	x	x	x	x	x	x
Yugoslavia	x	x <sup>a</sup>	x	x	x <sup>a</sup>	---
Brazil	x	x	---	x	x	---
India	---	x	x	x	x	---
Pakistan	x	x	x	x	---	---
Egypt	x <sup>a</sup>	x <sup>a</sup>	x <sup>a</sup>	x <sup>a</sup>	---	---
Korea	x	x	---	---	x	---
Argentina	x <sup>a</sup>	---	x <sup>a</sup>	---	x <sup>a</sup>	---
Chile	X	x	x	---	---	---
Singapore	X	---	---	---	---	x
Philippines	X	---	x	---	---	---
Uruguay	---	x	---	---	---	---
Rwanda	x <sup>a</sup>	---	---	---	---	---
Tunisia	x	---	---	---	---	---

SOURCE: U.S., President, Twenty-Sixth Annual Report of the President of the United States on the Trade Agreements Program, 1981-82, table 10, pp. 58-59. From GATT Document L4914/REV5/ADD9.

<sup>a</sup> Signed subject to ratification.

On the other hand, table 2 also shows that for the industrializing LDCs – which compared to the rest exhibit a more diversified export composition – conditionality of benefits has been relatively more effective in inducing them to adhere to the codes. In general, the presence of the NICs is prominent among the LDCs’ signatories. One case in which the conditional MFN treatment is particularly effective is the Code on Subsidies and Countervailing Duties. The Subsidies Code requires that “material injury” to domestic industry from subsidized imports must be proven as a condition for the imposition of countervailing duties. In fact the material injury determination was already required by GATT’s



Article VI. However, under a grandfather clause in GATT, the United States was not bound by that rule, since its countervailing duty legislation predated the establishment of GATT and did not require material injury for levying countervailing measures.<sup>520</sup> The United States accepted the Code's injury determination, but, as already mentioned, limited its application to countries that have subscribed to and implemented the Code. The strength of the inducement for an advanced LDC to adhere to the Subsidies Code is thus directly proportional to the significance of the United States market to its exports.

The major actors in the Subsidies Code's negotiations were the United States and the EEC. The chief objective of the former was to strengthen GATT's rules on the use of subsidies, an issue particularly irritating to the United States with respect to EEC subsidy practices in the agricultural sector.<sup>521</sup> For the EEC the main issue was the establishment of uniform rules for the imposition of countervailing duties, which amounted to having the United States accept GATT's rule on material injury determination. This concern was also shared by Japan and the NICs. Thus, at the onset of the negotiations, the EEC made it clear that United States acceptance of material injury determination was *quid pro quo* for an agreement on a Subsidies Code.<sup>522</sup> The United States, indeed, sought to use the injury test as a bargaining chip to extract concessions from its trade partners over subsidy practices. Thus, from the outset

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520 Except for duty-free goods, the US legislation, up to the enactment of the Trade Act of 1979, did not comply with the GATT disposition. *Report to the President, the Congress and the Special Representative for Trade Negotiations*, by the Advisory Committee for Trade Negotiations (June 1979), p. 33; and GATT, *The Tokyo Round*, pp. 58-59, 129-32.

521 With respect to discipline over subsidies, the US sought, more specifically: "prohibition on the use of export subsidies on industrial products, increased precision in the rules on export subsidies for agricultural products, and international understanding of the use of domestic subsidies." U.S., Executive Office of the President, United States Trade Representative, *A Preface to Trade* (Washington, D.C.: Government Printing Office, 1982), p. 92.

522 Cohen, "The Trade Agreements Act of 1979," p. 114.

the United States conceded on the issue of the injury test, but sent a clear message that without “improved discipline” over subsidies no modification of its countervailing duty legislation was forthcoming.<sup>523</sup> The inclusion of a material injury determination in the United States’ legislation, it was foreseen at the end of the negotiations, would give that country more leverage to act against the use of foreign subsidies in bilateral trade disputes. As stated in a special report on the Tokyo Round, “it is difficult for any Administration to take on domestic subsidies, which go to the heart of the industrial policy in a number of our trading partners, outside of the accepted GATT rules... With a material injury test any such inhibition disappears.”<sup>524</sup> In Rivers and Greenwald’s overall assessment of the results of the Subsidies Code, in terms of United States initial objectives, the United States concession over injury determination “was a small price to pay.”<sup>525</sup>

### 5.3 Brazil, the Subsidies Code, and the Aftermath

For Brazil, subsidies and countervailing duties were one of the most important subjects being discussed at the Tokyo Round. Since the late 1960s, Brazilian trade policy has made use of a variety of incentive mechanisms in the fiscal and credit areas to stimulate

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523 Richard R. Rivers and John D. Greenwald, “The Negotiation of a Code on Subsidies and Countervailing Measures: Bridging Fundamental Policy Differences,” *Law and Policy in International Business* 2 (1979): 1448-49, 1451-55. Rivers and Greenwald were the principal US negotiators of the Subsidies Code in Geneva. According to them, “while the Administration did want an injury test in the countervailing duty law, it also wanted improved discipline on subsidies and recognized that without the leverage the absence of an injury test gave U.S. negotiators, there would have been no negotiation on subsidies.” *Ibid.*, p. 1455. In fact, since the late 1960s, when the initiation of a GATT round of negotiations over nontariff barriers was under study by the US Executive, the latter was prepared to amend its countervailing duty law, adopting the injury test, “if sufficient improvements [could] be obtained in the provisions of the GATT.” U.S., Special Representative for Trade Negotiations, *Future United States Foreign Trade Policy*, Report to the President (Washington, D.C.: Government Printing Office, 1969), pp. 20-21.

524 *Report to the President, the Congress and the Special Representative for Trade Negotiations*, pp. 34-35.

525 Rivers and Greenwald, “The Negotiation of a Code on Subsidies,” p. 1494.

exports, particularly of industrialized goods. With the country's successes in manufactured trade, its exports have been under fire in the United States and EEC markets, accused of being subsidized and of constituting dumping. In the period between 1974 and 1978, for example, eight Brazilian products had been subject to investigation in the United States, including disputes involving subsidies charges and countervailing duty orders (six), escape clause investigation (one), and accusation of unfair competition against United States exports in third country's markets (one). Besides, between 1969 and 1979, five United States antidumping investigations were initiated against specific Brazilian industrial products.<sup>526</sup>

Countervailing duties became a matter of greater concern to Brazilian trade interests with the enactment of the United States Trade Act of 1974, which greatly expanded the possibilities for using offsetting measures against alleged subsidized imports. Although the 1974 Act eased the conditions for providing adjustment assistance to domestic industries suffering from imports, it also eased the conditions for allowing private parties to file complaints against "unfair competition." Furthermore, it imposed a twelve-month time limit for consideration by the Treasury Department of countervailing duty petitions against

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526 Countervailing duty proceedings involved products such as non-rubber footwear, handbags, processed castor oil, scissors and shears, cotton yarn and textiles, and clothing. Investigation under a US escape clause affected specialty steel, and Brazilian soybean oil exports were accused of unfair competition in third markets. Products subject to antidumping investigation included: pig iron, printed vinyl film, vehicle seats, and methyl alcohol. See Odell, "Latin American Industrial Exports and Trade Negotiations with the United States," tables 5.1 and 5.2, pp. 144-46. According to Odell's findings, of those eight Brazilian trade disputes, in five the outcome was more favorable to US objectives, and in the remaining three, the outcome involved some concessions from both sides. With regard to dumping charges, in one case only investigation resulted in the imposition of antidumping duty. In two other cases, involving escape clause investigations concerning Brazilian footwear and ferrochromium exports, both Presidents Ford and Carter rejected the International Trade Commission's (ITC) recommendation for import restrictions in the form of a tariff quota. *Ibid.*, p. 147.

alleged subsidized imports. After the 1974 Act, the number of positive findings in countervailing duty proceedings have increased significantly; thirty-four in the years 1974-1977, as opposed to thirteen in the previous eleven years. No countervailing duties were imposed between 1959 and 1967. More and more, offsetting measures have been targeted at the industrializing LDCs' exports. Of thirty-eight positive findings in countervailing duty proceedings since 1979, twenty-two involved imports from seven NICs.<sup>527</sup> The 1974 Trade Act also included a "carrot" among its provisions in that it gave the Secretary of the Treasury a temporary four-year authority to waive the imposition of countervailing duties, under certain circumstances. This provision was intended to encourage agreements on the question of discipline over subsidies. It should be recalled that the "protectionist coalition" in the United States had been extremely critical of the Treasury Department's leniency in the administration of the countervailing duty statute.<sup>528</sup> With the Trade Act of 1979, the Treasury Department's former investigatory functions in countervailing duty and antidumping proceedings were transferred to the Commerce Department.

Last but not least, the "material injury" test functions as a real inducement to a country such as Brazil, which has a stake in continued access to the United States' market, but which is not the major supplier of various industrial products to that market. For that matter, various Brazilian exports were not likely to do harm to a particular industry in the United States, in which case a material injury investigation would be favorable to Brazilian

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527 Balassa, "The 'New Protectionism,'" p. 416; Odell, "Latin American Industrial Exports," p. 143; and Robert B. Reich, "Beyond Free Trade," *Foreign Affairs* 61 (Spring 1983): 791-92.

528 See document with a list of charges against the Treasury Department presented to Congress by the Ad Hoc Subsidies Coalition, a broad-based coalition of industrial firms, labor unions, and trade practitioners, in U.S., Congress, Senate, Committee on Finance, *Implementation of the Multilateral Trade Negotiations, Hearings before the Subcommittee on International Trade of the Committee on Finance*. 96<sup>th</sup> Cong., 1<sup>st</sup> sess., 1979, pp. 75-78.

interests. Brazil, in fact, did benefit from the inclusion of such a clause in the United States' countervailing duty statute. In 1981, the Brazilian government requested an injury determination for countervailing duties that beginning in 1974 had been issued on non-rubber footwear, processed castor oil (1976), scissors and shears (1977), and cotton yarn (1977). With the exception of castor oil, and partially with respect to cotton yarn, the ITC's investigations concluded that imports of the three other products would not "cause injury to an industry in the United States." Thereafter, countervailing duties were revoked for them. In another case, an ITC preliminary investigation found "no reasonable indication" of material injury to United States producers from imports of Brazilian EMBRAER's airplane EMB-110 *Bandeirante*, therefore rejecting a countervailing duty petition from Fairchild Swearingen Corporation. That decision was particularly significant to Brazil, since the United States market accounted for about 50 percent of EMBRAER's exports.<sup>529</sup>

That benefit, however, did not come free. With the Subsidies Code, Brazil was bound to experience the GATT's lesson that any trade "barrier reduction has a price."<sup>530</sup> The price, in this case, was a commitment from Brazil, and from other industrializing developing nations, to phase out export subsidies on industrial products. Brazil was indeed one of the most active LDCs in the negotiations. Together with India, Brazil was the main spokesman for the

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529 U.S., International Trade Administration, "Non-Rubber Footwear from Brazil: Revocation of Countervailing Duty Order," *Federal Register* 48, n° 120, 21 June 1983, 28310; U.S., International Trade Commission, "Certain Castor Oil Products from Brazil: Determination," *Federal Register* 49, n° 27, 8 February 1984, 4856; U.S., International Trade Administration, "Cotton Yarn from Brazil: Partial Revocation of Countervailing Duty Order," *Federal Register* 49, n° 171, 31 August 1984, 34546 (No material injury was found for combed yarn wholly of cotton; injury findings was positive for carded yarn wholly of cotton.); and U.S., International Trade Commission, "Certain Commuter Airplanes from Brazil: Determination," *Federal Register* 47, n° 194, 6 October 1982, 44166-69.

530 A lesson embodied in GATT's reciprocity norm. See Finlayson and Zacher, "The GATT and the Regulation of Trade Barriers," pp. 574-78.

developing countries that negotiated as a bloc. But, contrariwise to India, which depends less on the United States market for its exports, Brazil's stake in trade with the United States made it more vulnerable to United States demands and, therefore, more prone to accommodations in the Code's negotiations. The LDCs demanded "special and differential treatment" in the form of a limitation to be put on the right of industrial countries to use countervailing offset measures against subsidized imports from LDCs, and no limitation on the right of LDCs to use export subsidies.<sup>531</sup> As happened with other subjects in the MTN package, the industrial countries conceded somewhat on "differential treatment" – LDCs were exempted from the basic prohibition on export subsidies on non-primary products – but the more advanced of them were expected to being a process of full integration into the trading system. Therefore, Article 14 of the Code states that a signatory LDC "should endeavor to enter into commitments to reduce or eliminate export subsidies" when their use is "inconsistent" with their "competitive and development needs."<sup>532</sup> At the negotiating table, the United States representatives made it quite clear that the decision to apply the Code provisions to LDC signatories would depend upon their willingness to phase out their subsidies.

In the negotiation of the Code, the United States was the only industrial country with a strong posture on the question of

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531 Rivers and Greenwald, "The Negotiation of a Code on Subsidies," p. 1480; and GATT, *The Tokyo Round*, pp. 60-61. For a concise presentation of the main reasons put forth by the LDCs for the use of export subsidies, see Lorenzo L. Perez, "Export Subsidies in Developing Countries and the GATT," *Journal of World Trade Law* 10 (November/December 1976): 531. The two principal reasons are: the "infant industry" argument and the need to offset distortions in the economy, created by the long-term use of import substitution policies, which put the export sector at disadvantage.

532 Besides, the Code recognizes that "subsidies are an integral part of economic development programs" of LDCs, but they agree not to use them "in a manner which causes serious prejudice to the trade or production of another signatory." No concession was forthcoming on the countervailing duty issue, the same provision applying for developed and developing countries alike. GATT, *The Tokyo Round*, pp. 167-68; and Balassa, *The Newly Industrializing Countries*, pp. 134-36.

discipline over LDC export subsidies, since the other industrialized countries were more concerned with resisting United States pressure on the subsidy issue in general. The initial United States position was to have an explicit provision included in Article 14 requiring a commitment from the LDCs to phase out their export subsidy programs. Failing that – Article 14 states that LDCs are not required to give any commitment on a phase down, but are “urged” to do so – the United States negotiators, observes a participant in the Code’s negotiations, “unequivocally stated their intention to invoke Article 19:9 [that expressly permits a country to refuse to apply the terms of the agreement to a non-signatory] if an LDC refused to grant a satisfactory subsidy commitment.” What the United States could not achieve at the multilateral level it expected to obtain at the bilateral level, especially with respect to those advanced LDCs such as Taiwan, Korea, Mexico, and Brazil that have a major stake in trade with the former.<sup>533</sup> The United States’ position on the matter is presented by Rivers and Greenwald as such:

*The key for the United States was to have the advanced developing countries (the Brazils, Mexicos, Koreas, and Taiwans) agree to phase out their export subsidies on industrial products over a reasonable period of time, such as five years. The U.S. negotiators indicated that a commitment to such a phase-out was essential if the United States was to extend the benefits of an injury test to the products of the country concerned... The U.S.*

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533 For a review of the US stance on the question of LDCs’ export subsidies and phase-out commitments policy, see memorandum by John D. Greenwald, reprinted in U.S., Congress, Senate, Committee on Finance, *European Communities’ Common Agricultural Policy, the Subsidies Code, and Enforcement of U.S. Rights Under Trade Agreements, Hearing before the Subcommittee on International Trade of the Committee on Finance*. 97<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1982, pp. 175-79. According to Greenwald’s review, Brazil was the only LDC that would agree with a requirement in Article 14 with respect to phase-out commitments. *Ibid.*, p. 177.

*position has been that if an advanced developing country is unwilling to agree on an export subsidy phase-out schedule, the United States will not consent to the application of the Code between it and the country concerned. For this reason, the United States was careful to include in the final provisions of the Code a provision for non-application between signatories.*<sup>534</sup>

The issue of the Brazilian export subsidy program has been an irritant in relations with the United States since the enactment of the 1974 Trade Act. In May 1976, United States Treasury Secretary William Simon and Brazilian Finance Minister Mário Henrique Simonsen negotiated a “package agreement” in which the former agreed to waive countervailing duties on Brazilian leather handbags, to freeze at their current level countervailing duties on shoes, and not to initiate investigation on soybean oil. In turn, Brazil committed itself to phase out fiscal incentives granted to those three products, in the form of a credit premium based in IPI and ICM taxes paid on domestic inputs. That agreement brought about the first modification in the export incentives system established in the late 1960s. But the Brazilian authorities were prompted to declare that no major change in the system was forthcoming, and the package did not affect other export incentives, such as tax exemptions for manufactured exports.<sup>535</sup> That trade deal was later to be cited by the Ad Hoc Subsidies Coalition in the United States, among the Coalition’s examples of malpractices by the Treasury Department in the administration of the countervailing duty statute. In their assessment, that agreement was one example of

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534 Rivers and Greenwald, “The Negotiation of a Code on Subsidies,” p. 1482.

535 IPI is a federal industrial product tax and stands for *Imposto sobre Produtos Industrializados*. ICM is a state value-added tax and stands for *Imposto de Circulação de Mercadorias*. For the agreement, see “A Rentabilidade das Viagens,” *Veja*, 19 May 1976, pp. 86-87; and U.S., Treasury Department, “Waiver of Countervailing Duties: Leather Handbags from Brazil” *Federal Register* 41, nº 135, 13 July 1976, 28787-88.



the Treasury's "stretching the authority" of the 1974 Trade Act with respect to the granting of waivers.<sup>536</sup>

As negotiations of the Subsidies Code were going on at Geneva, and United States pressure over Brazilian export subsidies was mounting, a debate over Brazil's export policy involving exporters and trade experts was under way. Some experts maintained that fiscal incentives had outlived their effectiveness. Given the extreme negative reaction among the industrial countries, they recommended their gradual phasing out, followed by a "realistic" exchange policy of "real minidevaluation" of Brazilian currency. Such proposals were music to the ears of United States representatives in Geneva. Although most of the exporters would agree that fiscal incentives had lost their effectiveness, they would not go along with the idea of their extinction overnight, suggesting the creation of a more "sophisticated" system of incentives that could escape foreign criticism. Others, to the contrary, argued that the industrial countries have made extensive use of similar incentive schemes to conquer foreign markets, and Brazil should, instead, defend the right to use them in GATT.<sup>537</sup>

In September 1978, at the very moment that the Brazilian representatives, together with the other LDCs' delegations, were making a first appearance at the negotiating table in Geneva, Finance Minister Simonsen and Foreign Relations Minister Azeredo da Silveira were issuing conflicting public statements over the fate of the Brazilian export subsidies program. While diplomats from the Foreign Office were making a strong defense of their use at home and in GATT, arguing that without them Brazil and the rest

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536 U.S., Congress, *Implementation of the Multilateral Trade Negotiations*, pp. 77-78.

537 "United States Attacks Brazil's Trade Policy," *Latin America Economic Report*, 2 June 1978, p. 166; and Aluizio Maranhão and Luiz Roberto Serrano, "Os Incentivos Fiscais Estão na Berlinda," *Isto É*, 19 July 1978, pp. 64-66.

of the LDCs' exports could not compete on an equal basis in the international market, the former announced that the government would gradually reduce export subsidies. This bureaucratic fight reflected, indeed, a deeper cleavage between the federal agencies in charge of economic and financial matters and Itamaraty over the style and substance of Brazilian international economic policy. The Finance Ministry's main concern was short-term problems, and it was willing to settle for short-term solutions, with little regard for the political implications and long-term consequences of Brazilian actions. Thus, as exports were facing countervailing duty complaints in the United States, and the United States Treasury's countervailing duty waiver authority was due to expire at the end of 1978, the Finance Minister showed a disposition to make some concessions to the United States to have the former's sympathy for an eventual extension of the waivers' deadline as it affected Brazil. The Itamaraty, by contrast, worked from a different perspective. It balanced Brazil's international actions against long-term consequences for the country's foreign policy objectives and their immediate (political) impact on Brazil's negotiating ability on a specific issue. With long experience in North-South negotiations, the Foreign Ministry would rather begin with maximizing propositions to settle for less. From its standpoint, statements such as those issued by the Finance Minister, in the midst of the Code's negotiation, weakened the Brazilian stance in Geneva and could place Brazil at odds with the rest of the developing countries.<sup>538</sup>

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538 For the divergence between Itamaraty and the Finance Ministry over subsidies, see Miriam Leitão, "Subsídios: Itamaraty Vs. Fazenda," *Isto É*, 27 September 1978, pp. 86-88. Brazil's African policy had also been an issue of contention between the two agencies in the early 1970s. More recently, divergence of opinion arose between the Foreign Office and the economic and monetary authorities over the proper conduct of the foreign debt negotiations. For an insightful analysis of the latter divergence, see Antonio Carlos Peixoto, "A Contradição nas Negociações da Dívida," *Brasil – Perspectivas Internacionais*, nº 2 (July/August 1984), pp. 5-8.

Be that as it may, in January 1979, the government announced that the IPI export credit premium would be phased out gradually with uniform reductions occurring annually until the total extinction of the tax credit in June 1983. To compensate for the loss of the subsidies, currency devaluation would be accelerated at the rate of 4.5 percent annually.<sup>539</sup> The reduction of the credit premium was in fact the outcome of negotiations with the United States concluded in November 1978, whereby Brazil had committed itself to active participation in the MTN and agreed on a number of principles governing their use by LDCs to be included in the Subsidies Code. In addition, Brazil agreed to phase out export subsidies over a five-year period, and the United States agreed thereafter to require injury determination in future countervailing duty cases. Actually, the Brazilian phase-out agreement, later sanctioned by GATT, was the first to be concerted. The United States Treasury also waived the imposition of countervailing duties on textiles, conditional to the staged elimination of subsidies paid on Brazilian textiles and apparel.<sup>540</sup> A domestic economic reform package, as of December 1979, abolished the credit premium overnight, accompanied by a maxi-devaluation of the *Cruzeiro* at the rate of 30 percent.

Pressured by the need to step up its manufactured exports, in face of a deteriorating balance-of-payments situations, and out of a sharp currency devaluation, the Brazilian economic authorities reinstated the IPI export credit premium in April 1981. Brazilian officials claimed the measure was chiefly a domestic matter, and in its defense argued that as long as the June 1983 deadline was respected, the government could withdraw or reinstate the tax

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539 "Brasil Inicia Liberação Completa do Comércio Exterior," *Jornal do Brasil*, 25 January 1979, p. 30.

540 U.S., Treasury Department, "Waiver of Countervailing Duties: Textiles from Brazil," *Federal Register* 43, n° 222, 16 November 1978, 53425-26.

credit at will, without violating the phase-out agreement. From then on, that issue would add fuel to an already long list of trade controversies between the two countries. The same argument would be used by the economic authorities, when subsequent measures were taken, changing somewhat the scheduled reductions of the credit premium benefit. The reaction of United States trade authorities was highly negative towards what they saw as an attempt to prolong the tax credit beyond the date previously agreed upon and therefore a violation of the Subsidies Code, in which case Brazil would be liable to retaliation. The Brazilian government disputed such an interpretation. However, in an attempt to defuse tension with Washington, it pledged to anticipate the extinction of the tax credit to April 1983 and abolished the IPI export credit premium of the BEFIEEX – Commission for the Granting of Fiscal Benefits for Special Export Programs – except for those export contracts already signed with the BEFIEEX. There was a widespread feeling among Brazilian economic authorities, in mid-1982, that the “US was becoming Brazil’s main trade enemy.”<sup>541</sup>

Trade divergences between the two countries were magnified more as the date of GATT’s Ministerial Meeting approached. The November 1982 meeting was the first in the nine years since

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541 As of July 1982, the number of subsidies and dumping complaints filed by US companies had affected at least fifteen Brazilian products; but on four of those cases the Brazilian government had requested injury investigation. In August, Fairchild’s complaint against EMBRAER’s *Bandeirante* was added to that list. Consultations between the two governments were initiated with regard to charges of “unfair competition” in Brazilian frozen chicken exports in third country markets. The most important products, in terms of dollar value, were: steel products, frozen concentrated orange juice, aircraft, and footwear. For the various trade disputes between the two countries in 1981-1982, see “A Quick Shot in the Arm for Manufactured Exports Sector,” *Latin America Weekly Report*, 10 April 1981, p. 7; “USA and Brazil in Fast-Moving Tussle Over Imports,” *Latin America Weekly Report*, 8 May 1981, p. 4; “Lenha na Fogueira – Brasília Prorroga Subsídios e Compra Nova Briga com Washington,” *Isto É*, 25 November 1981, pp. 75-78; “Brasil Versus EUA,” *Isto É*, 25 August 1982, pp. 74-80; “Governo Extingue Incentivo à Exportação pelo BEFIEEX,” *Jornal do Brasil*, 9 September 1982, p. 20; “Europa Joga Estados Unidos Contra o Brasil na Disputa pela Exportação de Frangos,” *Jornal do Brasil*, 3 August 1982, p. 19; and “Brazil and the USA Cross Swords,” *Latin America Weekly Report*, 24 September 1982, pp. 8-9.

the last Ministerial meeting had taken place in Tokyo in 1973. A main United States objective for the November meeting was to establish a work program to extend GATT's rules to cover trade in services, high technology products, and trade-related foreign investment issues. The attempt to bring these so-called "new issues" into GATT's regulation was regarded with suspicion by the LDCs, since it would intrude on sensitive domestic areas.<sup>542</sup> In addition, the LDCs would rather have seen the GATT meeting dealing with the problems of protectionism and unresolved issues from the Tokyo Round, such as the question of a safeguard code, than opening up new areas for negotiation. Brazil was very much within the LDCs' consensus, since it would have much to lose from GATT regulation in those sectors, given, for example, its stake in the export of services (engineering and consulting, mainly). Thus, in preparatory meetings for the November meeting, Brazilian representatives, together with the LDCs and the EEC delegations, voted against the United States' proposal for the study of these "new issues" in the framework of GATT.<sup>543</sup>

In 1982, Brazil's debt crisis had reached a peak, triggered by the sharp elevation of interest rates and vanishing private loans, in the aftermath of the Mexican debt crisis of September that year. Before the year ended, Brazil was knocking at the IMF's door for

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542 A concise critical appraisal of the "push" for liberalization and reciprocity in services and direct investment is presented in Díaz-Alejandro, "Comments," p. 307. Because these issues verge on sovereignty matters, he argues, "explosive issues are opened up." His examples deserve to be quoted: "If Tokyo is to be made just like home for US lawyers and bankers, why not have Texas give 'national treatment' to Mexican maids? Will New York City be opened up to Indian doctors and South Korean construction crews?" The crucial questions he sees are: "Which services and factor flows, in short, are to be opened up, and what principles are to be followed in those decisions?"

543 "Brasil Versus EUA," pp. 77-79; Célia De Nadai, "Brasil Defende Exportação de Serviços e Irrita EUA," *Jornal do Brasil*, 17 August 1982, p. 19; "GATT: Latin America Seeks Lower Protectionist Barriers," *Latin America Weekly Report*, 12 November 1982, pp. 5-6; "Brazil Prepares for Battle," *Latin America Weekly Report*, 19 November 1982, pp. 7-8; and Rolf Zuntz and Gilnei Rampazzo, "A Batalha do GATT – Novo 'Round' do Brasil com os Estados Unidos," *Isto É*, 24 November 1982, pp. 84, 89.

a “rescue package” which would indeed bail out the international private banks from Brazil’s immediate default. In November, the Brazilian authorities communicated to their North American counterpart that Brazil could not by any means extinguish the IPI export credit premium by April 1983, as previously agreed, asking for a two-year legal extension of the incentive. At Geneva, the United States accepted Brazil’s request, and eventually an agreement was concerted between the two governments and sanctioned by GATT, superseding the previous 1978 one, wherein Brazil agreed to eliminate the credit premium by April 1985. In its turn, Brazil had already conceded on a contentious subject of the November meeting. The changing Brazilian stance on the question of trade in services was determined early that month in a high-level meeting of the government, in which it was decided that Brazil would accept the United States’ proposal for the study of the “new issues” without doing injury to its substantive positions on those questions. Later, in GATT, its representative voted favorably on a recommendation in GATT’s final declaration, whereby the Ministers would agree that each interested country conducted its own studies on trade in services, for examination by GATT within two years. In a minority position, the United States consented to this compromise formula, dropping its initial proposal for a comprehensive GATT study on the matter. Trade in high technology products and trade-related investment issues were not contemplated in that resolution. The changing Brazil position was not well received by other LDCs’ delegations, particularly that of India. Public statements issued by Brazil’s diplomatic authorities denied the existence of a connection between the GATT vote and the extension of the credit premium’s deadline, claiming “no bargain” had been struck with the United States, although governmental sources were quoted as saying that “once the pressure is high, concessions are necessary.” In an interview

to the Brazilian press, Special Trade Representative William Brock declared that the terms of the new agreement allowed the United States to withdraw the material injury clause if Brazil extended the credit premium beyond the April 1985 deadline.<sup>544</sup>

Why had the United States been relatively lenient with regard to Brazil's subsidies phase-out commitment? After so many charges of the latter's misbehavior in sticking to what had been agreed upon in late 1978, the United States had concurred with the tax rebate extension in 1982. Furthermore, despite Brazil's alleged misbehavior, the USITC had accepted to initiate injury test investigations for certain Brazilian products, after requests made by the Brazilian government in July, August, and October 1981. An obvious reason for the United States' flexibility on the matter at that point in time was Brazil's debt crisis. In those crucial late months of 1982, when default was a likely possibility, Brazil had counted on significant allies within the United States administration, such as Secretary of State George Shultz. The Reagan administration's sympathy for Brazil's plight materialized during the United States President's visit to Brazil, in late 1982, with a concession of a US\$ 1.2 billion bridging-loan to assist in Brazil's immediate cash problems.<sup>545</sup>

But there are other factors as well, not related to Brazil specifically, since they concern United States foreign trade

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544 "A Batalha do GATT," p. 89; Célia de Nadai, "EUA Querem Apoio do Brasil," *Jornal do Brasil*, 21 November 1982, p. 31; idem, "Brasil se Acerta com EUA no GATT," *Jornal do Brasil*, 25 November 1982, p. 20; idem, "Resultado das Negociações com EUA Agrada Empresários," *Jornal do Brasil*, 28 November 1982, p. 25; "Cooperation Takes a Hammering," *Latin America Weekly Report*, 3 December 1982, p. 4; and "Brock Revela que o Acordo sobre Subsídios Está Quase Pronto," *Jornal do Brasil*, 3 December 1982, p. 19. For the results of GATT November Ministerial, see C. Fred Bergsten and William R. Cline, "Conclusion and Policy Implications," in *Trade Policy in the 1980s*, pp. 760-63.

545 Jorge Pontual, "Os EUA, o Brasil e a Crise – Interdependência na Prática," *Jornal do Brasil*, special section, 28 November 1982, p. 3; "Reagan no Brasil... e o Brasil no FMI," *Isto É*, 1 December 1982, pp. 70-75.

policy. In examining those other factors we deal with changing United States international trade policy priorities, closing this chapter with a discussion of its effect on current United States-Brazilian trade relations. First of all, the United States has not kept its initial hard stance with respect to previous phase-out commitments from advanced LDCs for subscribing to the Subsidies Code. After the 1978 Brazilian phase-out agreement, “subsequent commitments from other countries,” it was argued, “descended from phase-out clauses to freeze clauses to best endeavors clauses, that is to say, from meaningful clauses to hortatory statements.”<sup>546</sup> The United States was particularly lenient with regard to Pakistan in 1980 and India in 1981. Brazil certainly took notice of the softening United States stance when it reinstated the exports incentive in 1981.

Furthermore, the question of the LDCs’ export subsidies on industrial products was not as salient an issue on the United States administration’s agenda for multilateral trade negotiations in 1982 as it had been during the Tokyo Round. Both Presidents Ford and Carter had received a clear mandate from Congress “to seek discipline on foreign subsidies [domestic and export] as a central element of the Tokyo Round.”<sup>547</sup> Without some concrete steps in that direction coming

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546 Gary Clyde Hufbauer, “Subsidy Issues After the Tokyo Round,” in *Trade Policy in the 1980s*, p. 341. In Hufbauer’s account: The US enthusiasm for a strong commitments policy weakened in 1980 when the Carter administration, searching for ways to shore up ties with Pakistan in the wake of the Afghanistan invasion, accepted a purely hortatory commitment as Pakistan’s admission ticket to the code. The policy collapsed in 1981 when the Reagan administration – after a skirmish on the most-favored-nation question – acknowledged Indian membership in the code on the basis of a modest best-endeavors agreement.

For a critical appraisal of US phase-out commitments policy implementation, see testimony from the Senate hearing of Alan W. Wolff, a former Deputy US Trade Representative, in U.S., Congress, *European Communities’ Common Agricultural Policy, the Subsidies Code, and Enforcement of U.S. Rights Under Trade Agreements*, pp. 166-74.

547 Hufbauer, “Subsidy Issues After the Tokyo Round,” p. 337.



from the Subsidies Code negotiations, it was unlikely that the administration could rally enough support in Congress to pass domestic legislation implementing the MTN agreements. The testimony in Congress of representatives from corporations and labor organizations in import-sensitive industries are eloquent accounts of the domestic constraints the administration faced in negotiating at Geneva. With their political clout in Congress, the leeway the administration might have to use the injury test as a bargaining chip in extracting concessions from its trade partners would be severely reduced. In Rivers and Greenwald's assessment, "the uniform judgment within the Administration was that without something significant on subsidies, no change in the U.S. countervailing duty law was possible."<sup>548</sup> Benefits conditional to the Code's subscription were certainly a step in the right direction towards discipline over foreign subsidies. In fact, the provision for an injury test to apply only to signatories was strongly recommended by representatives of the protectionist coalition.<sup>549</sup> With regard to the use of export subsidies by LDCs on industrial products, hardly anything in the way of "differential treatment" could have been achieved without a forceful United States position on phase-out commitments from the advanced LDCs. There was, however, "some disappointment with the Code provisions," as far as LDCs are concerned, because of "strong

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548 Rivers and Greenwald, "The Negotiation of a Code on Subsidies," p. 1455. For instances of some of the domestic pressures at work during the MTN, see Cary Ferchill, "GATT and the Tokyo Round," in *Crisis in Economic Relations Between North and South*, ed. Norman Schofield (Aldershot, Hants: Gower Pub. Co., 1984), pp. 87-93. In answering to a House Representative from the state of New Jersey, concerned with the damaging effect a temporary waiver on countervailing duties might have on a certain baking company in his home state, Robert Strauss, Special Trade Representative in the Carter administration, was quoted as saying: "I'm not running a butter cookie program. I'm trying to conduct a national trade policy." Quoted in *ibid.*, pp. 90-91.

549 U.S., Congress, *Implementation of the Multilateral Trade Negotiations*, pp. 74-75.

private sector resistance to any recognition that the LDCs may use export subsidies on industrial products.”<sup>550</sup>

For the November 1982 GATT meeting, the priorities of the United States administration were: discipline over agricultural export subsidies (in this long-lasting controversy with the EEC, the negotiating objectives of the LDCs, Brazil in particular, coincided with those of the United States and the other major exporters of agricultural products such as Canada, Australia, and New Zealand, in pushing for EEC liberalization of its agricultural policy); extension of GATT regulation to trade in services, investment, and high technology products; the development of a safeguard code; and the convening of a North-South trade negotiations round (a proposal also opposed by the LDCs on the grounds that the United Nations and not GATT was the appropriate forum for such an endeavor). It is noteworthy that the North American sectors in favor of a strong United States stance on export subsidies also preferred greater United States efforts “to obtain GATT reciprocity and compliance” by other countries with the MTN Codes, prior to the United States’ pursuance of new initiatives in GATT.<sup>551</sup> According to Bergsten and Cline, the United States’ program was “constructive” but limited in that it “paid little if any attention to the need for correcting the sizable monetary imbalances..., to further steps to limit the use of subsidies, and to GATT action for

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550 Rivers and Greenwald, “The Negotiation of a Code on Subsidies,” p. 1482. They themselves believe differently and argue that measured by how far the Code succeeded “in bringing new discipline over the use of subsidies, the LDC provisions are impressive.” In their view, those provisions, phase-out commitments among them, represent “something of a quantum leap forward.” *Ibid.*, pp. 1482-83.

551 See testimony of Rudolph A. Oswald of the AFL-CIO, in U.S. Congress, Senate, Committee on Finance, *U.S. Approach to 1982 Meeting of World Trade Ministers on the GATT, Hearings before the Subcommittee on International Trade of the Committee on Finance*. 97<sup>th</sup> Cong., 2<sup>nd</sup> sess., 1982, pp. 101-13. The Administration objectives for the November meeting are presented by Special Trade Representative William Brock in *ibid.*, pp. 8-33.

liberalizing textiles and apparel, steel, and automobiles.”<sup>552</sup> In view of that, Brazilian flexibility with respect to trade in services, an issue on top of the United States’ agenda for the 1982 meeting, was matched by United States flexibility on the subject of Brazilian export incentives.

The United States’ agenda mirrors in fact, the blueprints of the Reagan administration for the North American economy in the years ahead. The administration has been much less concerned with bailing out ailing domestic industries hurt by competition with foreign imports, than with putting the economy on the “right” track, that is to say, pushing the sectors where the United States still enjoys a competitive edge: services, high technology, and foreign investments. Although the pressure for protection from import-sensitive industries has not abated, the administration had relatively more leeway in the international front in 1982, since no major change in domestic legislation was forthcoming from the November meeting. On the other hand, as pointed out, liberalization of sectoral protection through GATT received little attention in the United States’ agenda, despite a United States pledge to refrain from new protection. The Trade and Tariff Act of 1984 points out clearly the direction of United States international trade policy in the 1980s. The 1984 Act widens its scope to include international trade in services, investment, and high technology products. As stated, United States negotiating objectives with respect to these sectors are to reduce or eliminate trade barriers in foreign markets, particularly measures that deny national treatment and rights of establishment and operation in such markets, and to develop “internationally agreed upon rules” to ensure “open international trade” in such sectors.<sup>553</sup>

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<sup>552</sup> Bergsten and Cline, “Conclusion and Policy Implications,” p. 761.

<sup>553</sup> U.S., Congress, House, *Trade and Tariff Act of 1984*, particularly pp. 50-64.

## 5.4 United States-Brazilian Trade Agenda in the 1980s

From the Brazilian vantage point, trade relations with the United States in the mid-1980s are much more complex and conflict-prone than was the case in the late 1970s early 1980s, in the midst of controversies over subsidies and countervailing duties. During the entire last decade, and until the year 1980, Brazil had run persistent deficits in its trade balance with the United States. Since 1981, however, because of the overvalued dollar, in itself a consequence of high interest rates, making imports cheaper in the United States, and because of Brazil's debt crisis, which forced a sharp reduction in the country's imports, Brazil's trade surplus with the United States has increased from US\$ 607 million in 1981, to US\$ 1.2 billion in 1982, jumping to US\$ 5.6 billion in 1984. Related to that increase, the Third World debt crisis has virtually closed those markets to Brazilian exports, and the United States market is relatively more open than those of Western Europe, producing a reversal in Brazilian exports' destinations. From the mid-1970s on, the United States' share of Brazil's total exports had been declining in relative terms. However, because of the abovementioned factors, since 1982 Brazil's exports to the United States have increased in absolute and relative terms, from a total value of US\$ 4.1 billion in 1982 to US\$ 8.2 billion in 1984, becoming the eleventh largest supplier to the United States market in the latter year.<sup>554</sup> The argument that Brazil's trade surplus with the United States is helping to service the former's debt obligation is unlikely to move import-sensitive industries in the United States, felt to be hurt by cheap imports. With the United States trade deficit running as high as it was in 1984 – US\$ 123.3

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<sup>554</sup> Brasil, CACEX, *Brasil: Comércio Exterior*, 1981 and 1982. Data for 1984 are from *Business America*, 4 March 1985, p. 5.

billion – chances are likely for an increase in the escape clause, countervailing duty, and antidumping petitions against Brazilian exports. Furthermore, Brazil's rank as the seventh largest surplus country in the United States balance of trade, as of 1984, puts the country in an awkward position as a likely target of the various reciprocity legislative measures being put forth by Congress.

Compounding the problem of Brazil's exports access to the United States market is the question of United States access to the Brazilian market. United States objectives with respect to the latter during bilateral negotiations include, among other issues, the elimination of restrictions on the operation of North America banks in Brazil and the modification of Brazil's profit remittance legislation. However, the most contentious and publicized issue between the two countries has been in the electronic data processing field. The United States administration would like Brazil to change its policy of restricting the minicomputer market entirely to Brazilian firms, adopting instead a more liberal policy, opening that segment of the industry to the participation of foreign capital. Brazil also has been targeted, among nine other countries, for detailed attention by the United States Commerce Department on the subject of intellectual property rights infringement. Allegations in Brazil's case involve "inadequate protection for trademarks, copyrights (especially for computer software), and patents." The 1984 Trade Act widened the scope of the definition of unfair trade practices to include violations of intellectual property rights.<sup>555</sup> Although Brazil had voted favorably on the GATT's resolution on services in 1982, the government has not acceded to any of the above United States demands. In fact, in October 1984, legislation was enacted that, among other things, confirmed the reserving of the market for domestic capital in the minicomputer industry. The law received wide support among all political parties, the

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555 Eileen Hill, "Intellectual Property Rights," *Business America*, 18 March 1985, pp. 3-9.

scientific community, domestic manufacturers and practitioners directly involved in the industry, and the military sectors linked one way or another to the data processing field. There were, notwithstanding, top bureaucrats inside the state apparatus, sectors of the national business community, and naturally the representatives of the foreign corporations in the data processing industry who opposed the legislation, favoring instead the formation of joint ventures between local and foreign capital in the minicomputer industry.<sup>556</sup>

At present, given Brazil's overall external vulnerability, it has a high stake, even higher than in the past, to keep United States markets relatively open to Brazilian exports. The significance of the last point can be fully grasped once it is realized that Brazil's trade surplus with the United States represented in 1984 almost half of Brazil's overall trade surplus in that year. In the short run, at least, because opportunity costs from severing bilateral trade are much higher for Brazil than the United States, Brazil is in a quite vulnerable position in any trade bargain with the latter. The dominant disposition in the United States Congress and the administration appears more and more to be to condition access to United States markets to similar concessions in areas such as services, high technology products, and North American investment. As far as Brazil and other NICs are concerned, the United States disposes of instruments such as the GSP to achieve that.

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556 Multinationals in the industry are allowed to operate only in the large computer segment of the industry in Brazil. For an examination of these cleavages, see Paulo Sérgio Wrobel, "Política Nacional de Informática: O Desafio Está Lançado," *Brasil – Perspectivas Internacionais*, nº 4 (November/December 1984), pp. 1-4. For the limited results coming from the working groups set up in late 1982, during President Reagan's visit to Brazil, to examine a wide range of matters in the bilateral relations, including issues pertaining to services, technology, and foreign investment, see Sonia de Camargo and Gerson Moura, "Uma Visita Pouco Frutuosa," *Brasil – Perspectivas Internacionais*, nº 1 (June/July 1984), pp. 5-8; and Paulo Kramer, "Diálogo de Surdos: As Relações Brasil-EUA," *Brasil – Perspectivas Internacionais*, nº 5 (January/February 1985), pp. 1-4.

In the short run, the Brazilian debt problem might attenuate somewhat the United States demand for reciprocity in bilateral trade negotiations. As seen earlier, the administration has shown some flexibility as far as Brazil's export needs are concerned. On the other hand, a civilian government in Brazil can at least count on resources that none of its military predecessors could: a non-restrained Congress, a free press, and a public opinion worth what it is worth in all liberal democracies, voting power. The industrial countries have always made use of such "domestic constraints" to extract concessions in bilateral negotiations. A civilian government in Brazil could, if it is willing to do so, make use of those same "constraints" to withhold concessions.

## 5.5 Concluding Remarks

North-South trade negotiations exemplify a situation in which Brazil's participation in a collective endeavor is obtained through the use or threat of use of coercive policies. Because Brazil and the other advanced developing countries are seen as free riding the trade regime, they are threatened with losing access to the industrialized countries' markets unless they pay their share for the collective good of an open trade system. The industrialized countries' attempts to enforce contributions from the advanced developing countries was assessed through the examination of the so-called graduation policies.

This chapter has analyzed two instances in which policies of graduation have been applied: the GSP program and the non-tariff barrier codes. The GSP combines the "stick" and "carrot" approaches, since preferential access is withdrawn for the most trade-competitive advanced developing countries and preferential access is made conditional upon the adoption of trade policies deemed "fair" by the major actors in the trade regime. With the industrialized countries' efforts to enforce contributions from free

riders, long-standing regime norms are undergoing perceptible modifications. The substitution of conditional for unconditional MFN treatment with respect to the benefits of the non-tariff codes is intended to circumvent the free rider problem, since, by and large, benefits accrue only to signatories.

The evidence presented in this chapter indicates that coercive policies have been relatively effective in persuading Brazil to change its trade policies. The implementation of tighter restrictive measures, however, has been delayed because of Brazil's critical foreign debt situation. Be that as it may, restrictive measures against Brazilian exports are likely to increase as its competitiveness in the world trading system grows. Retaliation is a costly avenue for countries such as Brazil, since the opportunity costs of severing trade with the industrialized countries are higher for the former than for the latter. Brazil's leverage in trade bargaining is reduced because it cannot withdraw or allocate market shares without inflicting great cost to itself.



## **6. THE HEGEMONIC ROLE: THE CASE OF ITAIPU**

The last modality of international behavior to be examined is that falling under the notion of a hegemonic role. In such a modality, a country possesses the capability to provide positive incentives or to use coercion to obtain a regime with the characteristics it favors. This chapter analyzes Brazil's conduct towards both Paraguay and Argentina with respect to the exploitation of the Paraná River, mainly the development of the Itaipu hydroelectric project, a joint scheme in association with Paraguay, a few miles from Argentina's border. We propose to show that to achieve its objectives in the basin, Brazil made use of a combination of reward and coercion towards its neighbors. The outcome of the Itaipu controversy suggests, however, the limits of a hegemonic strategy in the region.

### **6.1 The Setting**

The River Plate Basin or Paraná River Basin comprises four main rivers, the Paraná, Paraguay, Uruguay, and the Plate, and

their tributaries. In drainage area and volume of water it is the second largest fluvial basin in South America, after the Amazon Basin, and constitutes the most developed region in South America. About 44 percent of the area of the Basin is in Brazilian territory, 32 percent of the land is Argentine, 13 percent is Paraguayan, 6 percent is Bolivian, and 5 percent is Uruguayan. Bolivia, Paraguay, and Brazil are located in the upper portion of the Basin, and Argentina and Uruguay in the lower section. Initially, the water resources in the Basin were used primarily for navigation. Later technological developments in the generation of hydroelectric power made possible the increasing exploitation of what is considered to be one of the greatest hydroelectric potentials in the world.<sup>557</sup> The disparities in size and economic strength between the two largest countries, Argentina and Brazil, and their smaller neighbors is overwhelming, as can be seen in table 3. Such economic imbalance in the River Plate Basin and the fact that both Brazil and Argentina border the remaining countries in the Basin account for the fact that all bi-national hydroelectric projects in the region have included either one or the other of the two bigger countries and a smaller one.<sup>558</sup> Those joint projects are the Salto Grande in the Uruguay River, between Argentina and Uruguay; Itaipu in the upstream of the Paraná River, between Brazil and Paraguay; and two other joint ventures further downstream in the Paraná River, Corpus and Yacyretá, between Argentina and Paraguay.

A river system is a hydrologic unit. Because of the significant interdependence among the users of a river system – the volume

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557 P. K. Menon, "The Plate River Basin – Some Legal Aspects of Navigation Development," *International Lawyer* 5 (1971): 667-68, 673; Thomas G. Sanders, "The Itaipu Hydroelectric Project," *UFSI Reports* 35 (December 1982): 1.

558 Bolivia and Paraguay have a common frontier, but Uruguay only borders the two largest states in the Basin.

and flow of water in the downstream is affected by changes in the natural conditions of the upstream portion in the same way that modifications of the conditions of its downstream section affect the water environment in the upstream reaches – and the indivisible nature of water as a resource – water flows among sections of the pool indiscriminately; being a “fugitive” resource, it becomes someone’s property only when actually “captured.” Thus, water pools are referred to as common property resources. The physical rather than legal characteristics of a resource characterize it as a common property resource, or common-pool good. Besides water pools, other examples are oil pools and fishing stocks shared by several parties or under the jurisdiction of several nations.<sup>559</sup>

The exploitation of such resources leads to what the economists call the common-pool problem, a class of phenomena falling under what Arthur Stein refers to as dilemmas of common interests.<sup>560</sup> Since property rights over “fugitive” resources can only be obtained by actually capturing them, each party sharing a common resource will attempt to exploit it before the others, disregarding the adverse effects upon other potential users. Competition for a common property resource thus creates significant externalities for some of the parties and may lead to the depletion of the resource, an outcome that is adverse to all the parties involved.

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559 Per Magnus Wijkman, “Managing the Global Commons,” *International Organization* 36 (Summer 1982): 512-19.

560 Arthur A. Stein, “Coordination and Collaboration: Regimes in an Anarchic World,” *International Organization* 36 (Spring 1982): 304-8. For an analysis of common-pool problems in the exploitation of water resources, see Jack Hirshleifer, James C. de Haven, and Jerome W. Milliman, *Water Supply – Economics, Technology and Policy* (Chicago: University of Chicago Press, 1960), pp. 59-73.

**Table 3 – Economic Indicators of the River Plate Basin Countries**

Country	1960a	1970b	1980c
Population, Census Data (in millions)			
Argentina	20.00	23.40	27.90
Brazil	70.10	93.20	121.10
Bolivia	3.00	4.60	5.60
Paraguay	1.80	2.30	3.20
Uruguay	2.60	2.80	2.90
Gross Domestic Product in 1980 Dollars, at Market Prices (in billions)			
Argentina	27.90	42.00	53.30
Brazil	47.00	85.60	195.80
Bolivia	1.20	2.00	3.20
Paraguay	1.00	1.60	3.60
Uruguay	3.80	4.50	6.00
Energy Consumption in Million Metric Tons of Coal Equivalent			
Argentina	22.39	39.16	49.19
Brazil	24.52	44.61	93.61
Bolivia	0.50	1.07	1.82
Paraguay	0.15	0.35	0.58
Uruguay	2.15	2.62	2.74

SOURCES: Population and gross domestic product: James W. Wilkie and Adam Perkal, eds., *Statistical Abstract of Latin America* (Los Angeles: Latin American Center Publications, University of California at Los Angeles, 1984), pp. 5, 16, 104; and energy consumption: United Nations, *Statistical Yearbook*, years of 1962, 1972, and 1979/80.

<sup>a</sup>Bolivia (1950), Paraguay (1962), Uruguay (1963).

<sup>b</sup>Bolivia (1976), Paraguay (1972), Uruguay (1975).

<sup>c</sup>Estimated values for Bolivia, Paraguay, and Uruguay.

The classical example of a dilemma of common interests in the Prisoner's Dilemma, in which the actors' dominant strategies result in a suboptimal solution, or a Pareto-deficient outcome. To arrive at the Pareto-optimal outcome, which the parties prefer, Stein argues, "requires that all actors eschew their dominant strategy." Thus, he continues, regimes are formed "to deal with the collective suboptimality that can emerge from individual behavior." What a regime does is provide assurance to all parties that no one is going to cheat by pursuing his/her dominant strategy.<sup>561</sup> The solution of a common-pool problem in terms of arriving at the most efficient outcome in the exploitation of the good requires that all parties forego unilaterally exploiting the resource – refraining from enclosing it – and resort to joint management and unified decision making.<sup>562</sup>

When several countries share a common-pool good, the requirements of economic efficiency clash with the principle of sovereignty, since countries are unwilling to accept encroachments or even restrictions on their national sovereign rights. The classical example of the doctrine of sovereignty as applied to the use of international waters is the Harmon doctrine. According to the principle stated in 1895 by then United States Attorney General Judson Harmon, because a state has exclusive control over water resources found within its territory, even in the case of international rivers, "the upstream nation has no obligation

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561 Stein, "Coordination and Collaboration," pp. 305, 307-8, 311-13.

562 Hirshleifer, De Haven, and Milliman, *Water Supply*, pp. 59-61; and Wijkman, "Managing the Global Commons," pp. 519-21. Besides centralized decision making on regulation through a nonmarket structure, there are other methods for efficient allocation in the presence of externalities and common-property resources. They include imposition of liability assignments, tax-subsidy schemes, and bargaining among the parties for concessions of equivalent value. William Loehr, "Externalities and the Theory of Economic Integration," in *The Theory and Structures of International Political Economy*, ed. Todd Sandler (Boulder: Westview Press, 1980), p. 257.

to share the water with the downstream nation.”<sup>563</sup> A review of the substance of customary international law with respect to the use of water resources reveals, however, that there is an attempt to reconcile the principle of sovereignty with the obtaining of maximum benefits to all riparians.<sup>564</sup> In the case of the dispute with Argentina over Itaipu, Brazil espoused the Harmon doctrine in rejecting, on grounds of its sovereignty rights, the Argentine thesis of “prior consultation” of downstream countries on any upstream undertaking.

Beyond the problem of eschewing unilateral (sovereign) action, cooperation among countries sharing a common-pool resource can be precluded when there are several parties involved, when they have non-comparable objectives, and most of all, when parties systematically apply a difference-maximization decision rule when facing common property resource problems. In the last case, the structure of the situation is changed from a variable-sum to a zero – or constant-sum type of game, in which one party’s gains come at the expense of another’s.<sup>565</sup> A great number of participants make bargaining difficult since trade-offs among them become more complex and costly. When countries seek different objectives in the exploitation of a common property resource, such as profit, security of supply of strategic resources, national prestige, and so on, liability assignments and compensation provisions cannot be worked out, because the values assigned by each country to the use of the resource are not comparable and can only be established

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563 G. Graham Waite, “International Law Affecting Water Rights in the Western States,” *Land and Water Law Review* 4, n° 2 (1969), p. 71.

564 *Ibid.*, pp. 68-71. In Waite’s assessment, the Harmon doctrine is an incorrect statement of international law.

565 A self-maximizing decision rule is individualistic. Each actor is concerned with maximizing its own returns, and compare different out-comes according to this rule. A difference-maximization decision rule is competitive. Actors seek to maximize the difference between their own gains and those of the others. Stein, “Coordination and Collaboration,” p. 318.

through an arbitrary decision. A similar situation occurs when the interdependence among the parties is asymmetrical, a clear-cut case of upstream and downstream countries sharing an international river with conflicts arising over assumptions of off-site costs and benefits. Finally, when the historic relationship between two countries is one of open hostility or even latent rivalry, each may seek to realize a gain relative to the other, rather than to maximize joint gains through cooperation.<sup>566</sup> The two last factors accounted for the protracted controversy between Brazil and Argentina over the utilization of the Paraná River Basin.

In the development of a regime for the common use of the Paraná River, Brazil made use of a combination of rewards and coercion towards its two neighbors, Paraguay and Argentina. To establish a regime in accordance with its interests, Brazil eschewed unilateral action in the exploitation of the hydroelectric potential of the river and agreed to a joint venture with Paraguay for the production of electric power. In the newly created Itaipu binational public corporation between Brazil and Paraguay, the two countries were given equal partnership in all financial matters, management, and decision-making power. The energy to be produced by the dam was also to be divided into equal parts by the two countries. The Brazilian government lent Paraguay US\$ 50 million for the latter's initial contribution to the corporation of US\$ 100 million. It also took the responsibility for the additional

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566 John V. Krutilla, *The Columbia River Treaty – The Economics of an International River Basin Development* (Baltimore: The Johns Hopkins Press, 1967), pp. 3-6; and Wijkman, "Managing the Global Commons," pp. 520-21. David LeMarquand, "Politics of International River Basis Cooperation and Management," *Natural Resources Journal* 16 (October 1976): 883-901, groups the different factors that foster and hinder cooperation in the exploitation of international river systems under three distinct categories: (1) hydrologic-economic factors, (2) international relations, and (3) policy making within the national governments. J. Eliseo da Rosa, "Economics, Politics, and Hydroelectric Power: The Parana River Basin," *Latin American Research Review* 18, n° 3 (1983), pp. 77-107, analyzes the impact of hydrologic-economic determinants and technological constraints in the politics of the Paraná River Basin, and their effect upon negotiations among Argentina, Brazil, and Paraguay in the exploitation of the hydroelectric potential of the river.

capital needed to complete the joint venture by guaranteeing almost all the loans procured in Brazilian and international capital markets. To ensure Paraguayan cooperation in the Itaipu endeavor, Brazil had been willing to upgrade its military, economic, and technical assistance to the former.

Argentina was excluded from the negotiations of the Paraguayan-Brazilian project. In fact, Brazil's position was that in rivers of consecutive jurisdiction, countries were free to use the waters under their jurisdiction without having to seek previous agreement with the next state in line. Therefore, the need for Argentine consent on Brazil's undertaking in the upstream portion of the Paraná River was rejected by Brazil. In the same spirit, Brazil objected to trilateral discussions with Argentina over the compatibility between the Itaipu project and the Corpus project, an undertaking between Argentina and Paraguay further below the Paraná River. Brazil's conduct in the Itaipu issue not only deprived Argentina of using the hydroelectric potential of its portion of the river in a more efficient way, but also attempted to make Argentina comply with a regime for the use of the common-pool resource with characteristics that Brazil favored. From the standpoint of Argentina's interests the construction of Itaipu would have forced it to suffer the costs without receiving any compensation for the externalities caused by Brazilian use of the river. It was only after a series of factors had raised the opportunity costs of coercing Argentina that Brazil agreed to initiate negotiations with the former aimed at adjusting the Itaipu and Corpus projects.

## **6.2 Brazil and Argentina: Divergent Views on the River Plate Basin**

The economic and political competition between Brazil and Argentina in the River Plate Basin has been an important feature



in the dynamics of regional politics.<sup>567</sup> Since the 1960s, when Argentine economic growth lagged behind that of Brazil, the latter has been able to make significant inroads into the three smaller border states of Bolivia, Paraguay, and Uruguay. Brazilian loans, credits, joint development projects, technical and cultural assistance, and military aid, instruments that Argentina could not match because of a prolonged period of economic and political disarray, gradually brought the three border states into Brazil's sphere of influence. Growing Brazilian activism in the Basin, particularly in the 1970s, fueled Argentine suspicions of Brazil's hegemonical aspiration in the area. Brazil's conduct in the Basin was perceived as seeking to develop the economic potential of the region for its own benefit and to neutralize Argentine influence over the three border states. On the other hand, in Brazilian eyes, Argentine policy and initiatives in the region were seen as specific attempts to obstruct Brazil's fulfillment of its "legitimate" interests in the Basin.

Brazil and Argentina had traditionally been at odds with respect to a regime for the use of the rivers in the River Plate Basin. Such divergence reflects their respective upstream-downstream situation in Basin. As seen before, when the interdependence between parties is asymmetrical controversies arise from question concerning the distribution of externalities. The Paraná River originates in Brazilian territory, thereafter forming the border between Brazil and Paraguay and further below between Argentina and Paraguay. After meeting with the Paraguay River, the Paraná flows entirely in Argentine territory, discharging its water into the Plate River, which estuary Argentina shares with Uruguay. The Uruguay River also originates in Brazilian lands and thereafter

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567 Helio Jaguaribe, "Brasil-Argentina: Breve Análisis de las Relaciones de Conflicto y Cooperación," *Estudios Internacionales* 15 (January/March 1982): 9-27.

serves as the boundary between Argentina and Brazil. Flowing to the south it becomes the Argentine-Uruguayan border, until emptying into the Plate River.<sup>568</sup>

As a downstream nation in the Basin, Argentina took the initiative for the establishment of a regime to regulate the use of the river system in order to prevent costly and damaging spillovers from upstream users of the waters. Accordingly, it has favored agreements that dealt with the overall uses of the water resources in the Basin, as opposed to specific regulations of particular rivers or portions of them. To defend its rights in the exploitation of the Paraná River, Argentina had made use of the concept of the “geographical singularity of the Guairá Canyon,” a concept which, according to Rosa, blends “a striking similarity” with the Third World’s position of the “common heritage of mankind” in the Law of the Sea negotiations.<sup>569</sup> It should be recalled, however, that Argentina, as well as Brazil, had been against the creation of any supranational authority in the Basin which would detract from their sovereignty, although it tended to give more emphasis to regional cooperation schemes than Brazil did. Argentina’s major drive for regulating the use of the rivers in the Basin has to be seen as a protective more against eventual unilateral utilization of those resources by Brazil which could impair its own use. Therefore, Argentina had been a strong supporter of the principle of “prior consultation” – to assess the possible damage and determine the system of compensation – whenever the use of an international river by any country could produce negative spillovers on another riparian. In accordance with this principle, the 1946 treaty between Argentina and Uruguay, which established a framework

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568 For technical features of the major waterways in the Basin, see Menon, “The Plate River Basin,” pp. 668-72.

569 Rosa, “Economics, Politics, and Hydroelectric Power,” p. 85.

for the construction of the Salto Grande hydroelectric project between the two countries in the Uruguay River, provided for trilateral conversations with the Brazilian government to examine the conditions created by that agreement. Brazilian approval was sought despite the fact that the Salto Grande project lies within Argentine-Uruguayan territorial jurisdiction. In 1960, the three governments signed a joint declaration in which Brazil gave its approval to the project, but reserved the right to initiate indemnity proceedings against any damage done to its territory in connection with the Salto Grande project. The joint declaration also recognized Brazil's right to the free utilization of the Uruguay River in its own territory, but in turn, it agreed to consult with the two other riparians in cases where Brazilian works in the river might cause damage to them.<sup>570</sup>

As an upstream riparian in the Basin, Brazilian use of the rivers may be beneficial to itself but damaging to the next state in line. Because Brazil's known fuel fossil reserves have been insufficient to meet energy demands, strong emphasis has been given to the exploitation of its vast hydroelectric potential, especially in the southern part of the country where the most industrialized centers are located. Therefore, the Brazilian government had been systematically opposed to regime initiatives that might reduce its choices in the development of water resources under its jurisdiction. As seen above, the principle espoused by Argentina envisages the river system as a hydrologic unit, with significant interdependence among all sections and riparians. Brazil, contrariwise, subscribed to the principle that indivisibility of water resources exists only in rivers of contiguous jurisdiction, as is the case of the Paraná

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570 Menon, "The Plate River Basin," p. 677; María del Carmen Llaver, "El Problema del Aprovechamiento Hidroeléctrico del Alto Paraná," *Revista Argentina de Relaciones Internacionales* 5 (September/October 1979): 26-27; and Laércio Betiol, *Itaipu: Modelo Avançado de Cooperação Internacional na Bacia do Prata* (Rio de Janeiro: Editora da Fundação Getúlio Vargas, 1983), pp. 22-24.

River with respect to Brazil and Paraguay. In cases of shared jurisdiction, Brazil thus acknowledged the common-pool nature of the waters and accepted the principle that the utilization of the water should be preceded by an agreement between riparians. A Paraguayan-Brazilian agreement for the joint exploitation of the hydroelectric potential of the Paraná was signed in June 1966. The *Ata de Iguaçu* or *Acta de las Cataratas* recognized Paraguayan-Brazilian shared sovereignty over the hydroelectric potential in their contiguous section of the river, thereby establishing that the energy eventually produced from the Guaíra/Sete Quedas falls to Foz de Iguaçu would be divided into equal parts by the two countries.<sup>571</sup> As for rivers of consecutive jurisdiction, which flow in part within the territorial jurisdiction of a country, for example the Paraná with respect to Argentina, Brazil espoused a modified version of the Harmon doctrine. Thus, for such rivers, Brazil sustained the principle of unimpeded use of the waters within a country's jurisdiction, unless, in that country's judgment, such use could cause "significant damage" to the next state in line.<sup>572</sup>

The asymmetry in the interdependence of downstream Argentina and upstream Brazil in the River Plate Basin accounts for their distinctive views on a regime for the development of the river system. Argentina defended the principle of indivisibility of shared natural resources and therefore pushed for international agreements to regulate the use of the rivers. It had been successful in the case of the Uruguay River but could not succeed in overcoming Brazilian objections to such an agreement with respect to the Paraná River. Brazil, on the other hand, linked the concept of

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571 The text of the *Ata de Iguaçu* is reprinted in Betiol, *Itaipu*, pp. 288-90. Also, see "The Parana: The Biggest Dam of All?" *Latin America*, 19 May 1967, p. 26.

572 For a presentation of Brazilian doctrine on the use of the rivers in the River Plate Basin, see Joaquim Ignacio MacDowell, "A Política do Brasil no Contexto do Tratado da Bacia do Prata," *Revista Brasileira de Estudos Políticos* 37 (September 1973): 9-21.

shared natural resources to that of shared sovereignty. For Brazil to accept Argentina's thesis of prior consultation would amount to giving the latter a veto power over the former's sovereign action. The free use of resources was to be constrained only in cases of significant damage to a coriparian. But the competence for judging such damaging spillovers should, according to the position espoused by Brazil, rest upon the state which undertakes the exploitation of the waters. Argentina subscribed to a different principle in which such competence should rest upon the state that suffers the negative effects of another's action. Therefore, it could demand modifications of a coriparian's undertaking whenever such utilization could interfere with its own right in the use and benefits of the river. Accordingly, the Argentine government presented to the Brazilian and Paraguayan governments, shortly before the signature of the Itaipu Treaty, a document wherein it reserved the right to request modifications of any development project in the Paraná River that could negatively affect the conditions of the river.<sup>573</sup> A similar request had been made by the Brazilian government with respect to the Uruguay River and had been accepted by both Argentina and Uruguay. However, such a "spirit of accommodation" did not prevail during the negotiations of the Itaipu project.<sup>574</sup>

The origin of the controversy between Brazil and Argentina dates back to the 1966 joint Paraguayan-Brazilian agreement for the development of the hydroelectric potential of the Paraná River,

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573 For the Brazilian and Argentine positions, see Betiol, *Itaipu*, p. 107-8.

574 Waite, "International Law Affecting Water Rights," has this to say on the principles of customary international law regarding the use of resources common to more than one nation: "It seems clear that there is no rule of international law that a riparian must have the consent of coriparians as a condition precedent to the use and development within its territory of a system of international waters... However, in current international practice no riparian goes ahead with exploitation of its part of a system when a coriparian may possibly be adversely affected, without consulting the latter and coming to an understanding with it." (p. 71)

in which no mention was made of conversations with Argentina to study the conditions created by that accord. Thus, from the outset, Brazil disregarded the notion of interdependence among users of shared resources and proceeded as if, in its own judgment, Argentina would not be adversely affected by the Brazilian-Paraguayan joint venture. From then on, Brazilian developments in the Paraná would become a souring issue between the two countries. A fall in the volume of water over the Iguaçu falls in late 1968 was attributed by Argentina to Brazilian hydroelectric developments in the lower section of the river. At issue were two power stations, Jupia and Ilha Solteira, under construction on the border of the states of São Paulo and Minas Gerais, which Argentina alleged were interfering with the flow of the river through its territory into the River Plate.<sup>575</sup>

The dispute between Brazil and Argentina was political in nature, albeit phrased in juridical terms under the framework of existing international and regional norms regarding the use of international rivers. In fact, countries adopt legal arguments that are most advantageous to their interests and objectives. It can be argued that existing norms in River Plate Basin have paralleled the relative economic and political advantage of one over the other two rivals in the area. In the 1930s, when Argentine economic superiority vis-à-vis the others, including Brazil, was undisputed, the existing regime for the utilization of waterways in the Basin leaned towards the former's thesis. Indeed, at that time, well-known Brazilian legal experts espoused the adoption of principles of international rivers law and consultation with coriparians. A report issued by the Permanent Commission of International Public Law of Rio de Janeiro was the main source of the draft of the

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575 "Brazil: Argentina Snarls," *Latin America*, 11 October 1968, pp. 322, 324.

Declaration of Montevideo of 1933. The Declaration recognized that in both cases of rivers of contiguous and consecutive jurisdiction, without the previous consent of the other riparians, states could not introduce a change in the existing regime of a river that could damage another riparian.<sup>576</sup> Brazil together with the other Basin countries voted for the Declaration. Afterwards, it changed its position and imputed “fundamental mistakes” to the Declaration. According to a Brazilian diplomat, Brazil has relied on the “established principles of international law” to deny coercive power to the declaration, although it did not denounce it formally.<sup>577</sup>

There seem to exist three main reasons why, at that earlier time, Brazil favored the principle of consultation with riparians in rivers of consecutive jurisdiction. Brazil is a downstream country in the Amazon Basin and that constituted an incentive for setting a legal precedent in dealings with upstream countries in the Amazon Basin. The principle of prior consultation was adopted in an agreement with the United Kingdom, as of November 1932, with respect to the rivers Brazil shares with the then British Guyana in its northern border. It has been pointed out that the position later espoused by Brazil in the River Plate Basin with respect to rivers of consecutive jurisdiction would be to Brazil’s disadvantage in the

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576 The report of the Commission of International Public Law had stated: “The industrial utilization of international water courses, whether successive or contiguous, presupposed the consent of the States directly concerned with respect to navigation, in safeguard of public health... In conclusion, for industrial or agricultural utilization of international river waters, agreement between riparian states is essential, because this usage may have varying effects on the other bank, if the river is contiguous, or on the territory of the neighboring country, if the river is successive.” Quoted in Guillermo J. Cano, “Argentina, Brazil, and the De la Plata River Basin: A Summary Review of Their Legal Relationship,” *Natural Resources Journal* 16 (October 1976): 866-67. Also, see Mario Amadeo, “Consulta Prévia: Tese Brasileira,” *Digesto Econômico*, nº 258 (November/December 1977), pp. 203-7.

577 MacDowell, “A Política do Brasil no Contexto do Tratado da Bacia do Prata,” pp. 11-12.

Amazon Basin.<sup>578</sup> On the other hand, Brazil was the weakest party and therefore more prone to accommodation with Argentina, whose behavior in the basin could be circumscribed by means of a multilateral convention on the use of international rivers. Finally, it was only a few decades later that Brazil would initiate the construction of quite a few hydroelectric plants in the portion of the Paraná under its jurisdiction. The more Brazilian stakes in the river increased, the less willingness the government showed in subscribing to general principles of international river law that could curtail its action in the Basin.<sup>579</sup>

As Brazilian economic and political clout has surpassed that of Argentina, regional norms for the utilization of rivers in the Basin have become more amenable to the Brazilian point of view. The Declaration of Asuncion of 1971, approved by all Basin countries, recognized two sets of principles for rivers of contiguous and consecutive jurisdiction. The principle of previous agreement among riparians was acknowledged only for the former case, whereas in the latter it applied the principle of avoiding “significant damage” to another riparian. Later, the Intergovernmental Coordinating Committee (CIC) of the Countries of the River Plate Basin approved a document stating that compliance with the terms of the Declaration of Asuncion would refer to the consequences of the operation of hydroelectric power stations, rather than to the preceding phase of their construction.<sup>580</sup> In Brazilian understanding, the Declaration of Asuncion and further recommendations of the CIC exempted Brazil from obtaining

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578 Osny Duarte Pereira, *Itaipu – Prós e Contras* (Rio de Janeiro: Editora Paz e Terra, 1974), p. 135.

579 For Brazil's changing position on the adoption of general principles in the Basin, see Cano, “Argentina, Brazil, and the De la Plata River Basin,” pp. 866-72.

580 MacDowell, “A Política do Brasil no Contexto do Tratado da Bacia do Prata,” pp. 15-17. The text of the Declaration of Asuncion is reprinted in Betiol, *Itaipu*, pp. 296-97.



prior Argentine consent over the Itaipu project. Furthermore, the compatibility between the principle of sovereignty and the responsibility of ensuring that activities within a country's jurisdiction would not cause damage to another riparian would be achieved through a public notification of technical data on the filling and operation of the dam, rather than through previous consultation. Finally, in disputed issues with Argentina, Brazil would argue that it was the sole judge of whether the planned works would cause damage to a coriparian and, therefore, create an obligation to notify it.<sup>581</sup>

The fact that Argentina had subscribed to the Declaration of Asuncion signaled its inability to counter increasing Brazilian influence over the three other countries in the Basin, rather than the abandonment of the thesis of prior consultation. Indeed, in 1971, Argentina had signed bilateral agreements with Uruguay, Bolivia, and Chile, with respect to a regime for the use of the Basin's water resources, which provides for consultation with third parties.<sup>582</sup> As the weaker rival in the dispute, the incentives were greater for Argentina to accommodate itself to Brazil. At the United Nations Conference on Human Environment at Stockholm in June 1972, Brazil and Argentina could not agree on a draft principle concerning the provision of information on the use of natural resources. The Conference adopted by acclamation a Declaration of twenty-six principles, and the principle on which agreement could not be reached was referred to the General Assembly. Shortly before the 1972 session, a consensus was reached between Argentina and Brazil over the subject which was formalized under the New York Agreement between the

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581 MacDowell, "A Política do Brasil no Contexto do Tratado da Bacia do Prata," p. 17.

582 Betiol, *Itaipu*, pp. 24-25; and Llaver, "El Problema del Aprovechamiento Hidroeléctrico del Alto Paraná," p. 29.

two, signed in September 1972. The text of that agreement was introduced as draft resolution, sponsored by Argentina, Brazil, and fifty-eight other countries, and adopted as Resolution 2995 at the General Assembly's 1972 session.<sup>583</sup>

With the New York Agreement, Argentina and Brazil had agreed on three main principles: (1) the exploitation of their natural resource state must not produce significant harmful effects in zones situated outside their national jurisdiction; (2) cooperation would be effectively achieved by furnishing official and public knowledge of the technical data relating to the work to be carried out within a state's jurisdiction, in an attempt to avoid such harmful effects; and (3) the technical data would be given and received in "the best spirit of cooperation and good neighbourhood, without that being interpreted as allowing any state to delay or hinder" another's state project for the use of natural resources within its territory. The last item was proposed by Brazil.<sup>584</sup> In Brazil, the New York Agreement was greeted as a diplomatic victory for the country, a sign that Argentina had acceded to the Brazilian thesis for notification instead of consultation and prior agreement.<sup>585</sup> But such accommodation was to be short-lived. In June 1973 the newly inaugurated Argentine government denounced the New York Agreement. The immediate cause for Argentine action was the filling of the reservoir of the Ilha Solteira dam in Brazil, when Argentina claimed Brazil had failed to notify it in accordance with the terms agreed upon in the Resolution 2995. The worsening of

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583 United Nations, Office of Public Information, *Yearbook of the United Nations*, 1972 (New York, 1975), pp. 317-25, 330-31; "United Nations: Whose River?" *Latin America*, 23 June 1972, pp. 197-98; and Betiol, *Itaipu*, pp. 113-15.

584 For the text of the Agreement, see Cano, "Argentina, Brazil, and the De la Plata River Basin," p. 873. Also, see Betiol, *Itaipu*, pp. 114-15. The text of the 2995 Resolution, which parallels that of the Agreement, is reprinted in *Yearbook of the United Nations*, 1972, pp. 330-31.

585 Pereira, *Itaipu*, pp. 142-44.

their relationship can be traced, however, to two events in 1973: the signing of the Itaipu treaty between Brazil and Paraguay and the victory of the Peronist candidate in Argentine presidential elections.<sup>586</sup>

On 26 April 1973, Paraguay and Brazil signed the Treaty of Itaipu. Feasibility studies commissioned by the two governments were handled at the end of 1972. Two possible solutions were recommended for the actual power station: a large dam at Itaipu, or two smaller ones at Itaipu and Santa Maria near the Sete Quedas falls, respectively, with the first option eventually chosen. Itaipu is 150 kilometers downstream from the Sete Quedas falls, near the point where the Paraná River is joined by the Iguaçu and about 20 kilometers from the Argentine border. The choice of the Itaipu site, just a few miles from the Argentine border, produced an immediate negative reaction from the latter.<sup>587</sup> Argentina was particularly anxious over the impact the Itaipu dam might have in lowering the level of the Paraná River, thus threatening its use for navigation purposes, in view of the crucial importance of the river in linking the northern part of the country and Paraguay to the River Plate. Furthermore, Argentina feared for the economic viability of its own hydroelectric projects in the river, particularly those planned in conjunction with Paraguay at Corpus and Yacyretá. The Brazilian government did nothing to appease such fears, such as handing a copy of the Itaipu project to the Argentine government. Indeed, Brazilian inflexibility was predicated on the government's determination to avoid setting

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586 For the diplomatic quarrel between the two countries over the filling of the Ilha Solteira dam, and Argentine denunciation of the New York Agreement, see Betiol, *Itaipu*, pp. 115-17; Pereira, *Itaipu*, pp. 165-73; and Cano, "Argentina, Brazil, and the De La Plata River Basin," pp. 873-74.

587 For the reaction in the Argentine press over the choice of the Itaipu site and the signing of the Itaipu Treaty, as well as the counter-reaction in Brazil, see Pereira, *Itaipu*, pp. 147-64, 245-58. Also, see "Paraguay: Old Man River," *Latin America*, 4 May 1973, pp. 140-41.

an unfavorable precedent with Itaipu, by which from then on, Brazil would have to agree to submit its water development projects for consideration by the other countries in the Basin. The following comment of the then leader of the governmental party reveals this disposition:

*We do not want any kind of hegemony in the Americas, nor would we wish to make use of natural resources to the detriment of others. But we cannot accept that projects to be carried out in our territory, and which are to nobody's detriment – as has been proven – should be submitted for approval to a foreign body.*<sup>588</sup>

The Brazilian-Argentine dispute was further exacerbated after the inauguration of a Peronist government in Argentina in May 1973. The Peronist foreign policy placed great emphasis on enhancing the country's autonomy in world affairs, independence from the United States, and cooperation with the Third World and Latin America in particular. Priority items on the Peronist's foreign policy agenda were: restoration of Buenos Aires' influence in Uruguay, Bolivia, and Paraguay to counter Brazilian presence in the area; support for Latin American economic integration; and restructuring of the Inter-American system.<sup>589</sup> The victory of Peronism in Argentina was assessed by some high-ranking military officers in Brazil as bound to worsen Brazilian-Argentine relations and to affect Brazil's position in South America. Analysts of the Itaipu issue believe that the Brazilian government decided to speed

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588 Quoted in "Brazil: High Tension," *Latin America*, 8 September 1972, p. 284.

589 Carlos Pérez Llana, "¿Potencias Intermedias o Países Mayores? La Política Exterior de Argentina, Brasil y México," *Estudios Internacionales*, n° 29 (January/March 1975), pp. 84-87; "Argentina: The New Broom," *Latin America*, 1 June 1973, pp. 169-70, 172; "Argentina: Third World," *Latin America*, 17 August 1973, pp. 260-62; and "Latin America: Defenders of Different Faiths," *Latin America*, 14 September 1973, pp. 289-90.

up the signing of the Itaipu Treaty to have it concluded before the inauguration of the Peronist government in Argentina.<sup>590</sup>

It was mainly to Third World and United Nations forums that the new Argentine government took its grievances against Brazil's projected dam. At the Non-Aligned Conference in Algiers in September 1973, the former was able to have a paragraph inserted in the final declaration calling for cooperation between countries sharing natural resources to be conducted on the basis of a system of information and prior consultation. A similar resolution was introduced by Argentina and fifty-two other countries during the United Nations General Assembly 1973 session. Resolution 3129 was approved by seventy-seven votes to five with forty-three abstentions. Brazil, Bolivia, Paraguay, Nicaragua, and Portugal voted against the resolution. Uruguay cast an abstention vote. Brazilian diplomacy saw in the resolution an attempt by Argentina to block the construction of Itaipu.<sup>591</sup> Argentina also won general endorsement of its stand at the 1974 session of the General Assembly, which had approved the Charter of Economic Rights and Duties of States. The Charter, an initiative of the Mexican government, included an article stipulating that cooperation between states in the exploitation of shared natural resources must be carried out on the basis of a system of information and prior consultation to ensure optimum use of those resources without damage to the interests of other states. Brazil supported the Charter but cast a negative vote on the above-mentioned article. Bolivia and Paraguay followed the Brazilian position. At the 1974 session of the General Assembly Brazil reiterated its opposition to

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590 This viewpoint is found, e.g., in Pereira, *Itaipu*, p. 189.

591 United Nations, Office of Public Information, *Yearbook of the United Nations*, 1973 (New York, 1976), pp. 369-70, 374-75. For the reaction in Brazil to the UN resolution, see Pereira, *Itaipu*, pp. 277-79.

the concept of prior consultation as constituting an “unacceptable limitation to the principle of free sovereignty of a State over the natural resources within its territory.” The same applied to the concept of optimization, in the Brazilian view.<sup>592</sup>

The barriers for Argentine-Brazilian cooperation in the use of shared water resources in the River Plate Basin derive from their respective upstream-downstream location in the Basin and their historic rivalry in the region. As far as principles of international rivers law are concerned, Argentina defended the doctrine of absolute territorial integrity, which guarantees use of the river in an unaltered state to the downstream riparian, whereas Brazil supported, with modifications, the doctrine of absolute sovereignty to upstream riparians. Historical and geopolitical factors have strengthened Brazilian concern for sovereignty, as have the latter’s fears of an anti-Brazilian coalition of Hispanic countries led by Argentina in the southern part of the continent. Concern for sovereignty had grown stronger as Brazil began to make more intense use of the hydroelectric potential of the Paraná River. In the late 1960s and early 1970s, it took advantage of its favored position on the river and its political and economic clout in the area to initiate the largest hydroelectric development project on the Paraná River. Brazil declined to discuss with Argentina the physical effects such a project might have on the lower part of the river. The decision to build Itaipu had been taken without due regard for the interdependent nature of the river, therefore ignoring possible negative spillovers on Argentina’s use of the river. The latter attempted to reverse Brazil’s unilateral decision through an intense diplomatic offensive with the other Basin countries,

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592 United Nations, Office of Public Information, *Yearbook of the United Nations*, 1974 (New York, 1977), pp. 353-354, 381-401. For the Brazilian representative’s point of view with respect to article 3, see p. 397. The text of Resolution 3281 containing the Charter is on pp. 402-7.

Paraguay in particular, and through the internationalization of the dispute. Although Argentina won support for its stance at Third World and United Nations forums, it could not rally the other smaller countries to its side of the dispute, nor could it stop Brazil from going ahead with the Itaipu project. In May 1974, the binational entity Itaipu was established and the actual construction of the dam was initiated in October 1975. Brazil had clearly won the first round of the protracted controversy with Argentina over the utilization of shared natural resources. With the Itaipu project leaving the drawing board to begin construction, it was up to Argentina to reach an accommodation with Brazil to minimize losses derived from the latter's policies in the Basin.

### 6.3 Geopolitical Rivalry and the Price of the Allies

The Argentine-Brazilian dispute in the River Plate Basin increased the leverage of the three smaller countries as each of the rivals strained to secure allies in the region. Until the mid-1960s, Argentine influence over the three other Spanish-speaking countries was paramount. Brazil's economic clout coupled with geopolitical foreign policy aims to secure its borders from external physical and ideological threats had increased Brazilian penetration and influence substantially in the region by the late 1960s and early 1970s.<sup>593</sup> Triggered by the competition between Brazil and Argentina, the diplomacy of natural resources in the

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593 Brazilian security concerns in Latin America were guided by the "circle doctrine" whereby the greatest danger to Brazilian security would come from political developments within the border countries that could easily be "exported" to Brazil. Such was the rationale, in the early 1970s, for Brazilian intervention in the domestic political affairs of countries such as Uruguay and Bolivia. Simultaneously, Brazil engaged in a series of economic agreements with its neighbors to provide credits and financial and technical assistance, particularly in the development of natural resources. For these developments, see Serge d'Adesky, "Brazil's Rise to Dominance in Latin America," *The Fletcher Forum* 3 (Summer 1979): 51-58. Security concerns and economic self-interest provided the impetus for economic cooperation on a bilateral basis with the Spanish-speaking countries in the southern part of the continent.

Basin worked to the benefit of Bolivia, Paraguay, and Uruguay. Argentine willingness to resolve a protracted controversy over boundaries with Uruguay which had hindered the two countries' cooperation in the Salto Grande project can be seen as a reaction to the *Ata de Iguazu* between Brazil and Paraguay. In the same category can be placed the Argentine-Bolivian agreement of December 1968, establishing a free zone for storage of products coming from or going to Bolivia at the Argentine port of Rosario in the Paraná River. Brazil matched Argentina with agreements with Bolivia which, among other things, called for the construction of a gas pipeline across the continent to São Paulo, and provided financial and technical assistance in the creation of a "pole of development" in the Santa Cruz area. Bolivia, in turn, would supply a minimum of 240 million cubic feet of natural gas per day over a twenty-year period. Cooperation with Uruguay included such projects as the development of the natural resources of the Lagoa Mirim Basin, financial and technical assistance for the Palmar hydroelectric project, and studies on the development of the hydroelectric potential of the section of the Jaguarão River that borders the two countries.<sup>594</sup>

As a partner to both Brazil and Argentina in joint projects for the development of the hydroelectric potential of the Paraná River, Paraguay was in a position to benefit directly from the competition of the two larger powers in the Basin. In the aftermath of the 1966 Paraguayan-Brazilian agreement, Argentina reactivated a joint technical commission established in 1958 to study the hydroelectric potential of the Yacyretá and Apipé falls on the Paraná River. In 1971 the two countries agreed to set up

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594 "Argentina: Hands Across La Plata," *Latin America*, 11 January 1974, p. 10; "Bolivia: It's All Done with Gas," *Latin America*, 31 May 1974, pp. 162, 164; and Brasil, Ministério das Relações Exteriores, *Resenha de Política Exterior do Brasil* 14 (July 1977): 127-34, 141-48.



a commission to survey the potential uses of all the resources of their common portion of the river. Another agreement, a year later, proposed to undertake studies of projects for the construction of dams in rivers of shared jurisdiction. With provisions very similar to the Itaipu Treaty, that of Yacyretá, signed in December 1973, established a binational entity, Yacyretá, planned to operate with thirty turbines of 135 megawatts each, with a total capacity of 4,050 megawatts, and an estimated annual power generation of 19 billion kilowatt-hours. Although the model for the Yacyretá project had been finished a few years before, it had been shelved for some time because of the inability of both governments to arrive at a mutually acceptable solution, a fact the Argentine government interpreted as a deliberate delaying tactic on the part of Paraguay. Under pressure from the Peronist government, which wanted to have something on the ground to improve its bargaining position after the Itaipu Treaty had been signed, the Yacyretá Treaty was finally signed in December 1973. Simultaneously, the Argentine government made known its intention to proceed with the Corpus hydroelectric project, situated half-way between Yacyretá and Itaipu. A feasibility study for that project was commissioned to a West German company in 1974.<sup>595</sup>

The dispute between the two larger powers in the Paraná River gave Paraguay some scope for maneuver. For Paraguay, close economic ties to Brazil represented an alternative to an almost exclusive dependence on Argentina for trade and transportation networks, since Paraguay's outlet to the sea, through the Paraguay-Paraná river system, is under the control of Argentina. Brazil, on the other hand, depended on Paraguayan collaboration to carry

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595 *Latin America*, 28 November 1969, p. 379; *Latin America*, 11 September 1970, p. 291; *Latin America*, 5 February 1971, p. 43; *Latin America*, 22 October 1971, p. 339; *Latin America*, 22 September 1972, p. 299; *Latin America*, 2 March 1972, p. 67; and Betiol, *Itaipu*, pp. 26-27.

forward its energy policies in the Paraná River. Thus, since the early 1970s, a “special relationship” has evolved between the two countries, with Brazil granting loans, suppliers’ credits for buying Brazilian-made products, preferential access for Paraguayan agricultural products to the Brazilian market, free access to the sea through Brazilian territory, permission to fish in Brazil’s territorial waters, and financial and technical assistance for the development of the hydroelectric potential of the tributaries of the Paraná River in Paraguayan territory, and for the construction of roads and bridges in Paraguay, which improved physical communications with Brazil. A Treaty of Friendship and Cooperation signed in December 1975 established broad areas of cooperation in sectors such as trade, industrial complementation, technology, education, tourism, telecommunication, transportation, nuclear energy, interconnection of the two countries’ electrical systems, improvement in the ability to navigate the Paraguay River, and development of the Paraguayan zone of the upper Paraná.<sup>596</sup> Security concerns also played a part in these developments. Under the personalist Stroessner regime – General Alfredo Stroessner has been in power since 1954, and in February 1983 was re-elected for another five-year term, entering his seventh consecutive term of office – Paraguay did not represent a threat to the stability of the military regime in Brazil. Instead, it was counted as a source of support for Brazilian counterinsurgency activities in South America in the early 1970s.<sup>597</sup>

As Brazilian-Argentine relations soured in the mid – to late 1970s over the issue of the compatibility of the Itaipu and Corpus

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596 “Brazil: Bridges Over Troubled Waters,” *Latin America*, 14 May 1971, p. 153; “Brazil and Paraguay Draw Even Closer,” *Latin America Economic Report*, 2 January 1976, p. 3; and Brasil, *Resenha de Política Exterior do Brasil*, nº 7 (October 1975), pp. 5-21, 162-65.

597 *Latin America*, 16 July 1971, p. 232; and “Brazil: Good Fences Make Good Neighbours,” *Latin America*, 22 October 1971, p. 343.

projects, the price of Paraguayan allegiance went up. Brazilian officials felt displeased for what they considered Stroessner's unreasonable demands and resented Paraguay's strategy of playing one side against the other. Argentina felt the same way. As the cost of side payments to Paraguay increased, the incentives for Brazil and Argentina to enter negotiations to resolve the dispute increased as well.<sup>598</sup>

#### 6.4 Brazil and Paraguay: In Search of the Good Partnership?

If hydrologic-economic factors and international geopolitical circumstances had hindered Argentine-Brazilian cooperation, those factors, contrariwise, fostered cooperation between Brazil and Paraguay in the use of shared natural resources. Actually, geopolitical factors played a significant role in shaping Brazilian-Paraguayan joint action in the Paraná River. In the early 1960s, foreign policy considerations caused the Brazilian government to forestall plans for the construction of a hydroelectric plant on its portion of the Paraná River, at the site of the Sete Quedas falls, over which Brazil and Paraguay had disputed territorial claims. The project would require the diversion of part of the waters of the river, above the falls and before the river reaches the Paraguayan border. Protest from the latter led to an agreement between the two countries that neither would use the river in their common borders without previous mutual consent.<sup>599</sup> Border incidents between the two countries in 1965, when Brazilian troops occupied a piece of

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598 Paraguay's "unreasonable" demands to Brazil were mostly in the area of military assistance, in which lists for weaponry, supplied on concessionary terms, were handled on a continuous basis by the Paraguayan government. In Argentina it was the Navy that most resented Paraguay's strategy and asked for direct bilateral negotiations with Brazil. "Brasil Preocupa-se com Paraguay," *Jornal do Brasil*, 13 April 1977, p. 5; and "River Plate: The Juggler," *Latin America Political Report*, 6 May 1977, pp. 133-34.

599 Pereira, *Itaipu*, pp. 53-62.

disputed territory at the Guaíra falls, triggered the signature of the *Ata de Iguaçu* in 1966, which recognized the condominium of both countries of the water resources in the area including the Guaíra falls to the Iguaçu River.<sup>600</sup> With the Iguaçu agreement Brazil sought to build up a favorable Paraguayan disposition toward its future energy policies in the area. Although at the time of the signing of the agreement the actual beginning of a dam in that section of the river was not a major priority for the Brazilian government, it was careful to include a paragraph which stated that the energy produced beyond the requirements of one or other of the two parties would first be offered to the other signatory before being offered to any third country.<sup>601</sup> The final choice of the Itaipu site took into account Paraguayan territorial sensibilities. The option of two smaller dams, one at Itaipu and the other at Santa Maria, would have put one power station in a disputed territory.<sup>602</sup>

Once geopolitical circumstances were conducive to cooperation, hydrologic-economic factors shaped the form such cooperation undertook. The incentive for joint action is greater when two countries share a common-pool watercourse and the interdependence between them is symmetrical. In such a situation, as has been pointed out, “the incremental cost felt by each riparian from their

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600 For an account of the border incidents and the signature of the *Ata de Iguaçu*, see *ibid.*, pp. 63-73.

601 In Brazil some energy experts argued that the country should first develop the hydroelectric potential of the Paraná River within its own national territory before undertaking a joint scheme with Paraguay. They feared in the future Brazil's energy policy might be at the mercy of decisions taken by a foreign body. For such critical assessment, see an address by Octávio Marcondes Ferraz delivered at the Engineering Club of Rio de Janeiro, “A Hidrelétrica de Itaipu Teve uma Solução Política,” *O Estado de São Paulo*, 2 May 1976, p. 66. Marcondes Ferraz was the author of the project that would divert part of the Paraná River above the Sete Quedas falls.

602 According to the Minister of Mines and Energy during the Medici government, the most expensive technical solutions for the actual power station were also the least politically viable. Speaking to the Foreign Relations Commission of the House of Representatives he argued that the Itaipu project was essentially political and therefore negotiations had been conducted primarily under the Foreign Relations Ministry with a view of reaching a solution politically agreeable to both countries. Quoted in Pereira, *Itaipu*, pp. 295-96.

own and the other countries' harmful action are larger and more apparent."<sup>603</sup> Thus, a joint Brazilian-Paraguayan project could achieve a more efficient use of the Paraná River than either could have achieved by acting unilaterally. According to Rosa, "the Itaipu and Yacyretá treaties have recognized the common-pool nature of the water and have chosen to create an equal binational partnership for its use in the production of electric power."<sup>604</sup> The binational corporation Itaipu is owned in equal parts by Paraguay and Brazil, represented at Itaipu, respectively, by their power authorities of ANDE (Administración Nacional de Electricidad) and ELETROBRAS (Centrais Elétricas Brasileiras). The equal apportionment method adopted in Itaipu in regard to costs, management, and energy produced is a result of the principle of condominium of shared resources acknowledged in the *Ata de Iguaçu* and the Itaipu Treaty. The legal basis for such concept dates back to the treaty of boundaries between Brazil and Paraguay of 1872, which established the waters in contiguous rivers as the determinant element of their common border. That the same criterion was used between other border states in the Basin accounts for the fact that other binational hydroelectric projects such as the Salto Grande and Yacyretá, between Argentina and, respectively, Uruguay and Paraguay, also adopted the equal apportionment method.<sup>605</sup>

The dimensions and scale of Itaipu are impressive. It is planned to work with eighteen turbines of 700 megawatts each, with an installed capacity of 12,600 megawatts, and an estimated

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603 LeMarquand, "Politics of International River Basin Cooperation and Management," p. 886.

604 Rosa, "Economics, Politics, and Hydroelectric Power," p. 84.

605 For an extensive analysis of the institutional characteristics, juridical nature, and regime of the Itaipu corporation, see Betiol, *Itaipu*, pp. 172-244.

annual power production of 70 billion kilowatt-hours.<sup>606</sup> Brazil's entitlement to half of the power capacity of Itaipu represented over one-third of its total installed capacity in electric plants in 1974 (17,983 megawatts), whereas for Paraguay the 6,300 megawatts of Itaipu were equivalent to twenty-six times its total capacity in that same year (236 megawatts).<sup>607</sup> Clearly Paraguay could absorb only a small fraction of the electricity produced by Itaipu, but it hoped to use its share as an export asset which would transform Paraguay into a significant exporter of hydroelectric energy. For Brazil, on the other hand, Itaipu represented a significant source of energy since it expected to add to its own share a sizeable portion of Paraguay's share. To guarantee such a supply, a clause in the Itaipu Treaty gives each party the right to purchase the other's surplus. The financial requirements of the project were estimated in 1975 at US\$ 3.5 billion. From 1972 to 1983 costs had escalated to US\$ 9.7 billion, including US\$ 6.7 billion in direct investments and US\$ 3 billion in interest on the debt incurred in the construction. The final costs are expected to reach around US\$ 15 billion by 1992 when the project is completed. This figure is equivalent to three times Paraguay's GDP at market prices in 1981, and forty times the value of its registered exports in 1983. In the case of Brazil, the same comparisons yield 5.6 percent of the GDP and about 67 percent of the total value of exports.<sup>608</sup>

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606 Both in capacity and production, Itaipu will be the largest dam in the world. The second largest is the Grand Coulee in the United States with 9,711 megawatts of capacity and 20 billion kilowatt-hours of annual power generation. For comparison of Itaipu with other large hydroelectric plants, see José Costa Cavalcanti, "A Itaipu Binacional – Um Exemplo de Cooperação Internacional na América Latina," *Revista de Administração Pública* 10 (January/March 1976): 32.

607 Betiol, *Itaipu*, pp. 45-46.

608 Ricardo Rodríguez Silvero, "Los Acreedores de Itaipú. Un Análisis Descriptivo," *Revista Paraguaya de Sociología* 60 (May/August 1984): 132-33; and "Obra Atrasa 18 Meses e Fica US\$ 7 Bilhões Mais Cara," *Gazeta Mercantil*, 25 October 1984, p. 14.

As the larger partner, with the higher stake in the undertaking, Brazil has assumed the burden of raising the capital for Itaipu in domestic and international financial markets. The Brazilian government has also given a formal commitment to guarantee all the credits received by Itaipu for the payment of goods and services needed for the construction of the dam. Paraguay's US\$ 50 million share of the US\$ 100 million capital stock of the binational corporation was lent by the Brazilian government.<sup>609</sup> The total value of loans and credits received by Itaipu amounted to US\$ 7,256 million in 1982, of which 96 percent had been guaranteed by the Brazilian government. ELETROBRAS and five other Brazilian public credit institutions accounted for 67.8 percent of the loans received by Itaipu, with the rest coming from Brazilian private credit institutions, suppliers' credit, and the Euromarket, mainly.<sup>610</sup> That no multilateral credit agency such as the World Bank or the Inter-American Development Bank is represented in Itaipu is a result of the disputed nature of the project. In fact, in discussing the financing of river works in the early 1970s, the World Bank stated that it would not finance projects prejudicing other riparian states.<sup>611</sup> The inability to seek direct financial assistance from multilateral agencies was a cost Argentina was able to impose on Brazil through the internationalization of the dispute. As the Brazilian economic situation deteriorated in the late 1970s, the government began to press its other partner to shoulder part of the financial burden of Itaipu. Brazil would like for Paraguay to raise money for Itaipu in

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609 Those two agreements were formalized under two separate complementary notes to the Itaipu Treaty. For the text of the Treaty, the three Annex, and complementary notes, see Cavalcanti, "A Itaipu Binacional," pp. 45-68.

610 Silvero, "Los Acreedores de Itaipú," pp. 137-43.

611 "United Nations: Whose River?" *Latin America*, 23 June 1972, p. 198.

the international capital markets, under its guarantee. Paraguay, however, has refused to do so.<sup>612</sup>

## 6.5 Distributive Questions and Brazilian-Paraguayan Bargaining

Haskel suggests that disparity in capabilities influences the choice of strategy followed by countries in bargaining situations. Thus, the strong party will tend to follow an “expansive” strategy emphasizing possible joint gains, whereas the weak party will follow a “distributive” strategy, which concentrates on settling the shares of the parties. An expansive strategy, according to Haskel, reflects the strong party’s “confidence that the division of that gain will be either sufficient, or fair, or in their favor.” For the weaker party the choice of strategy reflects “a lack of confidence as to whether anything not specifically allocated to them in advance will ever come their way later.”<sup>613</sup> It comes as no surprise that Paraguay brought in the distributive questions on the Itaipu agreement, but the significant point was the timing, after the Treaty had been signed. The draft of the Treaty was formulated by Brazilian representatives, and apparently Paraguay did not use its signing of the Treaty as a trump card to influence the division of the gains.<sup>614</sup> No mention is made in the Treaty of the problem of the frequency of Itaipu generators, despite the fact that the two countries use different frequencies in the production and consumption of electricity. The lack of an explicit prearrangement on this technical problem should work to the advantage of the stronger party, since

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612 “Passing the Buck on Itaipu,” *Latin America Weekly Report*, 30 October 1980, p. 10.

613 Barbara G. Haskel, “Disparities, Strategies, and Opportunity Costs – The Example of Scandinavian Economic Market Negotiations,” *International Studies Quarterly* 18 (March 1974): 27. For a discussion of disparities and strategies, see pp. 4-11.

614 “Even a party which considers itself or its position to be weak has a card at the beginning that it will no longer have later: its signature, its agreement to a proposed arrangement,” *ibid.*, pp. 7-8.



it has a better chance to prevail in future bargaining over the issue. In fact, it was Brazil's expectation that Paraguay would agree later to change its domestic frequency to the Brazilian sixty cycles.

Stroessner has never challenged the assumption that both sides would benefit equally. He has praised the "good partnership" with Brazil in Itaipu, stressing that Paraguay received "more than its fair share in relation to its contribution," and that the energy from the plant would bring development and modernization to Paraguay.<sup>615</sup> That the Paraguayan government had not followed a distributive strategy when the Treaty was signed, accepting at face value the assumption of joint gains, can be explained by the following reasons: (1) Paraguay's disadvantage at the negotiating table due to lack of technical means and expertise, in themselves a consequence of the country's overall economic backwardness; (2) the enormous disparity in capabilities between the two countries, a situation that tends "to discourage competition altogether."<sup>616</sup> There was a widespread belief in Paraguay that Brazil would eventually want to develop the Paraná River on its own, and that Paraguay would never be granted complete equal partnership in the development of shared resources, as agreed upon back in 1966;<sup>617</sup> (3) Itaipu was seen by the Stroessner regime as balancing Argentine influence away from the heavy dependence on the latter for Paraguay's economic survival. Stroessner expected that in the future he would have a chance to play one side against the other to the benefit of Paraguay's own interests.

Although disparity in capabilities has remained constant, changing opportunities in the environment, after the Treaty had

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615 Rosa, "Economics, Politics, and Hydroelectric Power," p. 82.

616 Haskel, "Disparities, Strategies, and Opportunity Costs," p. 27. Haskel suggests that the relation between disparity and strategy "may hold only within a certain range of disparity."

617 "Paraguay: The Nip of the Pincers," *Latin America*, 20 November 1970, pp. 374-75.

been signed, increased Paraguay's bargaining leverage to begin questioning the net economic benefit it received. The first of these changes was the signing of the Yacyretá Treaty and Argentine willingness to go ahead with the Corpus project. Second, the fourfold increase in oil prices underscored Brazil's need for alternative sources of energy. In 1974, about 94 percent of the 70,000 barrels of oil consumed per day was imported. Brazil's oil bill jumped from US\$ 800 million in 1973 to more than US\$ 3 billion a year later, and the trade deficit reached US\$ 6.2 billion.<sup>618</sup> Finally, the aftermath of the Treaty saw the first real political debate allowed to take place in Paraguay since Stroessner had come to power. A public campaign against the Treaty was triggered by two daily newspapers, *ABC Color* and *La Tribuna*, apparently with the support of some of Stroessner's generals. The Treaty was blamed as a sell-out of national sovereignty to Brazilian interests, and the debate brought in other sensitive political issues, such as the growing penetration of Brazilian farmers in the Paraguayan territory of the upper Paraná and the overall "Brazilianization" of Paraguayan economy and culture. Critics saw in the energy crisis an opportunity for the renegotiation of the Itaipu agreement on the grounds that Brazil's energy dependence would make it more amenable to concede on some of the issues which might be damaging to Paraguay's national interests.<sup>619</sup> Whatever the

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618 *The Latin American Yearly Review*, vol. 3, 1975, p. 125.

619 "Paraguay: Ominous Treaty," *Latin America*, 20 July 1973, p. 229; "Paraguay: Unaccustomed Difficulties," *Latin America*, 1 March 1974, p. 70; and *The Latin American Yearly Review*, vol. 2, 1974, pp. 81-82. A summary of the contentious clauses raised at the time of the initial signing of the Treaty is presented in James Painter, *Paraguay in the 1970s: Continuity and Change in the Political Process* (London: Institute of Latin American Studies, University of London, Working Papers, nº 9, September 1983), pp. 13-14, as follows:

"(i) The *price* at which Paraguay was going to sell its share of the electricity to Brazil: it was noted that the price was fixed at 1973 prices for the next 50 years, and took no account of the market rise in energy costs; (ii) The *conditions of transfer* of the electricity: in particular, Paraguay was not allowed to sell its share to other countries; (iii) the *financial* terms of the treaty: in particular, the 50 million

political impact of such public criticism might have been on the stability of the Stroessner regime, Itaipu introduced a rallying issue for the opponents of the regime; a public debate on the terms of the agreement, on the other hand, could increase Paraguay's leverage in bargaining with Brazil. Apparently, Stroessner gambled with just that in allowing that debate to go unabated in the highly controlled Paraguayan press.

Subsequent modifications of the original terms of the agreement attested to the elements of strength that those changes in the environment had brought in the negotiation. The first of these amendments came in late 1973, when the Brazilian government agreed to pay Paraguay in dollars for the electricity it would buy from the latter's share of the energy generated by Itaipu. The original terms called for such payment to be made in the domestic currency of the buyer, namely *cruseros*. Paraguay had made a similar demand on Argentina at the final stages of the Yacyretá Treaty negotiations. Brazil also agreed to modify article 18 under which Brazil had the right to take security measures over both sides of the border. The new amendment limited such action to each party's own territory. These developments, in addition to the Paraguayan stand on the issue of the frequency of Itaipu generators, had the political effect, according to an observer, of "reducing some of the pressure on Stroessner at the time of the initial signing of the treaty."<sup>620</sup>

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dollar loan, granted by the Brazilian government to enable the Paraguayan state electricity company (ANDE) to pay its half-share of the capital stock of *Itaipu Binacional*, would in effect rise to 90 million dollars by 1983, the year the first turbine was designed to come on stream; (iv) the *allocation of contracts* offered to Paraguayan companies: the percentage of contracts for the construction of the dam only amounted to 15-25% of the total; (v) the *obstacles put in the way of renegotiation*, not least by the administrative structure of *Itaipu Binacional* that concentrated executive power in the hands of the Brazilians; and (vi) the lack of certainty as to which nation would have military and policy control over the area under the jurisdiction of *Itaipu Binacional*." (Emphasis in the original.)

620 Ibid., p. 14. Also, see *Latin America*, 26 October 1973, p. 339; *Latin America*, 9 November 1973, p. 355; and *Latin America*, 1 February 1974, p. 40; and Cavalcanti, "A Itaipu Binacional," p. 26.

The issue of the generating frequencies to be used in Itaipu presented a more delicate problem for Paraguayan bargaining with Brazil, and one in which domestic pressures played a key role. The issue was raised a few years after the signing of the Treaty when a decision had to be made on the technical specifications of the turbines to serve Itaipu. Paraguay and the rest of the Spanish-speaking countries use a 50-cycle system, whereas Brazil uses a 60-cycle system. In early 1976, the Brazilian government requested that Paraguay change its whole electrical generating system to 60 cycles, for which Brazil was prepared to compensate Paraguay. The rationale for the latter falling in line with Brazilian requirements was the additional high cost, in the production and transmission of energy, of an alternative solution which would have to be borne by Brazil. Details of such bargaining are rather scant, but at some point in the negotiations, Paraguay proposed that it would agree to change its domestic frequency in exchange for a cash compensation of around US\$ 250-300 million in addition to other demands, including financial assistance to explore the hydroelectric potential of the Monday River and military hardware and equipment from Brazil.<sup>621</sup> The view during the negotiations that Paraguayan behavior was just another episode of its pendulum-style diplomacy was carried in the Brazilian press, most probably reflecting the views held by public officials. The argument was that since Paraguay could absorb only a small fraction of its share of the electricity generated by Itaipu, its desire to have half of the generators working at 50 cycles revealed a hidden intention

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621 Apparently, Stroessner presented these demands at a meeting with President Geisel of Brazil, held at the former's initiative in April 1977. This meeting took place just a few days before Stroessner was scheduled to meet with President Videla of Argentina. Brazil was willing to pay only about 150 million in cash and the rest in long-term financial aid and suppliers' credits. *Jornal do Brasil*, 12 April 1977, p. 2; *Jornal do Brasil*, 13 April 1977, p. 5; "Spiralling Costs Still Bedevil Itaipu Project," *Latin America Economic Report*, 21 May 1976, p. 79; and "Itaipu Agreement Opens New Chapter in River Plate," *Latin America Economic Report*, 9 December 1977, pp. 236-37.

to sell part of its share to Argentina. In the final assessment of Brazilian diplomats, the episode underscored the need to change the parameters in the relationship between the two countries, to hinder Paraguay's ability to play one side against the other. From then on, they argued, Brazil would stop giving Paraguay an excessive preferential treatment and relations between them would be based on conditions of strict mutual equality.<sup>622</sup>

Whatever deals may have been struck between the two countries, domestic opposition against compliance with Brazilian requirements was strong enough to allow Stroessner to disregard the political repercussion of such a decision. The issue aroused strong nationalistic feelings among the public in general, a discontent voiced by the incipient industrial sector in Paraguay, and even by some of Stroessner's own supporters. They feared the change of Paraguay's electricity grid to the Brazilian system of 60 cycles would put the country completely within the latter's political and economic sphere of influence. Furthermore, it would hinder Paraguayan-Argentine joint hydroelectric projects in the Paraná River, since Argentina also uses a 50-cycle system. The perils of a nationalist backlash that could undermine the stability of the Stroessner regime presented him with no other choice but to declare in late 1977 that Paraguay would not change its domestic generating frequency.<sup>623</sup> The Brazilian government

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622 "Brasil Preocupa-se com Paraguay," *Jornal do Brasil*, 13 April 1977, p. 5; "Brasília Aguarda Resultados," *Jornal do Brasil*, 20 April 1977, p. 12; and Carlos Marchi, "É Complicado Negociar com Stroessner," *Isto É*, 21 December 1977, p. 29.

623 Inside the Paraguayan state apparatus only such conspicuous pro-Brazilian figures as Enzo Debernardi, president of ANDE and joint director of Itaipu Binational, were in favor of a change in Paraguay's electrical frequency. For the impact of domestic pressures on Stroessner's decision, see Painter, *Paraguay in the 1970s*, p. 23. Also, see Carlos Castilho, "Na 'Guerra da Ciclagem' Stroessner Balança," *Isto É*, 10 September 1977, pp. 21-22; "River Plate: The Aftermath," *Latin America Political Report*, 25 November 1977, pp. 365-66; and "Itaipu Agreement Opens New Chapter in River Plate," *Latin America Economic Report*, 9 December 1977, pp. 236-37.

had placed Paraguay under considerable pressure to change its domestic frequency. In fact, it underestimated the political impact an apparent technical problem could have in bargaining with Paraguay in a situation where the assumption of the “good partnership” was already being challenged by sectors of the Paraguayan society.

In view of Paraguay’s refusal, and pressed with the need to avoid costly delays in the plant’s construction schedule, the Brazilian government decided that half of the generators of Itaipu would produce energy at 50 cycles and the other half at 60 cycles. The change in operational plans for Itaipu called for the construction of a dual transmission system, with part of the energy transmitted in alternating current and part in direct current, the latter a technology more complex and costly than the former. Costs for the installation of the direct current line, contracted with a Swedish firm in association with a Brazilian firm, were originally estimated at US\$ million, but with some delays and interest payments had escalated to US\$ 1.32 billion in 1984.<sup>624</sup>

The last distributive question to emerge in the political debate is the price Paraguay will receive from selling its share of Itaipu’s electricity to Brazil. The question is linked to the issue of the possible uses Paraguay will make of the electricity generated by Itaipu. When the Treaty was signed, Brazil assumed that because of the size of Paraguay’s domestic market, it would only be capable of absorbing a small fraction of the energy it was entitled to receive from Itaipu. That was the rationale for assuring each party exclusive right to buy the other party’s surplus, a clause included in the

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624 The Paraguayan turbines will produce alternating current at first. A converter station will transform the 50 Hz to direct current, and a second converter station will transform the direct current into a 60-cycle alternating current. See “The Debate on System Picked for Current Transmission,” *Latin America Economic Report*, 9 December 1977, pp. 237-38; and *Jornal do Brasil*, 17 May 1984, p. 24.

Treaty and also present in the Yacyretá Treaty between Argentina and Paraguay. Because Brazil expected to buy a large portion of Paraguay's share it did not have any qualms in agreeing to an equal division of the energy produced in the plant. Accordingly, it would not view with much sympathy Paraguay's efforts to increase the domestic consumption of its share of the energy. Public debate over Paraguay's energy development strategy was triggered by a provision of the Itaipu Treaty which required the parties, two years before the beginning of commercial operation of the plant, to present a schedule of the yearly amount of electricity they intended to consume in a ten-year period.<sup>625</sup>

In broad terms, two strategies have emerged from this debate. One of these maintains that Paraguay's surplus of its share of energy should be sold to Brazil, and the foreign earnings be used in state-sponsored infrastructure development projects. Some of the supporters of such strategies place strong emphasis on the expansion of an agroexport model in Paraguay. An alternative strategy, supported mainly by the Unión Industrial Paraguaya (UIP), advocates the maximum domestic use of Paraguay's energy quota to stimulate industrialization. Some proponents of such a policy devised a plan for the deployment of electricity-intensive investment projects in joint ventures between local industries and foreign capital, the latter attracted by cheap and abundant energy and one of the most permissive foreign investment policies in Latin America. The government apparently endorses the strategy of exporting Paraguayan surplus, but is sympathetic to a revision of the price of the electricity sold to Brazil, which would allow not only the promotion of the agriculture sector, but also some

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625 In the original terms of the Treaty, the schedule for energy consumption was set for a period of twenty years, but was later reduced to ten. In the Yacyretá Treaty the period is eight years. Cavalcanti, "A Itaipu Binacional," pp. 26-27, 62.

concessions to the industrial sector. The other strategy, however, finds support within the state apparatus, in individuals such as the Ministers of Finance and of Trade and Industry.<sup>626</sup> The first of these two policies is obviously more cogent to Brazilian interests, because Brazil expects to secure for its own consumption a sizeable portion of Paraguay's share. If no drastic change occurs in Paraguay's current energy consumption, the latter's surplus can be of a meaningful size. This policy also serves Brazil, since it expects the revenue generated by the export of the Paraguayan energy quota to be used to meet half of the cost incurred in the construction of Itaipu.

On the question of the price Brazil will pay for the Paraguayan share, the two countries have obviously conflicting interests. The Treaty of Itaipu fixed an amount of US\$ 650 per gigawatt-hour of royalties and US\$ 300 per gigawatt-hour of compensation for the sale of power from Itaipu. The price structure is set for a period of fifty years. In the original terms of the agreement, these values would be adjusted for variations in the gold parity of the US dollar. With the termination of the system of fixed parity of the US dollar to gold, the two partners agreed to adjust the value of compensation to take into account changes in the cost of the construction of Itaipu. A new adjusted value will have to be determined in negotiations between the two countries.<sup>627</sup>

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626 A discussion of these two strategies is found in Painter, *Paraguay in the 1970s*, pp. 23-27; and Rosa, "Economics, Politics, and Hydroelectric Power," pp. 97-99. Also, see "The Battle for Contracts Shakes the Government," *Latin America Regional Reports – Southern Cone*, 7 March 1980, pp. 4-5; and "Delays Dog the Hydroelectric Programme," *Latin America Regional Reports – Southern Cone*, 26 June 1981, p. 4. For foreign economic groups interested in industrial investment projects in Paraguay, see *Latin American Economic Report*, 20 February 1976, p. 31; *Latin America Economic Report*, 10 September 1976, p. 139; and "The Mixed Blessings of Itaipu," *Latin America Regional Reports – Southern Cone*, 14 November 1980, pp. 6-7.

627 For the elements considered in the calculation of the cost of energy in the Itaipu Treaty, see Cavalcanti, "A Itaipu Binacional," pp. 62-63. For an analysis of the structure by which prices are determined in both the Itaipu and Yacyretá Treaties, see Rosa, "Economics, Politics, and Hydroelectric Power," pp. 88-90.



As the prospective seller in the joint undertaking, it was Paraguay which first raised the issue of an adjusted price for the energy to be sold to Brazil. Although the Paraguayan government has proceeded with extreme caution on this matter since 1978, and regularly from then on, members of the government have voiced in public the need to readjust the value of royalties and compensation to correct the losses in the value of the dollar since the Treaty was signed in 1973. Outside the government, however, critics have pointed to the net bargain represented for Brazil in the price it is going to pay for Paraguayan surplus and have argued that Paraguay is not receiving fair compensation for the use of its water resources.<sup>628</sup> Alternative proposals on this matter have gone beyond the mere question of price adjustment to that of the methodology by which prices are determined. Thus, a well-publicized study by Paraguayan energy expert Ricardo Canese questions the use of explicit costs of production to determine the price of energy as provided in Itaipu. Instead, Canese argues, the value of compensation Paraguay will receive from the sale of its share of Itaipu energy should be determined by the comparative costs to Brazil of producing energy with the most expensive technology in use. Using nuclear energy costs in Brazil as a basis for comparison, the study estimates that Paraguay could receive as much as US\$ 1,273 million in annual compensation from the sale of its share of the energy of Itaipu. This figure is much higher than the US\$ 10.8 million in annual compensation according to the value set in the Treaty, in 1973 dollars, without readjustment, or even the figure of US\$ 54 million of compensation payments,

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628 Carlos Conde, "Itaipu – Agora o Paraguai Quer Mais Dinheiro," *Isto É*, 2 August 1978, p. 17; "New Price Battle on the Parana," *Latin America Economic Report*, 29 September 1978, p. 299; Helio Teixeira and Roberto Lopes, "A Diferença é Itaipu," *Veja*, 16 April 1980, pp. 16-20; "New Alignments on Parana," *Latin America Regional Reports – Southern Cone*, 1 February 1980, pp. 1-2; and "Compensação Preocupa o Paraguai," *Jornal do Brasil*, 23 October 1983, p. 28.

when that value is adjusted to 1979 dollars to measure the increase in the cost of the construction of Itaipu.<sup>629</sup>

The Brazilian government has agreed to discuss an adjustment of the price, but within the terms of the Itaipu Treaty. This means that a proposal using opportunity costs as a pricing basis is ruled out from a Brazilian vantage point, because it would require a renegotiation of the Treaty, an avenue adamantly rejected by Brazil. On this matter, the Brazilian authorities have taken a low profile approach, insisting that Paraguay has not formally requested a renegotiation of the price of Itaipu's energy. The government also intends to link the discussion of this question with the problem of Paraguayan debt in a clear demonstration that the latter will be under pressure to use the revenues from the sale of its energy quote to pay the amortization of its share of the debt incurred by Itaipu Binational.<sup>630</sup> Because Brazil is expected to consume a large portion of Paraguay's energy share, Paraguay's leverage depends on the Brazilian need for Itaipu's energy. Were that need proved to be high, in the short and medium terms, Paraguayan bargaining leverage over energy prices will be enhanced.

## 6.6 A Negotiated Settlement

The Itaipu project was designed to make maximum use of the hydroelectric potential of the Paraná River with no consideration given to the negative externalities on Argentine uses of the river. Because of the interdependence among the users of a river system, Brazilian-Paraguayan unilateral utilization of the river

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629 For a presentation of the methodology used by Canese to estimate the value of compensation, as well as the study's main proposals for a comprehensive energy development program in Paraguay, see Rosa, "Economics, Politics, and Hydroelectric Power," pp. 99-102.

630 "New Price Battle on the Parana," *Latin America Economic Report*, 29 September 1978, p. 299; "A Diferença é Itaipu," *Veja*, 16 April 1980, pp. 17, 20; and "Itaipu Sparks New Discontent," *Latin America Regional Reports – Southern Cone*, 21 December 1984, p. 7.

could only have succeeded under two conditions. First, Brazil would have had to persuade Paraguay to give up its partnership with Argentina in the Corpus project. The costs of such an avenue would be extremely high to Brazil, however. At a minimum, Brazil would have to shoulder a large part of Paraguay's hydroelectric development projects in exchange for the latter's compliance with Brazilian demand. Second, Brazil would have had to induce Argentina to accept Itaipu in principle, in which case the latter would be forced to adjust its own hydroelectric projects to Brazilian designs. Thus, the coming on stream of Itaipu generators would impose by itself a solution to the controversy, to Brazil's advantage. Such was in fact the avenue chosen by Brazil when it declined to discuss with Argentina the conditions created by the Itaipu agreement and pushed ahead with the construction of the dam before a settlement had been reached. The government worked with the assumption that Argentine joint hydroelectric schemes with Paraguay, particularly Corpus, were motivated by geopolitical concerns rather than by real energy needs of either Argentina or Paraguay. It was common among Brazilian officials to disavow the legitimacy of Argentine claims and to emphasize that while Itaipu was already a concrete reality, Corpus was still on the drawing board.

Brazil did not attempt to dissuade Paraguay from partnership with Argentina, nor was it able to force the adjustment by Argentina. In fact, Argentine awareness that the internationalization of the dispute had brought few benefits to its cause and that time worked to Brazil's advantage forced a reconsideration of its former conduct in the aftermath of the military coup in March 1976. Two interrelated priorities were high on the agenda of the new military rule: the solution of the controversy in the Paraná River and the completion of Argentina's hydroelectric projects

in the River Plate Basin.<sup>631</sup> Argentine disposition to engage in dialogue became apparent during the eighth Conference of the Countries of the River Plate Basin in December 1976. Contrary to what had occurred in years past, the Argentine representative eschewed the juridical argument of prior consultation, stressing instead the need to find technical solutions to the problems of the hydroelectric development of the Paraná River, agreeable to all the parties involved.<sup>632</sup>

As long as Brazil could impose costs on Argentina and the latter lacked reciprocal power over the former, there was no real incentive for Brazil to enter negotiation with Argentina. The latter's determination to go ahead with the Corpus project, however, changed this situation. Because Itaipu and Corpus are mutually interdependent for purposes of hydroelectric development, compatibility between the two projects would have to be achieved or else both countries would be liable to suffer harmful effects from each other's action. The potential of a hydroelectric plant depends on the height of the waterfall measured by the difference between the upstream level – the height of the dam – and the downstream level – the water outlet of the turbines. A problem arose because the upstream and the downstream water levels of the Itaipu and Corpus projects did not complement each other. Thus, Itaipu was planned to have a fall of 120 meters above sea level, the difference between the waterhead of 220 meters and the water outlet fixed

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631 Joseph S. Tulchin, "Authoritarian Regimes and Foreign Policy: The Case of Argentina," in *Latin American Nations in World Politics*, eds. Heraldo Muñoz and Joseph S. Tulchin (Boulder: Westview Press, 1984), p. 192. Perhaps the clearest sign of Argentine resolve to settle the dispute with Brazil was the nomination of Oscar Camilión as Argentine ambassador to Brazil. Camilión, who played a key role in the ensuing negotiations, has masterminded the Quadros-Frondizi Uruguiana agreement of 1961, hallmark of a short period of unparalleled cooperation between the two countries.

632 José Henrique Greño Velasco, "VIII Reunión de Cancilleres de la Cuenca del Plata," *Revista de Política Internacional* 151 (May/June 1977): 157-60, 163-69; and "Chanceler Lembra Exemplos do Passado," *Jornal do Brasil*, 10 December 1976, p. 4.

at 100 meters, to give it a potential of 12.6 million kilowatts. The feasibility studies for the Corpus project, however, indicated that an upstream level of 120 meters and a downstream level of 100 meters were necessary to give Corpus an estimated potential of 6.7 million kilowatts. With the downstream level of Itaipu at 100 meters, the height of Corpus would have to be lowered with a corresponding cost to its power potential, making it economically unviable. As the same relation holds between Corpus and Yacyretá, Corpus could not lower its downstream level without endangering the capacity of Yacyretá. On the other hand, as Corpus increases its upstream level, it lowers the fall of Itaipu, proportionately decreasing the power to be produced by Itaipu. Furthermore, with the Itaipu outlet level fixed at 100 meters, an upstream level for Corpus at 120 to 130 meters would flood the turbines of Itaipu. Therefore, the interdependence between Itaipu and Corpus required a coordinated solution, which would allow Corpus to operate in an efficient way and compensate Brazil for the eventual loss in the potential of Itaipu.<sup>633</sup> With Corpus becoming a “credible threat,” as Argentina proceeded with plans to go ahead with the project, Brazil had no alternative other than to agree to enter negotiations to seek a common solution which would leave both better off than if each had insisted on pushing a unilateral solution for their respective projects.

There were other factors as well that raised the incentives for Brazil to come to the negotiating table. As mentioned before, the dispute with Argentina caused negative side effects as far as Brazilian interests were concerned. First, the rivalry in the Paraná River increased Paraguay’s scope for maneuver, thus raising the

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633 Rosa, “Economics, Politics, and Hydroelectric Power,” pp. 95-96; “Itaipu Perde um Sexto de sua Potência se Barragem de Corpus Tiver Cota de 120 m,” *Jornal do Brasil*, 22 May 1977, p. 8; and “Paraná Dilemma Leaves Paraguay the Loser,” *Latin America Economic Report*, 18 June 1976, p. 94.

price of its allegiance to the Brazilian side. The episode of the frequency of Itaipu generators underscored for Brazilian decision makers the counterproductive results of such a situation. Second, the financial costs were not insignificant either. The lack of multilateral financing for Itaipu was felt more strongly as Brazil began to experience serious economic difficulties in the aftermath of the oil crisis. Furthermore, the conflict with Argentina also produced some negative side effects for Brazilian foreign policy in that it tended to impair Brazil's recent efforts to foster new political and economic links with Latin American countries. Finally, the nuclear issue also played a role in Brazil's changing stance towards Argentina. The pressure of the Carter administration over Brazil's nuclear agreement with Germany highlighted the potential danger for both countries' respective nuclear plans in the face of a strong external force, in a situation of lack of cooperation between the two most advanced nuclear countries in Latin America. On the other hand, Argentina's nuclear superiority over Brazil tended to create an additional stimulus for the latter to reach a political accord with the former, similar to that created for Argentina by Brazil's superiority in the Paraná River.

If all the above-mentioned factors raised the incentives for Brazil to enter negotiations, the progress already achieved in the construction of Itaipu had given Brazil a position of strength from which to negotiate. The Brazilian government perceived its advantage and behaved accordingly during the ensuing long negotiations with Argentina. In the months following the Argentine proposal to begin discussions aimed at achieving compatibility between the two projects, Brazilian officials continued to affirm that Itaipu was strictly a bilateral matter with Paraguay and that there was nothing to discuss regarding Corpus. In the months preceding the formal beginning of the negotiations, a series of

diplomatic incidents occurred between the two countries, with caustic remarks being made by both sides. Behind the scenes, however, Itamaraty and the National Security Council had already started to consider possible formulas to break the deadlock.<sup>634</sup>

Two major technical issues were at stake: the level of the water below Itaipu and above Corpus, and the way Itaipu was intended to operate as it affected the flow of the water in the river. Argentina contended that the height of Corpus should be 120 meters or above to make it an efficient dam and proposed to compensate losses in Itaipu power generation with a corresponding quota in the future electricity production of Corpus. Brazil counterargued that with a height higher than 100 meters Corpus would flood Itaipu's turbines, which it would not permit to happen. Paraguay had a direct stake in the issue, because the increase in the Corpus upstream level might seriously limit the use that could be made of some of its domestic rivers. Without compensation, Paraguay was not willing to sacrifice that hydroelectric potential for Corpus. With respect to the way Itaipu would operate, Argentina preferred that the water flow through the Itaipu generators at a constant and lower rate, instead of having the turbines running at full capacity in the hours of peak demand during the day. The former rate of flow would cause less problems further downstream, but the latter was recommended by experts in Brazil as the most efficient method.

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634 Aluizio Machado, "Proposta Sobre Corpus Continua Sem Resposta," *Jornal do Brasil*, 26 April 1977, p. 5; "Itamaraty Estuda Acordo para Corpus," *Jornal do Brasil*, 29 April 1977, p. 2; "Silveira Volta a Dizer que Brasil Não Discute Corpus," *Jornal do Brasil*, 3 June 1977, p. 4; "River Plate: Falling Out," *Latin America Political Report*, 22 July 1977, p. 218; and "River Plate: Terse Notes," *Latin America Political Report*, 12 August 1977, pp. 245-46. For an account of the moves and countermoves between Brazil and Argentina in the year 1977, see José Henrique Greño Velasco, "Novena Conferência de Cancilleres de la Cuenca del Plata," *Revista de Política Internacional* 156 (March/April 1978): 115-22.

Finally, in September 1977, the first of a series of tripartite talks among Argentina, Brazil, and Paraguay convened in Asunción. It should be noted that Brazil suffered fewer domestic constraints, whereas the Argentine representatives at the negotiations were under constant pressure from hard-line military sectors not to yield to Brazilian demands.<sup>635</sup> In the ensuing months, the Brazilian government's apparent neglect of these domestic constraints on the Argentine bargaining position complicated even more what was already a tense and complex negotiation. The most serious setback came after Brazil and Paraguay announced late in 1978 that they were increasing the number of Itaipu turbines to twenty instead of the original eighteen.<sup>636</sup> This decision came less than two months after announcements in the press indicated that a tentative agreement had been reached and a final text would be signed sometime in October. The agreement was based on a trade-off in which Corpus would have a height of 105 meters, and Itaipu would gain more flexibility of operation. The 105 meters represented the least damaging alternative for all three parties: It would allow Corpus a potential of at least 4 million kilowatts, necessary for being economically feasible; the reduction in Itaipu's output would be small; and the hydroelectric potential of the Paraguayan domestic rivers would be reduced by about 2 percent, which represented roughly the effect of normal flooding on the Paraná River.<sup>637</sup> The decision to have two extra reserve turbines

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635 Apparently, a disclosure in August 1977 of confidential notes exchanged between the two chancelleries were the work of Argentine hardline militaries who wanted to torpedo the negotiations. Andre Gustavo Stumpf, "Cada Vez Mais Perto da Mesa de Negociações," *Isto É*, 17 August 1977, p. 28; "Os Argentinos Ensaia Pressões," *Isto É*, 20 July 1977, p. 16; and "River Plate: Brazil 1, Argentina 0," *Latin America Political Report*, 9 June 1978, p. 169.

636 Brasil, Ministério das Relações Exteriores, *Resenha de Política Exterior do Brasil*, 19 (October/November/December 1978): 114.

637 "Two Metres from Solution on Parana Hydro Plans," *Latin America Economic Report*, 5 May 1978, p. 129; "Harmony Pact to Boost Parana Hydro Projects," *Latin America Economic Report*, 6 October 1978, p. 305; and *Latin America Political Report*, 22 September 1978, p. 296.



changed the delicate Itaipu/flexibility-Corpus-height equation agreed upon. Argentina counterattacked by backing out of its earlier acceptance of a 105-meter upstream level, arguing for an additional 5 meters of reserve, to balance the changing of factors in the equation. Following that, the Brazilian government accused Argentina of going back on the most fundamental agreements already reached – Argentina had accepted an increase in the number of turbines, on the condition that the twenty generators would not be used at the same time – and announced that it was withdrawing its prior agreement to a 105-meter retaining wall for Corpus. Negotiations reached a deadlock and the parties had returned to their respective positions of two years before negotiations had started. Relations reached a chilling point when the Brazilian Foreign Office released to the press the notes exchanged with its Argentine counterpart on that subject during the first two months of 1979. The deterioration in the communications between the two Foreign Offices had been so profound by the end of the Geisel term that speculations in the press suggested that only with a change of the key actors could negotiations be resumed.<sup>638</sup>

With the inauguration of General Figueiredo's presidential term in March 1979, talks resumed and proceeded in the ensuing months with extreme caution. To avoid misunderstandings and setbacks caused by too much publicity around the issue, a news blackout on the details of the negotiations was tacitly agreed among the three parties. On 19 October of that year,

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638 Within the Brazilian government it was the Ministry of Mines and Energy, in alliance with the Paraguayan joint director of Itaipu, which pushed for the additional two turbines, against the advice of the Itamaraty which sensed the potential damage of such a decision to the negotiations. Later, a governmental source acknowledged the political mistake of introducing the issue at that point in the negotiations. Carlos Conde, "As Duas Turbinas da Discórdia," *Isto É*, 31 October 1978, pp. 13-14; idem, "Itamaraty Fracassa Outra Vez em Itaipu," *Isto É*, 28 February 1979, pp. 10-11; and "River Plate: Dam Nuisance," *Latin America Political Report*, 2 March 1979, p. 68. The texts of the released documents are reprinted in *Revista Brasileira de Política Internacional* 22, nº 85/87 (1979), pp. 79-100.

Argentina, Brazil, and Paraguay signed the Itaipu-Corpus Accord, ending a dispute of at least thirteen years. The key points of the agreement are: the upstream level of Corpus is set at 105 meters above sea level; Itaipu can operate at full capacity providing that variations in the water flow do not exceed a mutually agreed on set of parameters to permit navigation in downstream Paraná; and Itaipu will operate with eighteen turbines. A modification of any one of these three factors will require a new negotiation of all parties.<sup>639</sup> In addition, the accord establishes that the filling of Itaipu and Corpus reservoirs will follow practices similar to those followed during the filling of the Jupia dam, with technical details supplied to all parties. They also agree to avoid any sharp variation in downstream river volume during the filling of Itaipu, whereas Brazil will use the Iguaçu River to guarantee an adequate level of water downstream on the Paraná.<sup>640</sup> Argentina, Brazil, and Paraguay pledge to cooperate to preserve the navigating conditions as well as the natural environment of the Paraná River. Finally, they commit themselves to avoid serious damage to the river and agree that the definition of severe damage cannot be reached unilaterally, either by the country in which jurisdiction it allegedly occurs, or by the country which allegedly suffers the damage.<sup>641</sup>

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639 As technical studies in Brazil concluded that the two extra turbines were not so essential, the government decided to postpone the discussion of that subject until Corpus would be ready to function. That was the reason for the inclusion of the above-mentioned clause.

640 The "practice of Jupia" refers to the procedures followed by Brazil in 1968 when technical details were supplied in advance to Argentina on the methods and program to be used in filling the reservoir of the dam. As a result of studies done, the Brazilian government modified the original filling program in order to minimize the impact of the water flow in Argentina's territory. Pereira, *Itaipu*, p. 137; and Betiol, *Itaipu*, p. 136.

641 Brasil, Ministério das Relações Exteriores, *Resenha de Política Exterior do Brasil* 23 (October-December 1979): 85-92. For the text of the Accord Itaipu-Corpus, see *ibid.*, pp. 139-41. Also, see "Acordo de Itaipu Reativa Antigos Projetos," *Jornal do Brasil*, 19 October 1979, p. 23; "Acordo de Itaipu Sai Após 13 Anos de Desentendimentos," *Jornal do Brasil*, 20 October 1979, p. 17; and Carlos Conde, "Saiu o Acordo. Todos Acabaram Ganhando," *Isto É*, 24 October 1979, pp. 24-26.

The agreement in fact represented a compromise between the positions Argentina and Brazil had defended over the years in their respective juridical and technical argumentation. The accord, however, was strongly criticized by some nationalistic factions in Argentina as outrageously detrimental to the nation's vital interests.<sup>642</sup> Yet the end of the Brazilian-Argentine dispute opened the way for a new period of collaboration between the two countries. In May 1980, they signed a series of intergovernmental agreements establishing eleven areas of cooperation. The most significant are: (1) cooperation on technology for nuclear energy, which includes research and development on reactors, exchanges of nuclear material, uranium prospecting and processing, and manufacture of fuel elements, as well as an agreement for mutual consultation in the nuclear area with a view toward coordinating their respective positions in international forums; (2) joint exploitation of the hydroelectric potential of the Uruguay River; (3) interconnection of their respective electrical systems; (4) the building of an international bridge over the Iguaçu River – a long-standing demand of businessmen of both countries; (5) cooperation between the Brazilian state holding company Siderbras (for steel production) and the Argentine *Dirección General de Fabricaciones Militares*; and (6) the signing of a memorandum of understanding establishing a permanent mechanism for political consultation between foreign ministers.<sup>643</sup>

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642 Opposition came mainly from a certain Commission on the Defense of Argentine Interests in the River Plate Basin, headed by Admiral Isaac Rojas. Those that criticize the agreement insist that Argentina should give priority to the development of the "Paraná Medio" project situated within Argentine territorial jurisdiction. For such viewpoint, see Llaver, "El Problema del Aprovechamiento Hidroeléctrico del Alto Paraná," pp. 31-33.

643 Brasil, Ministério das Relações Exteriores, *Resenha de Política Exterior do Brasil* 25 (April/May/June 1980): 21-58, 182-211. Also, see "Figueiredo Quer Barreira Contra Protecionismo Econômico," *Jornal do Brasil*, 17 May 1980, p. 4; "Figueiredo e Videla Vinculam Energia Nuclear à Soberania," *Jornal do Brasil*, 18 May 1980, p. 22; and "Figueiredo and Videla Sign Historic Agreements," *Latin America Weekly Report*, 23 May 1980, p. 3.

## 6.7 Concluding Remarks

The case study of Itaipu exemplifies a pattern of international conduct that was defined as hegemonic, whereby a country has the capabilities to provide positive inducements in the form of side payments or to use coercion to enforce adherence to the rules to obtain a regime with characteristics it favors. Thus, because Brazil was the largest party and had a higher stake in Itaipu, it was willing to absorb a higher share of the costs of the undertaking, as well as to provide special benefits to its junior partner to raise the incentive for the latter's cooperation. On the other hand, once Brazil intended to make maximum use of the hydroelectric potential of the Paraná River it imposed a cost on Argentina and objected to discussing compensation for Itaipu's eventual negative spillovers. Had Brazil succeeded in proceeding unilaterally with its own hydroelectric scheme in the river it would have forced Argentina to accept a settlement in the Basin favorable to Brazilian interests.

A dynamic analysis of the Itaipu issue reveals, however, that Brazil lacks the resources to exert fully either a "benevolent" or a "coercive" leadership.<sup>644</sup> Because significant distributive issues had not been settled to the mutual advantage of both parties and the distribution of benefits is skewed to Brazil's side in the Paraguayan-Brazilian association, various sectors in Paraguay have challenged the assumption of a fair partnership, and even more, the view that Paraguay benefits more than Brazil. The latter also could not impose on Argentina its own solution to a regime for the use of shared natural resources. The high opportunity cost of a unilateral strategy in the Paraná Basin pushed Brazil to a negotiated settlement.

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644 Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization* 39 (Autumn 1985): 580-90, distinguishes two different stands in the theory of hegemonic stability, in which leadership is conceived as "benevolent" or "coercive".

The case study shows that although Brazil controlled enough economic and organizational resources, it could not structure the outcome the way it saw fit. If the notion of hegemony implies not only control over resources but also control over events and outcomes, it seems unlikely that Brazil can be characterized as a truly hegemonic power in the Basin.<sup>645</sup> The analysis of the Itaipu issue thus reveals the limits of a hegemonic strategy for a regional power. Once it is unable to impose its will on the other large countries in the region, it is left with only a sort of asymmetrical control relationship with a weaker party. Because that relationship tends to work to the advantage of the larger party – which is unable to “legitimize” such domination either through the provision of sufficient side payments or through some sort of ideological rationalization – such a relationship tends to be inherently unstable. The end of the Stroessner regime will probably bring to the center of the political debate the thorny issue of overall Brazilianization of the Paraguayan economy and society. In that eventuality, the consequences for joint partnership in the Paraná River are difficult to predict, but it seems wishful thinking to rule out a priori some sort of a Panama Canal syndrome in Itaipu. On the other hand, the study suggests that if unilateral strategies are costly for regional powers, cooperation might be a more rewarding avenue. Indeed, a parallel can be established between the dilemma of common interests that Argentina and Brazil faced in the exploitation of shared natural resources and the situation Latin American countries face in areas such as trade, foreign debt, and nuclear

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645 For the notion of hegemony as control over events and outcomes, see Fred H. Lawson, “Hegemony and the Structure of International Trade Reassessed: A View from Arabia,” *International Organization* 37 (Spring 1983): 334-35. For three distinctive ways to measure power, see Jeffrey Hart, “Three Approaches to the Measurement of Power in International Relations,” *International Organization* 30 (Spring 1976): 289-305.

energy. Because they are weak actors in the international system, competitive strategies may be self-defeating in the presence of strong external pressure.

## 7. CONCLUSIONS

This dissertation advances an analytical framework intended to account for the international strategies of semi-peripheral countries. The latter are Third World countries which are industrialized – those able to manufacture and export industrial goods. In comparison with their developing peers, they are more integrated into the world economy through trade, investment, and financial links, and, therefore, have a greater stake in the diverse international arenas of negotiation of a variety of issue areas. Like those less industrial peers, however, they do not possess enough market power to influence patterns of investment, production, and exchange at the world market level. Semi-peripheral countries tend to exhibit an unbalanced power resource configuration, which means that in some issue areas they may have the capability to act autonomously on the basis of internal choices, whereas in others their choices may be severely constrained. The countervailing pressures arising from the semi-periphery's multiplicity of goals and interests at stake in the international system and the

unevenness of their existing capabilities thus account for the multiplicity of their behavioral patterns in world affairs.

The theory of collective goods, applied to international politics, suggests large and small countries will tend to follow different strategies in the presence of collective goods. We thus posited that a semi-peripheral country is likely to exhibit simultaneously, but in different issue areas, the following behavioral patterns: unilateral action; a free rider strategy; participation in a collective endeavor when private benefits accrue along with collective benefits and/or when coerced to do so; and dispensing positive incentives and using coercion to obtain an international regime with characteristics it favors. The pertinence of the proposed framework was assessed by demonstrating that Brazil's international behavior in issues of high salience to its economic development goals and foreign policy objectives conforms to the predicted modalities. Conversely, our analytical framework would have been falsified if at least one of these modalities was found absent in the Brazilian case.

A free rider strategy was observed in the case of the non-proliferation regime. As argued in chapter II, the basic trade-off upon which the non-proliferation regime was founded – forsaking nuclear weapons in exchange for nuclear cooperation – and the economic and commercial interests of those able to supply nuclear cooperation created a free rider problem for the regime. The latter failed either to provide selective benefits to parties, or to exclude non-parties from the benefits of nuclear cooperation. Therefore, the incentives for free riding were high for a country such as Brazil that placed a high premium on the attainment of nuclear capability and wanted to keep open its nuclear options.

Brazil's decision to attain nuclear self-sufficiency through the 1975 nuclear agreement with West Germany conforms to what was defined as unilateral behavior, in which a country takes an action and is willing to incur whatever consequences may follow from it



even though its behavior may negatively affect another country. As pointed out in chapter III, there are two distinct but related reasons for this. First, the decision to achieve self-sufficiency in all phases of the nuclear fuel cycle challenged the evolving norms of the non-proliferation regime and was seen by the regime's definer, the United States, as a violation of these norms. Secondly, however, Brazil was able to sustain its determination to acquire sensitive technologies despite the strong pressure of the United States' administration to eliminate that particular portion of the agreement.

The case study of the nuclear agreement reveals the strength-weakness duality that characterizes the international relations of a country in the semi-periphery. If Brazil, on the basis of its internal choices, demonstrated the ability to act autonomously in the political-diplomatic domain of the nuclear issue area, the same cannot be said of the commercial-technological domain. Although the diffusion of nuclear technology and the ensuing competition among suppliers have enlarged the choices of prospective buyers such as Brazil, the nuclear market has remained mostly a suppliers' market. West Germany was able to exploit those conditions for its own commercial purposes and non-proliferation objectives. Brazil's leverage was rather weak when we look at specific aspects of the nuclear accord such as safeguards coverage, transfer of technology, and some of its commercial features. These findings warn of the methodological problems of failing to specify questions of scope and domain when assessing power resources and vulnerabilities. Different outcomes in terms of Brazil's relative power and vulnerability in the nuclear field are accounted for when we distinguish between and examine the political-diplomatic and the commercial-technological domains.

The third case study dealt with Brazil's activism on behalf of Third World demands in North-South negotiations as they

impinge upon trade matters. Such activism was accounted for in terms of the existence of private gains accruing from participation in that collective endeavor. As a Southern country, Brazilian multilateral diplomacy shares with the rest of the Third World countries the common endeavor to change the prevailing norms of the various international economic regimes and the establishment of a new international economic order that would ensure more equitable outcomes for the South. Because LDCs differ in factor endowments and levels of development, the more industrialized among them are expected to get larger material benefits from a revision of the world economic order. Because of that, and also because transaction costs tend to be smaller for them than for the smaller Third World countries, the advanced LDCs have tended to provide leadership for changing trade norms, first at UNCTAD and later at GATT. Brazil's diplomatic activism on behalf of duty-free treatment for LDC exports and of market access for their industrial products conforms to this pattern and closely parallels changes in its trade structure and policies.

The Brazilian case suggests that the prospect of differential economic gain appears to be a necessary but not a sufficient condition to induce the advanced Southern states to lead the "coalition of the weak." Other selective incentives related to a country's specific foreign and domestic policy goals must also be present to induce a country to bear the cost of leadership. Foreign policy considerations played a crucial role in the aftermath of the military coup in 1964 in the modification of Brazil's previous UNCTAD stance. Later, changes in foreign and domestic policies priorities accounted for Brazil resuming former activism within the Group of 77. The case study indicates, however, that without the prospect of private economic gains other incentives may play a lesser role in inducing a country to continue to play a leadership role. Economic differentiation within the Third World and the

broadening of the North-South agenda increased the political cost and decreased the economic benefits for an advanced LDC to continue leading the Third World coalition. Thus, we find a change in the locus of Brazil's multilateral trade diplomacy from UNCTAD to GATT. Third World demand for a new international economic order has been criticized on the grounds that the actual benefits of such change would tend to be quite skewed in the direction of the more advanced developing states. A collective goods approach to Third World politics suggests, however, that inequality of benefits can help ameliorate the free rider problem within the Southern coalition. Since any favorable outcome of North-South negotiations, such as GSP, accrues to all because of their LDC status, asymmetric gains can induce some of them to incur the organizational and leadership costs in North-South negotiations.<sup>646</sup>

Participation in a collective endeavor or compliance with a regime's rules resulting from the use or threat of use of coercion was observed in the case of multilateral trade negotiations, as they impinged upon North-South issues. As examined in chapter V, Brazil and other advanced developing countries have been particularly liable to coercive policies of the industrialized countries, intended to have them contribute to the collective good of an open trade regime. Such coercive policies involve withdrawing or threatening to withdraw "special concessions" accorded to them because of their LDC status, so that they will comply with the GATT consensus. These measures fall under the broad concept of graduation. Chapter V examined two instances of that concept's application: the GSP programs and the enactment of non-tariff

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<sup>646</sup> For a discussion of how asymmetries within groups entice participation in collective actions, see Russell Hardin, *Collective Action* (Baltimore, MD: The Johns Hopkins University Press, 1982), pp. 67-89; and George J. Stigler, "Free Riders and Collective Action: An Appendix to Theories of Economic Regulation," *Bell Journal of Economics and Management Science* 5 (Fall 1974): 359-65.

barrier codes. The first case combines the “stick” and “carrot” approaches, in that preferential access is withdrawn for the most trade-competitive Southern countries and preferential access is made conditional upon their “proper” behavior in the trade system. The second case is more clearly an attempt to avoid rewarding free riders, since non-contributors are excluded from the benefits of the various codes negotiated in the Tokyo Round. The advanced developing countries were an important target, albeit not the sole one, for substituting conditional for unconditional MFN treatment with respect to the benefits of the non-tariff codes.

The evidence presented in chapter V indicates that negative selective incentives and coercive policies have been relatively effective in persuading Brazil to comply with the trade regime’s norms. But its critical external debt situation has delayed the implementation of tighter restrictive measures. In the trade regime, semi-peripheral countries are caught in a dilemma. They face simultaneously a growing tide of restrictive measures aimed at them, and the indifference of most of the Third World countries, who are unaffected by such measures as selectivity, reciprocity, and graduation. Because the opportunity costs of severing trade with the industrialized countries are much higher for countries such as Brazil than for the former, they cannot resort to retaliation when faced with restrictive measures against their exports. A state’s bargaining power in trade negotiations is determined largely by its ability to withdraw or allocate market shares without great cost to itself. Measured by this yardstick, Brazil is a rather weak actor in the world trading system.

The last case study examines a pattern of international behavior that was defined as hegemonic. In such modality, a country is able to provide positive incentives or to use coercion to obtain a regime with characteristics it favors. Brazil’s conduct towards two of its neighbors, Paraguay and Argentina, in the exploitation of

the hydroelectric resources of the Paraná River, was analyzed in chapter VI. Because Brazil was the largest party and had a higher stake in the Itaipu project, it was willing to absorb a higher share of the costs of that undertaking, and to provide special benefits to Paraguay so as to raise the incentives for the latter's cooperation. Historically and for reasons of their respective location in the River Plate Basin, Brazil and Argentina had held divergent views on a regime for the use of the resources of that river system. Brazil's intention to make maximum use of the hydroelectric potential of the Paraná River imposed a cost on Argentina, but Brazil refused to discuss compensation for Itaipu's eventual negative consequences for Argentina. By going ahead with the Itaipu project without due regard for Argentine concerns, Brazil was in effect forcing Argentina to adjust its own hydroelectric projects to conform to Brazilian designs. The outcome of the Itaipu controversy reveals the limits of the hegemonic strategy for a semi-peripheral country. Brazil either could not or would not provide sufficient benefits to its junior partner to convince significant sectors of Paraguayan elite that Itaipu was a fair partnership. On the other hand, Brazil could not impose on Argentina its own vision of a regime for the use of shared natural resources. The high opportunity costs of a unilateral strategy in the Basin pushed Brazil to a negotiated settlement.

The framework proposed in this dissertation is intended as an alternative to other explanations of Brazilian foreign policy, such as those based on either the sub-imperialism or the emerging power paradigms. Not only are behavioral patterns not predicted by either of them accounted for here, but some of the findings of this study are at variance with those predicted by these two paradigms. Moreover, our analytical framework allows us to account for the contradictory nature of a semi-peripheral country's international relations. We are aware of the limits which the evidence from a

single such country's international relations impose upon the validation of an alternative explanation. However, our case studies of the nuclear, the non-proliferation, and the trade issue areas suggest similarities in the behavioral patterns of other semi-peripheral countries. Thus, a replication of this study by increasing the number of countries in a given issue area would allow us to formulate with a greater degree of precision how differences in behavioral patterns among countries can be accounted for by domestic-level factors. Furthermore, a comparison among various issue areas would suggest how differences in regime characteristics account for differences in behavioral patterns. The following paragraph illustrates the latter point.

A comparison between the non-proliferation and the trade issue areas indicates Brazil had much more leeway in the former than in the latter. No serious cost was imposed upon Brazil for pursuing a free rider strategy in the non-proliferation regime, whereas Brazil's scope of maneuver to free ride the trade regime has been gradually reduced as its competitiveness in the world trading system has grown. Mention has already been made of the weak bargaining leverage of countries such as Brazil in deterring restrictive policies against their exports. But there are reasons peculiar to the nature of both regimes that hinder or conversely facilitate the ability of the regime's major powers to circumvent the free rider problem. In the non-proliferation regime there is a clear-cut tension between non-proliferation goals on the one hand, and commercial interests, on the other. The first leads to the closure of the regime, whereas the second reinforces its openness. While the United States enjoyed primacy in the nuclear trade, these two conflicting objectives could be reconciled through a policy of conditioning nuclear cooperation on the recipient's acceptance of control and safeguards measures. As other countries entered the nuclear market, collaboration among them in avoiding

rewards for free riders proved difficult to achieve. Not only did policies of control tend to be perceived by the new entrants as United States' attempts to hamper their position in that market, but the competition for new export opportunities tended to lower control requirements by suppliers. None of this tension exists in the trade regime. Albeit power has diffused in that issue area too, collaboration among the major trading nations to enforce contributions from free riders is more likely to succeed. First, there are no conflicting interests among trading nations when the issue is getting others to open their markets. In addition, there is an incentive among major importers to coordinate their respective restrictive policies because of the negative externalities that a unilateral restriction imposes upon other major importers. "Uncoordinated national action may harm the interests of other countries. If one country closes its market to imports, exporters may divert their exports to another country."<sup>647</sup>

We hope to have demonstrated in this dissertation the advantages of using a collective goods approach to the analysis of non-hegemonic countries' international politics. First, "inconsistent" behavioral patterns can be accounted for within a structural mode of analysis, without having to resort to explanations based on the decision makers' "psychological" attributes, upward mobility motivations, or even bureaucratic politics. Second, this approach avoids the perils of "theoretical ethnocentrism" and helps, simultaneously, to develop a comparative framework for the analysis of non-hegemonic countries' foreign policies.

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647 Vinod K. Aggarwal, "The Unraveling of the Multi-Fiber Arrangement, 1981: An Examination of International Regime Change," *International Organization* 37 (Autumn 1983): 622.





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**I**t is practically impossible not to resort to Maria Regina's masterful work when studying Brazil's contemporary international role. That is why it has become mandatory reading for any and all interested in foreign relations, whether in academia or outside it. Its publication by Funag fulfills a growing demand for analyses on Brazilian diplomacy, since it can help to better understand the Brazilian position in the non-proliferation issues, such as the IAEA Additional Protocol, or the attitude Brazil has towards the themes of the Doha Round, or the difficulties which occasionally resurface with Paraguay over Itaipu. Maria Regina connects theory to practice and to power realities, and does not neglect to make data-supported previsions and judgments on courses of action. It is a book well worth reading.

