Brazilian Insertion in the Globalization Process and the Mercosul in Context

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1. Introduction

This paper intends to show, very briefly, the real face of the so-called economic Globalization process. We intend to define, first of all, what can be understood by "Globalization", and who are the winners and losers in this process. After that, we shall try to understand how Brazil was inserted in Globalization from the point of view of trade, technology and social development. A final section will try to show how the formation of regional blocks can represent a response or counter-movement in relation to Globalization, and how it can fail to do so.

2. Globalization

In order to evaluate if there really are losers and winners in the Globalization process, it will be convenient first to clearly understand what exactly Globalization is. It actually may advisable, for that, to start saying what it is *not*. We shall do so based on facts and actual evidence observed in world economy, and not based on theoretical arguments – since facts, as opposed to theories, by definition cannot be questioned.

It is a fact that, contrary to what liberal thinking has it, Globalization is not a process carried along among equals, even considering only the developed countries. In other words, the so-called global market has not proven itself able to homogenize people and nations. It must be brought to the debate that there is a hegemonic nucleus in this process. In that sense, there is no even diffusion of technical progress among the countries in the globe.

The crucial idea in the liberal interpretation of the Globalization process is simply that once global capitalism operates freely in the capital and production markets, as long as the possibilities of freely stipulate wages, working hours and work conditions are guarantied, the economy will direct itself towards an efficient, well-balanced and self-regulated market system. In a nutshell, a process in which

capitalism is set free from any interference tends to stability and to a harmony of goals between individuals and nations.

When we observe the economic and social situation of the countries in the globe, we realize that this is not true, for instance, in the case of the great majority of African and Latin American countries. In this sense, it can be said that Globalization is heterogeneous and institutes relations between a hegemonic center and a periphery. This is made clear when we analyze how the Globalization process began; in doing so, we will at the same time be able to define precisely what we understand by the term “Globalization”.

Most authors agree in pointing to the high degree of capital mobility as the central element in the formation of the new economic world order that has been named Globalization. In the new order, there is a progressive elimination of restrictions against capital mobility; actually, the original drive towards Globalization must be situated in the breakdown of the Bretton Woods system. Its collapse in the 1970´s meant a de-regulation, or flexibilization, of exchange rates.

Added to that, measures were taken with a view to reaffirm North American hegemony after a decade in which the country's position had become frailer – fundamentally, the strong-dollar policy initiated in 1979. In response to the falling confidence in the dollar as international money, due to the growing deficit in the US balance of payments, the United States decided to substantially elevate their interest rates. The high interest rates – in association with the progressive liberalization and abolition of any form of administrative control over exchange rates, credit and capital flows, in the wake of the collapse of Bretton Woods – accelerated international financial capital flows.

Thus, the United States managed to finance their commercial deficits by means of external resources inflow to their capital account. The remaining industrialized countries, in turn, were forced to obtain commercial surplus and adopt restrictive monetary and fiscal policies, in order to compensate for the outflow of resources from their capital accounts towards the USA’s. Interest rates in those countries also became higher, following North American movements. This

originated a new form of international financial regulation, in which real interest rates levels remain persistently high.

This context of unregulated interest rates alters the power equilibrium in credit relations in favor of creditors. The raise in money cost and in the prices of financial assets was higher than the raise in product prices – *i.e.*, interests became high in relation to product prices, but not in relation to asset prices, which of course favored the development of an ample speculative capital market. Positive real interest rates reflect the anticipation of an uncertain future. They are formed by a group of creditors who have enough power to impose their estimates over a group of debtors or borrowers [Guttmann 1996]. Uncertainty and elevated risk premia define purely speculative capital markets, where there is no great preoccupation with productive investment – which necessarily require a long maturity period and whose profitability is uncertain.

Considering what was said this far about the origins of Globalization, we can start to understand the real character of this process. Namely, as compared to the productive transnationalization process[1] that took place in world economy in the Post-War period, which promoted a "hierarchised territorialization" of foreign direct investment, Globalization has a more specific character. This recent phenomenon is originated in exchange and financial deregulation practices. Actually, its crucial trait is not the internationalization of trade – *i.e.*, of goods and service commerce – but rather the "mundialization" of capital operations. Hence its particularity, and the grounds to name the process Financial Globalization, or simply "Capital Mundialization" [Chesnais 1997]. It is one single money market operated in planetary scale, in which not only banks and corporations participate, but foremost institutional investors (mutual and pension funds) devoid of any kind of public control.

Considering that approximately US$ 2 trillions circulate daily in the international market, and that only 8% of this total refers to direct investment and

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[1] According to Charles Oman (1994), this productive transnationalization of world economy can be understood as a microeconomic phenomenon driven by corporate strategies and behavior, as companies search for greater internationalization and for market expansion.

trade operations[2], it can be said that the analysis of the financial component, more than of international trade or foreign direct investment, is the essential requirement to understand the process nowadays called Globalization.

In other words, what we have today is the dominance of an unregulated financial sphere, in an environment marked by elevated and flexible interest and exchange rates. It is an integrated "*Global Casino*" where speculative *gambling* predominates in detriment of productive investment. And it is precisely the low levels of economic investment that can explain the low economic growth rates in developed countries. Productive investment, which generates demand, growth, income and employment, is substituted by the option for financial investment, or more specifically, short-term and high-liquidity financial investment whose sole aim is fictitious capital valuing.

Given its speculative character, motivated by the expectations of coming changes in asset prices, the Financial Globalization process is extremely volatile. The high degree of monetary and financial instability in the global market is an intrinsic characteristic of this new configuration of world economy.

In its turn, this highly unstable environment caused an upsurge of mergers and acquisitions among the main corporations in the world, particularly in the USA, the EU and Japan. This led to the configuration of large international oligopolies. Those large transnational groups compete among each other, with the global unregulated market as their acting stage. The power of these international oligopolies is even more overwhelming as, given the predominance of the financial over the productive sphere, such groups aim at obtaining profit not only with their production, but also through effective and massive participation in financial markets.

In that sense, what we observe is the financerization of large international corporations. There is a close relation between the large industrial or service groups and the financial markets. A large portion of these companies' profits is purely financial, which outlines a tension between productive capital and money-capital in today's world economy. In other words, we can observe a patrimonial

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[2] Data from Chesnais 1997: *A Mundialização do Capital*.

interpenetration between productive and financial institutions, as a large part of the resources of these transnational corporations migrate away from the long-term productive sphere towards the short-term capital market.

3 Winners and Losers in Financial Globalization

Once established that Globalization has a fundamentally financial character, with an elevated degree of freedom in capital flows within an integrated global environment, we can proceed to analyze who loses and who wins with this process. Eichengreen (1996) provides a starting point for this analysis, pointing out that a regime of free capital mobility can only be compatible with a flexible exchange rate system. Looking from an alternative perspective, a system of fixed exchange rates requires strict restrictions against capital mobility, or it would be very difficult to maintain fixed parities.

Therefore, given the great mobility of capitals characteristic of financial Globalization, it is only possible to choose the suitable exchange rate regime when domestic policy autonomy is utilized as adjustment variable. This means that the context of financerization in world economy makes the fluctuating exchange rates regime predominant. If a given country wishes to adopt a fixed rate (currency board) regime, it will necessarily have to do so by sacrificing, to some degree, domestic economic policy goals.

All that said, we can understand the reason why some countries win and other countries lose along this process. The probability of exchange rate fluctuations integrally absorbing the oscillations of volatile and unstable capital flows will vary from one country to the other. It depends on whether the country's currency is convertible (strong money) or non-convertible (weak money).

In strong-money countries, the degree of sacrifice in domestic economic policy required in order to avoid changes in exchange rates is lower than the degree of sacrifice imposed upon weak-money countries. The latter are forced to elevate their interest rates so as to attract capital flows, and thus avoid elevated instability in their exchange rates. That, however, compromises the degree of autonomy in domestic economic policy.

Countries with convertible currencies, because there is continuous demand for their money, can better deal with capital flows. They are able to maintain lower interest rates; and on top of that, global capital flow is more sensitive to small differentials in those interest rates.

In that sense, it can be said that the global system is a hierarchical system in which the dollar – because it is the fully convertible money of international circulation – guaranties the leadership position of the USA. This is the country that is able to maintain the lowest interest rate in the system. The remaining countries follow the North-American position according to the degree of convertibility of their currencies. In the main central countries – Japan and Western European countries – interest rates are only slightly higher than in the USA.

However, in countries with non-convertible or weak currencies – including Latin America as a whole – interest rates are a multiple of North-American rates. This multiple is composed of three terms: i) the basic North American rate; ii) the country risk; iii) the exchange risk. The country risk is a credit risk, expressed by the position given to the country by rating agencies. The exchange risk is a premium paid to compensate for possible future devaluations of the country's currency.

Therefore, the existence of differentiated interest rates that affect the level of sovereignty of each country's domestic policies is a clear sign of the hierarchical character of the financial Globalization process. There are winners, and there are losers.

This is even clearer when we associate the interest differentials to the size of each country's public debt. Taking into account that the stocks of public debt bonds play a crucial role as the reserve of the speculative process (constituting financial market's "spinal column"), the countries that pay high interest for their bonds will get indebted, in a snowball-like process. The higher the interest, the greater the debt, the greater the need for financing and – maybe because of that – the need for a new raise in interest rates, depending on the level of instability and volatility of world financial market.

This means that Latin American countries with non-convertible, weak moneys are some of the greatest losers in financial Globalization. These countries

have very high interest rates and public debts, which hinders the sovereignty of domestic economic policies. That can explain their low economic growth rates, high unemployment and the need for cutting back fiscal budgets as an attempt to stop the bulging public debt. Such cutbacks many times mean smaller portions of the budget in these governments are directed to education, healthcare, pensions, social care, etc. We can at this point proceed to focus specifically on how Brazil is inserted in this predominantly financial new global economic order.

4 Brazilian Economy and Society in face of Globalization.

It is important to point out, to start with, that Brazil has been inserted in the new world scenario in a subordinate way. Despite being a country whose currency is not convertible, Brazil's subordinate position could be considered surprising, given the continental dimension of the country, its relatively well developed industrialization and the considerable size of its domestic market. Those characteristics could have rendered a relatively autonomous position for the country in face of Globalization, as it was the case with India or China.

Nevertheless, as most Latin-American countries, Brazil has opted for sheer adhesion to the directives of external financial capital, with a view to promoting a "miraculous" internal stability overnight. In order to fully integrate Brazilian economy and society into the Globalization process, the national currency was anchored to the dollar, and investments' financing was anchored to the increasingly leveraged and volatile financial markets. In simple terms, monetary stabilization was grounded on the overvaluing of the national currency and on elevated interests.

As consequences of this economic policy – based on the three pillars: indiscriminate economic and financial opening, national currency overvaluing, and high interests – we can observe mediocre economic growth rates and a profound unstructuring of production, with tragic impacts on the national labor market. Added to that, there is a context of enlargement of public accounts (public debt) and external accounts (deficit in Trade Balance) unbalance.

We shall see now how this process developed as regards trade and technology, and then with respect to the work market.

4.1 Productive Unstructuring

In the context of the trade and financial opening initiated in 1990, with high interests and overvalued currency, and on a scenario of high international liquidity, Brazil took a large volume of external capital inflow. At first, the influx consisted predominantly in *portfolio* investments – *i.e.*, destined to stock markets and fixed funds. Those short-term inflows, sensitive to global instability, had the specific function of maintaining the exchange anchor and thus Brazilian monetary stabilization. After the Mexican crisis in 1995, this influx dropped steeply. Since then, another kind of influx has predominated in Brazil: the Foreign Direct Investment (FDI).

There was in fact an extraordinary expansion of FDI in the country. As the table 1 shows, from approximately US$ 1 B in the beginning of the decade, liquid FDI reached a total of nearly US$ 30 B in the end of the 1990's.

Table 1. Foreign Direct Investment in Brazil –1990-1999

	1990-94	1995	1996	1997	1998	1999
Incoming FDI	1.478	5.475	10.496	18.743	28.502	31.369
Outgoing FDI	344	1.163	520	1.660	2.609	1.401
Net FDI	1.134	4.313	9.976	17.083	25.893	29.968

In face of such data, it would seem reasonable to suppose that Brazilian economy faces a favorable outlook in terms of economic growth. This large inflow of FDI could finally lead to the recuperation of economic activity, employment and income levels, to the raise in exports, and to the absorption of new technologies brought by foreign firms. It would then not seem reasonable to state that Brazil is subordinately inserted into global financial flows. However, a more thorough analysis of some important aspects of the new FDI flows reveals a different picture.

One of these aspects is that most of the FDI is not destined to forming new productive capacity, but instead to acquiring existing productive capacity. That explains why the gross formation of fixed capital (GFFC) as related to GDP has

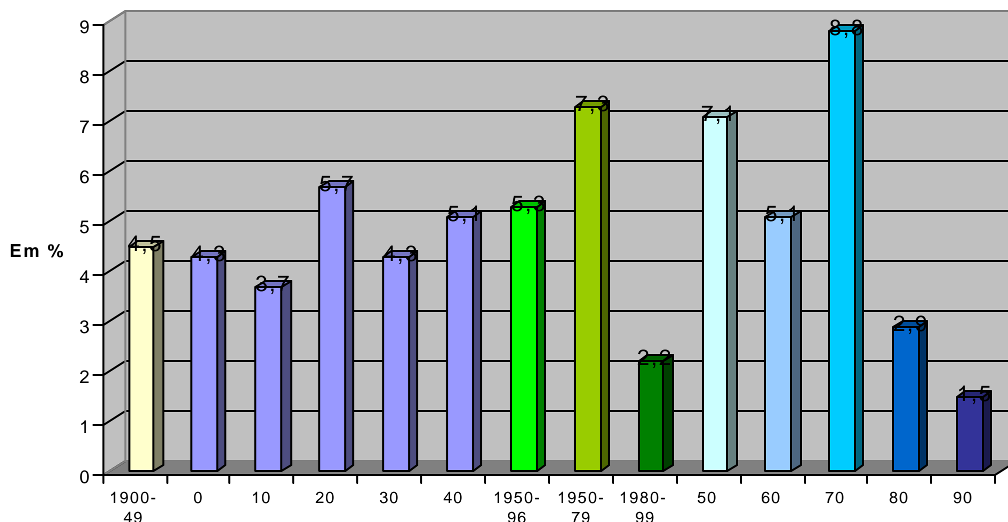
grown very little in the analyzed period[3]. A relevant part of the FDI is associated to the growing process of mergers and acquisitions which, as seen, forms an integral part of the new, financially driven economic world order. In Brazil, the relation between the mergers and acquisitions and the FDI has been increasing in recent years, reaching 85,7% in 1998.

A large portion of these mergers and acquisitions is related to the acquisition of public corporations in the privatization process – specially in public services such as electricity and telecommunications – or to the devaluation of private firms in face of competition with foreign firms during the 1990's. It is not an overstatement, then, to say that there is a process of denationalization of share-holding control in corporation and services, whereas existing productive capacity is not increasing.

The selling of public services firms to foreign firms in the privatization process is, in addition, one of the factors that explain the changing tendency in the sectorial composition of FDI flows. In a first stage – up to 1995 – investment was concentrated in durable industrial consmer goods (cars, home electrical appliances, etc.) and non durable industrial consumer goods (food, beverages, etc.); around 55% of FDI was concentrated in the industry. After that, there was a sharp turn towards the service sector, which accounts today for 60% of the foreign capital invested in the country.

At first, the FDI inflow directed to services appeared to be favorable, as it lowered the deficit opened in the external accounts by trade, transport costs, tourism – and particularly, by the associated interests. After some time, however, the amounts invested in services started to generate permanent outflows of profits and dividends remittance. As the service sector is not an exporter or a generator of credit in dolar (surplus), those outflows tend to push down the Payment Balance. According to the UNCTAD, every US$ 10 billions invested in services generates annual remittances of US$ 1 billion, indefinitely.

[3] According to official Brazilian Central Bank data, the GFFC represented 16,7% of GPD in 1989, and 17,4% in 1998.



To sum up, we can conclude that the increasing inflows of FDI verified in Brazil as from 1995 did not originate a recuperation of economic activity; nor was it translated into a relief for the government's public debt. In this respect, even the privatization process – which according to the government should generate resources to solve the public debt – failed to achieve its goal. The public sector's net debt, driven by elevated interests and reduction in economic growth, has not stopped increasing. The relation Public Debt/GDP, from around 29% in 1994, raised to 41% in 1998 and to around 50% in 1999. The option left for the government were successive fiscal adjustments, which only resulted in further dismantling the State and deteriorating public services and their capacity to invest, generate employment and promote economic growth.

The scenario of low economic activity in the 1990's is even clearer revealed when this decade is compared to antecedent decades. Graph (1) sums up the level of economic activity in Brazil throughout the 20th century.

Actually, Brazilian economic policy grounded on the blend of indiscriminate liberalization, currency overvaluing and elevated interests made economic growth unsustainable in macro-economic terms. We are facing a trap: if economic growth increases and leads to an increase in imports, trade and balance of payments current account deficits tend to raise[4]. Added to that, the elevated interests inhibit productive investments; the FDI is not translated into a recuperation of the

[4] According to official data (IBGE), from a commercial surplus of around 10,5 billion dollars in 1994, the country reached a deficit of over 6 billion dollars in 1998.

economy; and domestic production is in clear disadvantage with respect to international competition.

This last aspect deserves further attention. Brazilian firms, in face of their inferior competence as compared to foreign competition, accelerated "thirderizing", abandoned certain lines of products, closed down plants, rationalized production, imported machinery and equipment, searched for partnerships, mergers or transfer of share holding, and reduced costs – particularly labor costs. The firms that managed to remain in business went through productive specialization, which resulted in the consolidation of more traditional export sectors and in an increase in imports related to advanced technology.

Table 2: Economic Indicators; Brazil, 1989-1998

Year	Exports	Imports	Trade Balance	Current transactions Balance[1]	
	(in US$ milions)	(in US$ milions)	(in US$ milions)	in US$ milions	in % of GDP
1989	34.383	18.263	16.120	1.033	0,3
1990	31.414	20.661	10.753	-3.782	-0,8
1991	31.620	21.041	10.579	-1.407	-0,3
1992	35.793	20.554	15.239	6.143	1,6
1993	38.563	25.256	13.307	-592	-0,1
1994	43.545	33.079	10.466	-1.689	-0,3
1995	46.506	49.858	-3.352	-17.972	-2,5
1996	47.747	53.286	-5.539	-24.347	-3,1
1997	52.986	61.358	-8.372	-33.439	-4,2
1998	52.700	59.000	-6.300	-34.000	-4,4

Sources: IBGE; BC; Secex; FGV/IBRE/Conjuntura Econômica; Indicadores IESP.
(1) Trade balance + service balance.

Brazilian participation in international trade, as measured by the relation export *minus* imports, has fallen in recent times, as the table 2 shows. Negative trade balances have become recurrent since 1995, not to mention total balance in current transactions, in which interests play a crucial role. To sum up, with respect to trade, the country's participation in Globalization actually reveals a subordinate character. Brazil imports more than it exports, paying extremely heavy financial obligations, which compromises the country's economic growth and the sovereignty of domestic policy.

With respect to technology, the scenario is not different; FDI and imports have not brought productivity gains or technical progress. The reason is that the more essential part of the activities related to innovative technology is still carried on in the countries of origin of transnational firms, according to strategies defined

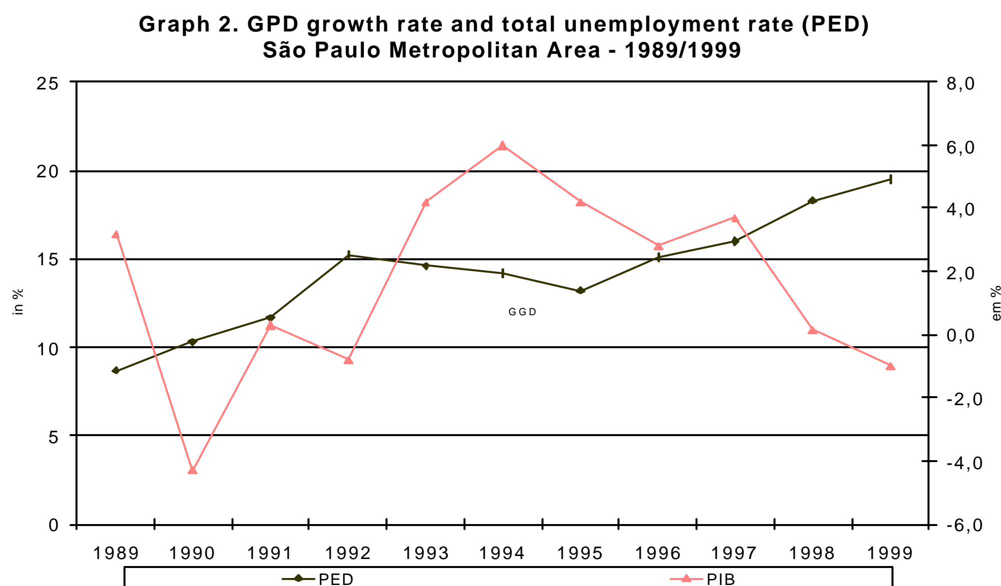
there. In the cases when they are internationalized, these activities aim mainly at monitoring and developing adaptations to the local market [Lastres & Cassiolato & Lemos & Maddonado & Vargas 1998]. In that sense, the term "technoglobalism" is not correct. Globalization is, also in this aspect, an excluding process. As regards imports, it suffices to say that technology holds a specific tacit component that stops it from being globalized.

4.2 The Unstructuring of the Labor Market

This section aims at showing some social and labor related consequences of the subordinate insertion of Brazil in the Globalization process. We shall demonstrate that in this process, in addition to losers in the trade and production aspects, as seen above, there are also losers in the social aspect. In fact, industrial unstructuring and social unstructuring are closely related. In face of a mediocre economic growth and unsustainable investment rates, the elevated unemployment, the retraction in formal employment, and the precarization of labor relations come to no surprise.

The graph 2 clearly reveals the close relation between low economic growth and elevated unemployment rates in the Metropolitan Area of the city of São Paulo, the most industrialized region of Brazil.

Graph 2. GPD growth rate and total unemployment rate (PED)
São Paulo Metropolitan Area - 1989/1999



Sources: IBGE and PED/SEADE-DIEESE.

The unemployment rates have never been higher in the whole history of the country. Note that this is true whatever methodology is chosen to measure the rate, as the table below reveals by displaying the evolution of employment since 1989 according to two measuring methods: the PED (employment and unemployment survey) and the PME (monthly employment survey). The PED shows the annual unemployment numbers in the large metropolitan areas of Brazil; the PME measures employment monthly in every metropolitan area of the country[5].

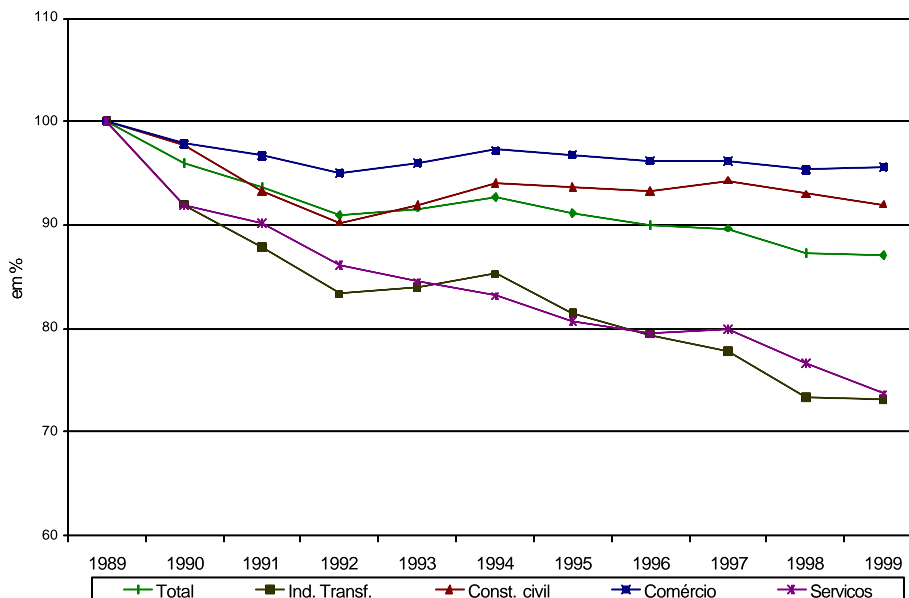
Table 3 - Unemployment Rate in Brazil (1) and in São Paulo (2) 1989-1999

Type of unemployment	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Open - Brazil	3,4	4,3	4,8	5,8	5,3	5,1	4,6	5,4	5,7	7,6	7,8
Total (SP)	8,7	10,3	11,7	15,2	14,6	14,2	13,2	15,1	16,0	18,3	19,5
Open (SP)	6,5	7,4	7,9	9,2	8,6	8,9	9,0	10,0	10,3	11,7	12,3
Undisclosed (SP)	2,2	2,9	3,8	6	6	5,3	4,2	5,1	5,7	6,6	7,2
by precarious jobs	1,5	2	2,9	4,6	4,7	4,0	3,3	3,8	4,2	4,6	4,9
by despondency	0,7	0,9	0,9	1,4	1,3	1,3	0,9	1,3	1,5	1,9	2,2

Sources: PED/SEADE-DIEESE; PME/IBGE.
(1) Total in metropolitan areas; 1999 = january-may average.
(2) São Paulo metropolitan area; 1999 = january-june average.

The scenario of unemployment is even darker, actually, if we take into account that Brazilian economy revealed to be incapable of generating work positions not for the newcomers to the market only, but in absolute terms. The total number of formal work positions has been falling, as the following graph 3 clearly demonstrates, by showing the significant drop in formal employment in all economic sectors.

[5] The PME is conducted monthly by the IBGE (Brazilian Institute of Geography and Statistics), and follows the performance of the labor market in six metropolitan areas (Recife, Salvador, Belo Horizonte, São Paulo, Rio de Janeiro and Porto Alegre). This is a more limited methodology, since its main indicator is the open unemployment in seven days, *i.e.*, it classifies as unemployed the workers who have had no job and have searched for one in the previous seven days. The PED, on its turn, measures the open unemployment rate in 30 days, plus the undisclosed rate related to precarious jobs (considering as unemployed the workers who have undertaken temporary, untaxed small jobs in the period) and to despondency (considering workers who for some reason have not searched for a job in the previous 30 days). The sum of the two rates corresponds to a value that is closer to Brazilian reality, given the highly precarious character of the country's labor market.



Sources: MTE; Boletim do Banco Central. 1999 numbers refer to May.

As a consequence of the fall in the number of formal work positions in absolute terms, informal employment – that is, precarious jobs without basic guaranties such as unemployment benefit, pension system and FGTS (pension and social fund proportional to worked period) - soars side by side with unemployment. Today, nearly 55% of employed Brazilians in the large cities have some kind of informal job.

The picture is more serious if we consider that employment is falling even in public service, due to the privatization process undergone by public firms, and to the several fiscal adjustments and associated social budget cutbacks. Beyond the fall in public jobs, the budget cutbacks in the social agenda are translated in worsening of life standards for a significant portion of the population.

With informality and growing unemployment, the Labor Unions have become debilitated. Thus the corporations have acquired enlarged power within the labor market, which means that collective bargain have given way to unilateral agreements or corporation-based bargain. This contributes for the maintenance of the already low Brazilian wages. In this context, the Unions have to struggle for the acquired rights to be kept, and not for conquering new rights; many times, actually, Union demands are limited to the maintenance of the number of jobs.

To sum up, as a result of the subordinate insertion of the country into the Globalization process, there was an unstructuring of the productive sector in Brazil. This unstructuring, which can be described as the breaking down of several links in

the productive chain, the growth in imports, and the reduction of the aggregate value generated by the country, was responsible for the negative performance of formal employment generation and for the “exporting” of jobs for the countries from which the imports originated.

5 Regionalization as a Possible Response to the Losses Associated to Globalization

We have argued up to this point that Brazil is subordinately inserted into the financial Globalization process, and that this has negative consequences upon the country’s trade, production, labor market and social budget. From another perspective, domestic economic policy has been losing sovereignty in face of the global market’s financerization and of the huge power of the large international oligopolies, which as we saw also take up a financially-driven attitude. This subordinate insertion has been common to most Latin America countries.

In face of this scenario, regional blocks with a view to trade protection and sharing of influence areas are in process of formation. Regionalization must be understood, in fact, as a political instrument in opposition to the repression imposed on a region’s economic growth by the large foreign oligopolies there installed. In that sense, there is an attempt to collectively defend the region against the menace to its development and to its freedom of economic control represented by the free action of transnational corporations and banks, and other institutional agents in today’s financially-driven world.

In this context, the idea behind the formation of a regional block is to promote the growth of domestic markets by enlarging of trade among the member-countries, and to ensure greater competence to the block in face of the global market. It would thus be possible to regain, in the supra-national level, the loss in sovereignty in the conduction of economic policies within each of the national States.

Under this perspective, the Mercosul has an undoubtedly positive aspect, as it has represented an important factor for the economic invigoration of its member-countries (Brazil, Argentina, Paraguai, Uruguay). Between 1991 and 1998, the

annual growth rate of exports among these countries was around 30%, while the exports of the same countries to the rest of the world raised around 8%. Brazilian exports to the block grew 27% *per annum* between 1990 and 1998.

Therefore, the Mercosul actually shows positive results in recovering, in the supra-national level, the sovereignty of its member-countries in the conduction of economic policies. In that perspective, the South-Cone block can be seen as a counter-movement to the Globalization process, or a means to minimize the associated losses.

It is precisely this relative success of the Mercosul that concerns the USA as a dominant power and as the one country that wins the most by the Globalization process[6]. The reason for that, as US trade representative Charlene Barshelfsky textually declared, "the Mercosul is an inconvenience to the trade and political interest of the USA". In other words, the formation of a regional block in the South-Cone that invigorates trade within this space and in relation to the rest of the world can be understood as a limiting factor for the incoming of North-American products. This argument is made even clearer if we remember that the Mercosul is not proposing to form an area of free trade only, but actually a common integrated market in the molds of the European Union. Thus a common external tax for non-participant countries is predicted, as well as a close coordination of policies that will promote convergent macroeconomic cycles and trade practices.

Furthermore, the opposition of the USA as regards the Mercosul can be clearly pointed out in the proposal for the formation of the FTAA (Free Trade Area of the Americas), the free-trade area including all American countries except Cuba. The FTAA is actually – like NAFTA – solely a free-trade area; and one that on top of eliminating all trade taxes, proposes non-restricted access to public biddings and supplying contracts (for ministries, state firms, etc.), and the removal of any restrictions for firms to enter into the service sectors (including the financial sector).

[6] According to JP Morgan Securities data, the USA concentrate 66% of the fifty largest corporations in the world; and 71,8% of the world total amount capitalized in stock exchanges are relative to US corporations.

To sum up, if Mercosul countries integrate the FTAA, this would exhaust the former completely. A project for regional integration with broad goals would be abandoned in favor of a simple free-trade agreement.

In this case, the forming of a regional block would not consist in a political response to the losses provoked by the financial Globalization process. In effect, the insertion of the Mercosul into the FTAA would represent the institutionalization of the position of Brazil, Argentina, Uruguay and Paraguay as losers in face of Globalization. The FTAA would place these countries - whose levels of productive integration, technological development and production scales are substantially lower as compared to those of the USA or Canada – in a clearly inferior position as far as industrial competence is concerned. The negative impact in the industry of South-Cone countries would be very large, which could reduce these countries back to the condition of primary goods and commodities producers.

Therefore, its seems fair to state that the FTAA, which in fact proposes to be an extension of NAFTA, is not an interesting option for Brazil and the other Mercosul countries. It would mean the end of Mercosul as a response to Globalization, and the institutionalization of these countries' passive and subordinated position with respect to the impositions of the Globalization process and the free market.

To conclude, the Mercosul, from the point of view of trade, can really be considered a response to the losses provoked by the Globalization process. However, this does not apply to the losses related to the labor and social areas. It is perhaps at this point that we come across the greatest frailty of the South-Cone regional block.

This becomes more evident when we take into account that any attempt to form regional blocks according to the EU model – that is, any proposals that involve the articulation of public policies and the enlargement and homogenization of the markets in member-countries – clearly excludes the liberal project of free trade[7].

[7] And as we saw further above, the liberal project is closely related to the Globalization process in course in world economy.

This project would not be excluded if the regional block intended, to effect, to consist simply as a free-trade zone, as the NAFTA.

All that said, the Mercosul currently faces an impasse. Although there is the intention of forming a common market in the molds of the European Community – which has rejected the liberal model from the beginning –, the countries in Mercosul, particularly Brazil and Argentina, are clearly adopting a liberal attitude. Such attitude started under the pretext of the need for stabilizing prices through anchoring the national currencies to the dollar, and today is basically defined by trade and financial liberalization and deregulation, elevated interests, privatizing, labor markets flexibilizing and retraction in the participation of the State as a direct provider of health, education and welfare rights.

So although the South-Cone regionalization project attempts to follow the steps of the EU, the Mercosul member-countries are adopting the liberal model; and it is precisely this contradiction that severely hinders the development of the block. Such contradiction is much less intense in the EU, because its member-countries, even if they adopt certain neo-liberal policies, still count with strong and integrated welfare systems that can correct the market "excesses"[8]. There are also a specific - preocupation to promove a Harmonization of the diferent systems of Social Protection of the Comunity Countries[9]. This is not the case in South America. On account of that, it cannot be said that the Mercosul represents a response to the losses provoked by Globalization in the social and labor spheres.

To conclude, if on the one hand the Mercosul represents an effective response to the losses related to trade, the same does not apply to the social and labor spheres – which on its turn explicitates a problem, or a serious contradiction, that can doom the Mercosul to failure and then, perhaps, to its emptying in favor of the FTAA. Or, in other words, a contradiction that can lead to the institutionalization of Brazil and the other member-countries as losers in the Globalization process.

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[8] As Lenoir 1994 puts it, the existence of the so-called "Welfare States" in Western Europe allows us to talk in terms of a "Specific European Model of Social Regulation", which in a certain way represents an alternative to the liberal model.

[9] Reffer to my Mastership Thesis: "The Social Question of the European Union"

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