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# Neo-development of underdevelopment: Brazil and the political economy of South American integration under the Workers' Party

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## ABSTRACT

This article critically assesses Brazil's role in the ongoing South American regional integration process. My hypothesis is that despite the rhetoric of Brazil's Workers' Party (PT) governments about a 'new developmentalism' project to support 'post-neoliberal' regional integration, the structural continuities imposed by neoliberal macroeconomic policies have constrained all possibilities of overcoming underdevelopment. In the realm of regional integration, the driving force has been the internationalization of oligopolic Brazilian business in line with the prevailing international division of labour, in a process that promised Brazil a leadership role in the subcontinent. This frame has fostered business based on the overexploitation of labour and the destruction of the environment, enforcing trends that deepen the structures of economic dependency at the same time as deepening social conflict. The political outcome of that process is that the PT has contributed to contain social pressures, both in the domestic and in regional contexts, as Brazil has played a moderating role in South America's so-called progressive wave.

## KEYWORDS

Brazil; neo-developmentalism; neo-liberalism; South America; Workers' Party



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## 1. Introduction

The election in 2002 of Lula da Silva, leader of the Workers' Party (PT), as president of Brazil raised high hopes, both nationally and worldwide. Forged in the final years of the military dictatorship (1964–1985), the PT was conceived of as a political front for left wing militancy, including labour unionists, activists of grassroots movements, liberation theologians and radical intellectuals. A major political force in the country and one of the largest leftist parties in the world, the PT stood in three national elections before its first electoral triumph in 2002.

Over time, however, the party has changed: its discourse has softened and its political practices have moved closer to conventional politics. Significantly, at the peak of his presidential campaign, while the PT led the polls and the threat of capital flight loomed, Lula released a 'Letter to Brazilians' that confirmed the party's commitment to the macroeconomics of neoliberalism. This commitment was duly enforced during the course of PT's four consecutive mandates. Despite significantly lowering its promises of what changes were to be expected from its governments, the PT managed to have its candidate elected in four successive presidential elections. However, as macroeconomic continuities prevailed, restraining change in every realm, the arguments to convince the left to vote for the PT shrunk considerably.

One of the last arguments in support of the PT, before being forced to vote for the least worst candidate, was its international policy, widely perceived as progressive, particularly in its immediate surroundings. During the period of the PT governments, Brazil vindicated its role as a regional leader by promoting a number of initiatives towards South American integration, such as the founding of the Union of South American Nations (UNASUR) in 2008. The friendly relations that Brazil sustained with leaders such as Hugo Chávez and Fidel Castro, particularly under Lula's presidencies (2003–2010), could be seen as further evidence that Brazil intended to defy the historical leadership of the United States (US) in the subcontinent.

This article challenges this view and argues that it is necessary to critically assess the role that Brazil played in the regional integration process. My hypothesis is that despite PT rhetoric about a 'new developmentalism' project in support of 'post-neoliberal' regional integration, the structural continuities imposed by neoliberal macroeconomic policies constrained the possibilities for substantive change. The driving force behind regional integration has been the internationalization of Brazilian oligopolic business, working within a frame of the prevailing international division of labour, in a process that promised Brazil a leadership role in the subcontinent. This rationality fostered business that was based on the overexploitation of labour and the destruction of the environment, enforcing trends that deepened the structures of economic dependency. The political outcome of this process is that the PT has collaborated to contain social pressures, both in domestic and in regional contexts, as Brazil has played a moderating role in South America's so-called progressive wave.

The argument develops in the following steps. First, the article places the election of Lula da Silva in a regional perspective, while discussing the broad outlines of the socio-economic policies adopted by PT federal administrations since 2003. In connection with this, Sections 3 and 4 examine the economic rationality behind the regional integration project, which has been deepened since then. In particular, I analyse the transnational dimensions of the accumulation strategies pursued by the Brazilian state under the so-called 'national champions' policy and the political premises underpinning this project. Social conflict and popular mobilization arising from these strategies are examined in Section 5. The final sections focus on the recent context in which economic pressures, brought about by the fall in international commodity prices, converged with corruption scandals to unleash a major political and economic crisis. This further exposed the contradictions of this project and ultimately led to the impeachment of Dilma Rouseff in 2016.

## 2. Neo-developmentalism and post-neoliberal regionalism

Lula da Silva's election as president of Brazil in 2002 should be seen in the broader context of a regional reaction against neoliberalism. The adoption of neoliberal policies in the preceding years had worn out the traditional political parties, while the precarization of labour had weakened historical worker organizations. Instead, new social movements moved into the foreground. As an outcome of these intertwined processes, new political leaders reached the presidency, such as Hugo Chávez in Venezuela (1998), Evo Morales in Bolivia (2006), Rafael Correa in Ecuador (2007), and Fernando Lugo in Paraguay (2008). Candidates that had historically identified with the political left were also elected, such as Tabaré Vazquez in Uruguay (2005) and Lula himself. In Chile, socialists took the lead under *Concertación* when Ricardo Lagos was elected (2000). Only Peru and Colombia, which began the 1990s under the spectrum of guerrilla war, leaned to the right.

The common ground shared by the South American governments that identified with this progressive wave was their asserted intention to confront neoliberalism. In Brazil, despite a macroeconomic regime grounded in the standard neoliberal triad of a target inflation rate, a target primary

surplus to reduce the debt-to-GDP ratio, and a floating exchange rate, the political economy pursued by the PT governments (2003–2016) has been described as one of ‘neo-developmentalism’. This label was commonly applied during Lula’s second presidency (2007–2010), as a growth surge spurred on by higher commodity prices in the context of Chinese expansion combined with various state-led policies to foster national capital enterprises. Indeed, after decades of stagnation there was a slow recovery of the purchasing power of salaries; a slight improvement in the distribution of wealth; the reduction of extreme poverty through cash transfer policies; an expansion of consumption accompanied by abundant credit; and a lowering of unemployment rates. In addition, it was assumed that the country was sailing unharmed past the world economic crisis of 2008. These perceptions gave credit to the claim that Brazil was undergoing a new developmental period that could be compared to the national developmentalism that Brazil and parts of the Third World had experienced after the Second World War. Therefore, the neologism seemed appropriate.

The common thread between the diverse expressions of the neo-developmental discourse was the belief that the country should follow an alternative path between the financialization that typifies neoliberalism and the nationalism associated with developmentalism (Mercadante, 2010; Sicsú, de Paula, & Michel, 2005). According to this perspective, production should be prioritized over rentier capitalism, while taking pains to avoid inflation, fiscal populism, nationalism and other trends identified with national developmentalism. The challenge faced by neo-developmentalism was to reconcile what was believed to be the positive aspects of neoliberalism – such as its commitment to currency stability, fiscal austerity, a drive to international competitiveness, non-discrimination of international capital – with positive aspects of the old developmentalism – such as commitment to economic growth, industrialization, a regulatory state and social sensitivity (Sampaio, 2012).

The theoretical and practical contradictions of this incompatible association between what are supposed to be the beneficial aspects of neoliberalism with those of the old developmentalism have been analysed by several works (Fiori, 2011; Paulani, 2008; Sampaio, 2012). On the whole, the neo-developmental pastiche ignores the internal connections that articulate each proposition, besides disregarding the historical conditions that have given ground, in the past, to the national developmentalism utopia as a path to humanize peripheral capitalism.

The neo-developmental statement is matched in the field of international relations by the proposition that the PT governments implemented a ‘developmentalist regionalism’ or a ‘post-neoliberal regionalism’. The common assumption underpinning both is that neoliberalism was left behind, or at least that countries were in the process of doing so, through policies that reshaped developmentalism ideals for the twenty-first century (Sader, 2010). Just as it happened in the economy, this understanding prevailed among PT supporters.

The former Brazilian Minister of Foreign Affairs, Celso Amorim, set the tone for this discourse early in Lula’s presidency. In a well-known article, he presented the core ideas that should drive the country’s foreign policy under PT: the deepening of regional integration, referred to a ‘keen consciousness of the interdependency of Brazil and our South American neighbours’; the diversification of strategic partnerships with Asian and African countries, while preserving friendly relations with developed countries; and, last, the engagement with social issues, particularly through ‘an international action to fight hunger and poverty’ (Amorim, 2004).

Since then, Lula’s foreign policy has been analysed and described sympathetically as a ‘seasoned development’ by Visentini (2008); as ‘autonomy through diversification’ by Vigevani and Cepaluni (2011); and as ‘combined axes’ by Pecequilo (2008). One of the most influential interpretations was proposed by Amado Cervo (2003). Endorsing Amorim’s aim of combining ‘the promotion of commercial liberalization and social justice’, Cervo perceived a paradigm shift from what had been a

'normal state' to the so-called 'logistic state' in the present: "The ideology beneath the paradigm of the logistic state associates liberalism as an external element, to Brazilian developmentalism as an internal element. It brings together the classical doctrine of capitalism with Latin American structuralism' (Cervo, 2003, 21).<sup>1</sup>

140 Despite acknowledging continuities between Fernando Henrique Cardoso's presidencies (from 1995 to 2002) and those of Lula, these scholars are clear that there was a major change in Brazilian foreign policy between the two men, though they analyse this change from different perspectives. In order to sustain that claim, the project pursued under PT has been referred to a shift in Brazilian diplomacy, in tune with the rise of progressive governments of different ideological hues. It has  
145 been argued that the Brazilian state dropped its focus on multilateral commercial liberalization, described by the Economic Commission of Latin America as 'open regionalism' (Comissão econômica para a América Latina e o Caribe, 1994), in order to pursue a strategy of South American integration as a path to the region's sovereign insertion in the world order, referred as 'post-neoliberal regionalism' (Serbin, Martínez, & Ramanzani Júnior, 2012). It is held that such a trend would promote 'the physical integration between the countries' hinterlands, as a key step towards the integration of production chains of providers and producers, aiming at the formation of economies of scale and the integration of South American societies themselves' (Teixeira & Neto, 2012, p. 32).

150 On the other hand, the far right denounced PT foreign policy for various reasons: first, for what it saw as its links to an anachronistic Third World discourse; second, for its support of regimes considered to be authoritarian; and, last, for what it claimed was an infantile expression of anti-Americanism (Gonçalves, 2013a, p. 106; Lampréia, 2013). The common ground between these critical views and the sympathetic approach is that both acknowledge that the Lula government introduced a major shift and both welcome the ongoing infrastructural integration, even if this is criticized by the right as being too slow.

### 3. South American integration and open regionalism

160 It is widely recognized, however, that it was in fact during the last years of the Cardoso presidency (and not only during the Lula one) that the perception emerged on the need to shift Brazil's foreign policy towards prioritizing South America. In 1994, the implementation of a free trade agreement between the US, Canada and Mexico made it clear that Mexico's policies would forthwith be tied even more tightly to the North American power. In the same year, George Bush proposed the launching of a Free Trade Area of the Americas (FTAA) at the first summit of the Americas in Miami. In this context, Brazilian diplomacy pictured South America as the geographical reference  
165 for a regional leadership project, and it began to work on bringing the South American Common Market (Mercosur) closer to the Andean Community of Nations as part of a strategy to build an alternative economic bloc in the subcontinent (A Fundação Alexandre de Gusmão, 2012).

170 It was in this context that the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA) emerged during Cardoso's presidency. Conceived as an institutional tool to coordinate a development plan involving all 12 South American countries, its goal was to set a common agenda of infrastructure projects in the areas of transportation, energy and telecommunication. If all on the initial list of more than 500 projects were to be carried out, the physiognomy of the subcontinent would be considerably modified, with a major social and environmental impact (Initiative for the Integration of the Regional Infrastructure of South America, 2011).

180 Proposed at a South American presidential summit in Brasília in 2000, IIRSA was conceived as the infrastructural dimension of an integration project referred to as open regionalism. The project

portfolio was designed by the Inter-American Development Bank (IDB), which divided the subcontinent into 10 axes of integration and development with the aim of establishing new corridors for commodity export. From a geographic standpoint, the goal was to overcome the two ‘natural’ obstacles to subcontinental integration, the Andes mountain chain and the Amazon rainforest, in order to enhance connections between the Atlantic and the Pacific coast in the wider context of a displacement of the dynamic core of the global economy towards the East.

Following IIRSA’s launch, Mexican president Vicente Fox announced the Puebla-Panama Plan (later renamed the Mesoamerica Project) with a similar aim, albeit on a smaller scale. Indeed, it was supported by the same multilateral financial institutions, particularly the IDB. Under these circumstances, IIRSA was construed as the infrastructural counterpart of the FTAA, which was widely repudiated by popular movements on the continent.

The FTAA was not implemented due to widespread popular resistance, though the Latin American bourgeoisie did not consent to it either. Equally important, it was not universally agreed on in the US itself, and George W. Bush’s administration was unable to secure the fast track authority to speed up negotiations (Teixeira, 2011). The failure of the initiative became evident at the Fourth Summit of the Americas in Mar del Plata in 2005, a point that has been celebrated as a victory for Latin American progressive governments.

On the other hand, IIRSA was appropriated by the regional integration project of Lula’s government. When UNASUR was created in 2008, its Council of Infrastructure and Planning (COSIPLAN) took up this initiative. It led to a curious paradox in which an initiative conceived of under the premise of open regionalism became the backbone of an organization that typifies ‘post-neoliberal regionalism’, its very antithesis. It was argued that it was both possible and desirable to incorporate the initiative’s technical understructure, as Brazilian leadership under the aegis of UNASUR would grant a different political perspective to it. To fully understand this paradoxical outcome – as the FTAA was discarded and IIRSA was appropriated by UNASUR – it is necessary to analyse the economic motivations behind the Brazilian integration project.

#### 4. The political economy of developmentalist regionalism

The economic drive underlying the PT governments’ regional integration policy was its strategy to support the internationalization of large Brazilian corporations and companies headquartered in the country, which it saw as carriers of national capitalist development: its ‘national champions’ policy. This support manifested itself mainly through the entrepreneurial diplomacy engaged in by Itamaraty, the Brazilian ministry of foreign affairs, and through the credit policy adopted by the Brazilian Development Bank (BNDES).<sup>2</sup> In 2003, the bank modified its regulations in order to offer a new, special credit line to stimulate the international expansion of corporations that exported Brazilian goods and services. Loans granted for that purpose through the BNDES Exim programme jumped from US\$42 million in 2003 to US\$1.26 billion in 2009, an increase of roughly 3000% (Rodrigues, 2009). In 2010, BNDES credit reached US\$96.32 billion, which was 3.3 times higher than the US\$28.6 billion that the World Bank lent in that year and a lot more than the US\$11.4 billion mobilized by the IDB. That expansion was directly related to the growth of the Brazilian economy fostered by the commodities boom. In that year, the growth rate of Brazil’s GDP was 7.5%, making the country the world’s seventh largest economy (Leopoldo, 2011).

Besides earning a return on its operations, the BNDES’s main source of funding was the at least 40% high compulsory saving that companies were required to make in terms of the Social Integration Programme and the Public Employee Savings Programme (PASEP),<sup>3</sup> as stipulated by Article 239 of

the Federal Constitution of 1988. The Brazilian National Treasury channelled further resources to the BNDES. Indeed, the National Treasury's participation in the BNDES increased from BRL 3.8 billion (or 3.4% of the total) in 2001 to BRL 450 billion (or 54% of the total) in 2014. Some analysts argue that this was done as an anti-cyclical measure to lessen the effects of the 2008 world economic crisis (Pinto & Reis, 2017).

However, these policies mean that BNDES loans were subsidized. The reason is that the bank charged so-called Long-Term Interest Rates (TJLP) for most of the loans it granted, at a much lower and less volatile rate than the Brazilian federal repo rate (SELIC) – in a context where the country's real interest rate at 5.64% in early 2015 was among the highest in the world, compared to 4.10% in China, 3.60% in Russia, 2.75% in India, and 0.45% in South Africa. By the end of Lula's presidency in 2010, when government bonds were based on the SELIC rate of 11.75%, the BNDES charged an interest rate of 6% on its TJLP loans. It has been calculated, for example, that the fiscal cost of the BNDES loans granted in 2009 was around 85% of the amount that the government channelled to its 'Bolsa-Família' scheme, Brazil's principal cash transfer programme, during the same period (Rodrigues, 2009). It goes without saying that the difference between government borrowing costs and the subsidized TJLP had a significant fiscal impact, affecting the gross national debt.

These policies benefitted the highly concentrated and oligopolized sectors of the Brazilian economy, which often operate as an extension of business chains that are dominated by transnational corporations, notably in the fields of civil construction and commodity exportation, involving products such as soybeans, ethanol, minerals, meat, oil, among others.<sup>4</sup> The government justified its focus, arguing that these were the sectors of the Brazilian economy that were better prepared to face international competition. Another way in which the PT governments supported the internationalization process was through BNDES Participações S.A. (BNDESPar), BNDES's investment arm that capitalized companies through the acquisition of stock or debentures. In 2009, BNDESPar had equity participation in 22 multinationals headquartered in Brazil, and its investments amounted to BRL 92.8 billion, corresponding to 4% of the Brazilian stock market (Tautz, Siston, Pinto, & Badin, 2010, p. 261). In 2012, 89% of BNDESPar equity was concentrated in the oil, mining, paper and cellulose, energy, and meatpacking sectors (Garzon, 2013).

The BNDES collaborated to intensify capital concentration in several sectors of the Brazilian economy. This trend was accelerated during the 2008 economic crisis and reached its peak in 2010 when there were over 700 merger and acquisition operations involving Brazilian firms. For example, the BNDES provided BRL 6 billions to the JBS group for acquisitions in Brazil and overseas, creating the largest meatpacker in the world; it allocated BRL 2.4 billion for the Votorantim Celulose e Papel acquisition of Aracruz Celulose, which resulted in one of the world's largest cellulose producers, Fibria; and it granted over BRL1.5 billion for the merger between Sadia and Perdigão which created the Brasil Foods group, the largest chicken processor and exporter in the world.

JBS is a case in point: two years after the BNDES provided the financing for it to acquire Swift Armour, the largest meatpacker in Argentina, BNDESPar injected BRL 4.5 billion into the JBS-Friboi conglomerate for it to acquire two companies in the US, Swift&Co. and Pilgrim's Pride Corp. In 2008, BNDESPar held 20% of JBS's stocks, its participation reaching 35% in subsequent years as a way to eliminate debts and debentures. Until 2010, the BNDES invested over BRL 7.5 billion in JBS (Rodrigues, 2010). In 2017, the company came to be at the centre of corruption scandals that shook Temer's presidency.

JBS's path also illustrates the move of Brazilian capital towards Argentina, a country that went through a severe economic crisis at the turn of the millennium, culminating in mass demonstrations that, by the end of 2001, had deposed five presidents in a row. In 2003, the Brazilian state-owned oil

company Petrobras gained control of the Argentinian Perez Companc conglomerate, and has since increased its presence in the country; in 2005, the Brazilian Camargo Corrêa bought Loma Negra, Argentina's largest cement producer; in 2010, the Brazilian mining company Vale acquired the Argentine assets of the British-Australian corporation Rio Tinto (Rio Colorado potassium project); the Brazilian Votorantim, which already had stocks of steel company AcerBrag, bought 50% of Cementos Avellaneda; and, in the service sector, Banco do Brasil acquired the Argentinian Banco Patagonia (Fundação Dom Cabral, 2010; Luce, 2007).

However, the protagonist of international expansion by Brazilian business was civil construction, a sector that was built up under the Brazilian dictatorship (1964–1985) and that diversified its activities during the privatizations process of the 1990s, a process also supported by the BNDES (Campos, 2009). As a rule, these firms turned into diversified conglomerates with civil construction as one of their business interests. Under PT, the construction sector was domestically boosted through the Growth Acceleration Programme (PAC), so that some analysts interpret BNDES support for international expansion as an extension of this programme (Garzon, 2013). BNDES loans to Brazilian building contractors abroad increased from US\$72,897 million in 2001 to US\$937,084 million in 2010, a total of 1185%. During Lula's presidencies, more than US\$10 billion were channelled to finance construction projects in the region, many of them connected to the IIRSA. These projects included the gas pipeline network (US\$1.9 billion, by Odebrecht and Confab) and the Chaco aqueduct (US\$180 million, by CNO, Techint, OAS, and Isoluc), both in Argentina; the San Ignacio de Moxos-Villa Tunari road (US\$332 million, by OAS), the Hacia el Norte-Rurrenabaque-El-Chorro Project (US\$199 million), and the Tarija-Bermejo road (US\$179 million, by Queiroz Galvão), all three in Bolivia; the Santiago subway in Chile (US\$209 million, by Alstom); a bridge over Tacutu river in Guiana (US\$17.1 million); a second bridge over the Parana river in Paraguay (US\$200 million); the Assis Brasil-Iñapari bridge in Peru (US\$17.1 millions); the gas network of Montevideo, Uruguay (US\$7 millions, by OAS); and in Venezuela, the Caracas subway (US\$943 million, by Odebrecht) and the La Vultosa hydroelectric plant (US\$121 million, by Alstom). To that list should be added large hydroelectric power plants projected in Peru, Venezuela, Ecuador, Colombia, and the Dominican Republic by constructors Odebrecht, Camargo Correa and OAS (Garcia, 2012).

The Peruvian case in particular illustrates Brazil's regional strategy. In 2010, the respective presidents Alan García and Lula da Silva signed an agreement foreseeing the construction of five hydroelectric power plants in the Peruvian rainforest, which would export up to 80% of their production to Brazil. The first and principal among them was to be built in Inambari, a project that was granted to a consortium of three Brazilian firms, led by OAS. The thought behind the project was to unleash a process to bring the Peruvian economy closer to Brazil, as had happened in the 1990s when a gas pipeline made Brazil Bolivia's main commercial partner. According to the Brazilian view, tighter economic bonds would build up the material basis to further the political autonomy of the region, under Brazilian leadership.

However, the outcome of the Inambari proposal was a telling if unexpected statement on the nature of the Brazilian integration project: massive popular protests, motivated by the impending social and environmental impacts of the project, blocked the construction as Peruvians widely considered the project to be driven by foreign interests. The project stalled and, by late 2016, had still not been reactivated.

When not hampered by popular unrest, the rationality underlying the PT governments' project assumed that the internationalization of Brazilian corporations would serve as the material basis to consolidate the country's regional influence, in a process that would enhance its international status. Or to state it in diplomatic vocabulary, Brazil would become a 'global player'.

UNASUR was created in 2008 under that very perspective. It differed from the Bolivarian Alliance for the Peoples of Our America (ALBA) that had been led by Hugo Chávez with Cuban support since 2004 with the aim of advancing integration beyond a market-driven approach, aspiring to build a Latin American bloc counter-hegemonic to the US. Limited to South America, UNASUR has been marked since its inception by an attempt to find the smallest common denominator that could embrace governments of contrasting orientations, such as Venezuela and Colombia in that context.

Beyond accomplishments that are welcome but that have little structural impact, such as agreements to validate each other's university degrees or joint purchases of vaccines, it was expected that the creation of COSIPLAN as a branch of UNASUR would reverse IIRSA's original orientation. In economic terms, this was meant to reduce the role of the multilateral financial institutions that conceived the initiative, namely the IDB, the Andean Development Corporation (CAF) and the Financial Fund for the Development of the River Plate Basin (FONPLATA). The reason for this was that these institutions' strictly market-driven orientation was seen as a hindrance to infrastructure work that was necessary to promote integration but that would possibly not generate profits. The aim was to counterbalance them by other institutions, notably the BNDES. Simultaneously, proposals around a 'new regional financial architecture' gained ground, resulting in the Bank of the South in 2009, joined by Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay, and Venezuela.

From a Brazilian point of view, the integrationist trend generated business opportunities for its companies and strengthened the country's political role. Other countries in the region had two fundamental motivations to join in. On the one hand were those that wished to consolidate a political field alternative to the historical influence of the US. That had been the motivation behind many South American countries joining the ALBA initiative, whose radicalization potential was, however, neutralized by the Brazilian course of action. On the other hand were the countries who were doing business with Brazil as with any other country, such as Peru. Characteristically, Venezuela and Peru were the South American countries where the corporation that most distinctly symbolized PT-supported expansion, Odebrecht, had its strongest presence.

As a rule, the countries that intensified their commercial connections with Brazil were the ones with which PT administrations cultivated close political bonds, such as Argentina and Venezuela on the continent, and Cuba and the Dominican Republic in the Caribbean. Outside the continent, the link between political affinity and commercial connections seemed to be less relevant, considering for example the amount of business done with the dictatorship of Angola. But political allies could certainly make business smoother, and that was the motivation behind Brazil's active support of Ollanta Humala in Peru's election in 2011 - although the candidate turned his back on his Brazilian supporters once he was elected.

## 5. Developmentalist regionalism as experienced from below

Many of the projects supported by the BNDES have had a considerable social and environmental impact, besides benefitting firms that systematically disregarded labour legislation. For all those reasons the Bank's role has attracted popular opposition, both in Brazil and in the region more widely. In 2007, diverse social organizations and popular movements launched the BNDES Platform, which highlighted the contradictions between the bank's current function and the social concerns that should underlie its role as a public entity.

There are several examples of BNDES's controversial role. São João sugar mill, part of the Brencos group, received a BNDES loan of BRL 600 million and had BNDES-Par as its partner, but was

charged by the Public Prosecutor's office with keeping 421 workers in a situation analogous to slavery. Meatpacker Bertin, which BNDESPar controlled to 27.5% after injecting BRL 2.5 billion (before it was acquired by JBS), was frequently denounced for keeping cattle in areas that had been illegally deforested. In yet another case, the Alcoa group received a BNDES loan of BRL 500 million to mine bauxite in Juriti municipality, even though it had not acquired a valid environmental permit, leading to harsh conflicts with the local population (Tautz et al., 2010).

Among these conflicts, two in particular came to the foreground and drew wide public attention. In 2011, a rebellion erupted among the 14,000 workers at Jirau dam in the state of Rondonia, one of the largest hydroelectric constructions in the country close to the Bolivian border. This conflict triggered rebellions in similar work environments around the country. These workplaces are often very remote, well removed from any presence of the state and from the eyes of the public opinion, and become sites of hyper-exploitation of the work force. The project promoter in Jirau is constructor Camargo Correa, associated with French transnational Suez and Eletrosul, and they were granted BRL 13.3 billion from BNDES. A second conflict that reached an international audience involved the construction of the massive Belo Monte hydroelectric power plant by Xingu River, in the heart of the Brazilian rainforest. Despite the doubtful urgency of the project, its uncertain economic viability and its extraordinary social and environmental impact, the construction is well on its way and has to date mobilized BRL 23 billion from the BNDES.

The role of the BNDES has been contested in the international arena as well. The most famous conflict involved work relations at the International Nickel Company of Canada (Inco), which the Brazilian giant Vale do Rio Doce acquired in 2006. Workers in Canada faced the new management with a long-term strike that raised solidarity among Vale workers worldwide.

In the South American sphere, there have been multiple controversies. In Ecuador, irregularities detected in the construction of the San Francisco hydroelectric power plant led to a conflict between Correa's government and Odebrecht, escalating to the brink of a diplomatic crisis in 2008. In Bolivia, conflicts triggered by plans to build a road through the Isiboro-Sécure Indigenous Territory and National Park (TIPNIS), at once a national park and an Indian reserve, are regarded as a turning point in the relationship between the Morales government and indigenous movements. The construction was granted to Brazilian OAS, backed by a US\$332 million BNDES credit. Despite brutal state repression of the eighth indigenous march in 2011, work on the road had to come to a halt due to fierce popular resistance. A similar situation arose in the Peruvian rainforest where the construction of hydroelectric plants by Brazilian contractors was blocked by social protest.

## 6. Developmentalism and crisis

Though popular contestation eventually blocked a few specific projects, it did not threaten the overall dynamic of developmentalism. How, thus, has the regional integration process evolved? From the standpoint of Brazilian foreign policy, which envisaged capitalist development backed by the internationalization of Brazilian corporations and, as a consequence, aspired to a protagonist role for the Brazilian government in international politics, it can be asserted that this project moved on with relative success during the Lula years. The commodities boom sealed his unchallenged popularity, even allowing the election of a virtual unknown as his successor. At the same time, there were several signs that the country was playing a new role – from the leadership of the United Nations peace mission to Haiti from 2004 onwards, and the victorious campaign to host the FIFA World Cup of 2014 and the summer Olympic games of 2016 – even if these accomplishments were of questionable virtuousness.

During Rousseff's first presidency (2011–2015), the process was still moving forward, although at a more intermittent pace. While the new president did not prioritize the international agenda nor regional integration, there were signs that a crisis was developing. As growth stalled, resources channelled to the BNDES by the National Treasury decreased. On the political front, although the mass rebellion that took place in June 2013<sup>5</sup> was not triggered by economic distress, it did convey a widespread social malaise. It was a clear sign that the social pacification produced by PT, where lower classes accessed marginal gains while business profited as ever, was losing ground. As popular demands were frustrated again, political momentum shifted consistently to the right.

When Rouseff was re-elected in 2015, the PT project was threatened on several fronts. Essentially, the conditions that protected Brazil from the harshest impact of the 2008 economic crisis no longer pertained. On the contrary, there were signs that an economic recession was on the cards. At the same time, numerous scandals brought to light corruption networks that seemed ingrained in how the construction industry was doing business, in the country and abroad. The continuing exposure of corruption schemes undermined the government's reliability and popularity, as well as the political party that was at its head. But it also threatened the cornerstone of the capitalist project that the party and the government advocated. Strikingly, at this point the call for transparency in BNDES accounts was no longer made only by popular movements, but also by the political right that took to the streets to make its point.

Assailed on every front, PT cadres interpreted the interruptions faced by the contractors and Petrobras as a threat to the national project. Unable to deny the corruption charges, they alleged that the country had always been run that way, but that this was surfacing only now because it was PT that was in the presidency. In parallel, the cadres suggested that the comprehensive investigations into corruption that were being pursued inhibited investments by contractors and other businesses, jeopardizing the economy as a whole. Through these tensions it became evident that the regional integration project assumed the interests of contractors and the nation to be identical, regardless of the former's corrupt way of doing business, not to mention the precarious work conditions they maintained.

To recognize the fragility of the PT project does not imply endorsing the political use that anti-PT right made of the corruption investigations, nor the reprehensible irregularities incurred for that purpose. However, the scandals made it impossible to deny the corruption. And the conjunction between corruption and the economic crisis cowed the government into a defensive position. Nevertheless, even before the crisis became acute, the BNDES gave signs that it was worried about the investigations rather than about its investments. In any case, budget cuts together with a decrease in revenues from the Workers' Support Fund (FAT), another traditional source of funding for the BNDES, were reducing the capital it had available for long-term loans.

At this point, several indicators began to raise questions about the efficacy of the 'national champions' strategy. First, several companies that had received sizeable BNDES grants passed into foreign control. That was the case, for example, for the beverage conglomerate Ambev that merged with a Belgian corporation and transferred its headquarters to that country; it applied to the ethanol plant Santa Elisa, acquired by French LDC Dreyfuss soon after having received BNDES funding; and to EBX, which linked up with Chinese and Korean capital after having received large public credits for its projects; as well as to Alunorte and Alumar, sold by Vale to Norwegian Norsk Hydro. There were also situations like where Odebrecht became an autonomous operation in Peru: legally registered as a local enterprise, it was no longer supported by the BNDES, but neither did it contribute to the exportation of Brazilian products and services. Overall, there is no consistent evidence that services provided by the BNDES stimulated output growth. Instead, there is evidence that 'national

champions' borrowed long-term funds either to reduce capital costs or even to benefit from interest rate arbitrage profits (Bonomo, Brito, & Martins, 2014).

The domestic difficulties faced by the PT governments were compounded by the difficulties changing IIRSA's orientation through COSIPLAN. The fundamental argument for incorporating IIRSA was that the projected infrastructure would contribute to endogenous growth, environmental sustainability and social inclusion. However, the banks that backed the initiative right from its inception (the IDB, the CAF and Fonplata) have retained the power to dictate IIRSA's project portfolio. Thus, these banks finance the feasibility studies that precede any project, and their representatives still dominate IIRSA's technical committee under COSIPLAN.

In addition, the proposition for a 'new regional financial architecture', designed to reduce the region's dependence on international funds, was blocked – by Brazil itself. Both Brazil's Federal Reserve Bank and the National Treasury consistently objected to using national reserves to finance investment. Instead, U.S. Treasury bonds with an interest rate of 1% per year were bought, despite the fact that, at home, BNDES was paying out the highest interest rates in the world in the TJLP scheme. Although one of the main proposers of the new scheme, the Ecuadorian economist Pedro Paes, minimized the issue by arguing that the input of reserves would be preceded by numerous other measures, the perception prevailed that the Bank of the South did not take off for political reasons: the institution proposed an equal vote for every member, regardless of their financial input, which is a different structure from that of the International Monetary Fund (IMF). This approach did not interest the Brazilian leadership, however, a point that emphasizes the power motivations that underlie its regional integration discourse.

The fragility of the integrationist proposal is also attested to by COSIPLAN's project portfolio, to which the IIRSA is attached. In 2014, 477 of the IIRSA projects had a national range, 95 were binational, 5 were tri-national and only 2 were multinational, both in the area of telecommunication. The IIRSA report for that year stated that 89.1% of the projects and 66.5% of the foreseen investments were related to the transport sector, almost half of them for highways; energy projects amounted to 9.3% of the projects and 33.5% of the investments, and communications was less than 2% of the projects. These figures demonstrate the affinity between IIRSA and the core business of Brazilian contractors (Consejo Suramericano de Infraestructura z Planeamiento, 2014). Fifteen years after its launch, the IIRSA initiative has been making slow but consistent progress, yet without fulfilling the political role that the PT project had aspired to.

This observation problematizes the alleged nexus between neo-developmentalism and regional integration. Since the economic dimension of the process, basically consisting of construction driven business, was conceived under the frame of open regionalism precepts, the proposition of a developmentalist regionalism involved a double rhetorical maneuver, evoking a shift in a project that remains essentially the same. It associates the expansion of oligopolic Brazilian and transnational business with new developmentalism while, at the same time, identifying this new developmentalism with post-neoliberal integration. Under that perspective, interconnection is misconceived as integration, oligopolic interests as national interests, entrepreneurial diplomacy as South-South cooperation, and the internationalization of Brazilian business as post-neoliberal integration.

## 7. PT order in South America

Lastly, the management of regional conflicts in South America, which is the main virtue commonly ascribed to UNASUR, was mistaken as sovereignty. According to that interpretation, the creation of

regional organizations outside of the purview of the US should be seen as a breakthrough towards a multipolar world, creating an opposition to superpower interests in the region. However, it should be highlighted that the US State Department did not hold the view that South American leadership crowded out its own presence. The then Secretary of State Condoleezza Rice openly supported Brazilian leadership when UNASUR came into being (Rice, 2008). Under the Obama administration, the sub-secretary of Political Affairs of the State Department Wendy Sherman emphasized: 'Today Brazil is a strategic partner in addressing global – not just hemispheric – issues of shared concern. And I want to be clear that the United States needs and welcomes Brazil's positive expanded role' (Sherman, 2012).

In fact, so far Brazilian intervention in regional affairs has not antagonized the US. Brazil interceded against coups that had U.S. sympathy in the recent political crisis in Honduras (2009) and in Paraguay (2012). Despite this, however, Brazil was unable to reverse the course of events in either situation, although it made a remarkable effort in the Paraguayan case.

The limits of PT's progressive stand becomes evident in its relations with the Bolivarian process in Venezuela. While Lula cultivated a close relation with Chávez, he also helped marginalize the latter's most innovative initiatives, such as ALBA, the Bank of the South, and Telesur, a multi-national state-funded television network. The Brazilian attitude empowered the moderate sectors within Bolivarianism that had previously faced strong opposition. In the process, Brazilian business in Venezuela multiplied.

As the PT leadership neutralized the most radical expression of the progressive wave which is currently fading, they have contributed to limit the scope of change during this period. In some situations there has been radical political change, as in Venezuela where the Puntofijo Pact<sup>6</sup> was wiped out after having given structure to the politics of this country for four decades; or in Bolivia, where the social segregation between indigenous and non-indigenous, creating a 'sociedad abigarada' (multi-layered society),<sup>7</sup> was eroded by indigenous protagonism. However, it has not been possible to establish an alternative path to an economy based on commodity exports in any of these cases. This explains the unanimous adhesion to IIRSA, as all South American governments, including Venezuela, supported the expansion of export corridors. There is, therefore, a correspondence between the progressivist process in the region, where there has been political change tied to economic continuity, and the dynamic of regional integration, where UNASUR has emerged as a political novelty tied to IIRSA, which was framed under a logic that deepens the structures of economic dependency on global capital.

This ambiguity between political progressivism and economic conservatism has generated contradictory situations, as revealed during the crisis in Paraguay in 2012. Fernando Lugo's election in 2008 was the first political change in this country after six decades of rule by the National Republican Association–Colorado Party, which included the longest dictatorship in the region (1954–1989). Despite regarding Lugo as a regional ally, the PT administration interfered in Paraguay's situation by fostering credit lines and giving political support to so-called 'brasiguayos' (Brazilian businessmen who had settled in Paraguay) for the expansion of soybeans. This approach strengthened those political sectors in Paraguay that opposed any initiative to democratize access to land, as Lugo's campaign had promised. As a consequence, Lugo's political position was consistently undermined, until he was deposed in an illegitimate impeachment process that Brazilian diplomacy was powerless to stop (Dos Santos, 2014). This was an emblematic situation in which support for economic sectors opposed political change finally made that change impossible. As a matter of fact, it can be argued that this ambiguous trend played a role in the process that led to the impeachment of Rouseff herself in 2016.

## 8. Concluding remarks: post-neoliberal regionalism and ideology

There is a correspondence between neo-developmentalism as an ideology of the political economy of the PT presidencies and developmentalist or post-neoliberal regionalism as its foreign policy ideology. In both cases, the political function is to differentiate themselves clearly from preceding governments and their neoliberal orthodoxy. Nevertheless, no substantive changes took place on the ground in line with these claims, either in the macroeconomic policies set by the Plano Real stabilization plan of 1994, or in the regional integration process that had IIRSA as its backbone. In any case, these policies were based on conceptions that Celso Furtado (1974) has described as the myth of economic growth. Therefore, the spurious antagonism that the PT government created between itself and its predecessors restrained the scope of political debate in such a way that it elided the connections between economic growth and the articulation of dependency and inequity, which characterize underdevelopment. Propositions pointing to an alternative civilizatory path around ‘*sumak kawsay*’ (good living),<sup>8</sup> bolivarianism<sup>9</sup> or socialism did not have a space in this.

The economic debate in the country is restrained to microeconomics, revolving around the pace and intensity with which the neoliberal agenda should be executed. In the field of international relations, the relevance of the South in general and of South America in particular is disputed, in the light of a mercantile rationality. The proposition of a privileged sphere for the expansion of Brazilian business is weighed against the liabilities of the regional integration process. Vera Thorstensen, the former Brazilian assessor at the World Trade Organisation, described the counterpoint to the PT position with crude clarity when she said with reference to Mercosul: ‘it is no use to marry the poor’ (Drummond, 2014). On the other hand, IIRSA is supported by diplomats aligned with open regionalism. For instance, José Botafogo Gonçalves, who served under Cardoso, complained that the initiative ‘has been disregarded, when it is perhaps the institution that can bring greatest dynamism to South American integration’, while defending the practice of ‘infrastructural diplomacy’ (Gonçalves, 2013, p. 268).

Despite different approaches, the basic aim is to insert the Brazilian economy as a commodity exporter into the trends of contemporary capitalism, as a basis for transnational capital operations and as a platform for financial capital valorization. Contrary to the post-neoliberal rhetoric, the meaning of the integration process has not been modified since the election of progressive governments; rather, the mercantile interconnection of the subcontinent has been enhanced by the political affinity between its governments.

From this angle, the seeming contradiction of a conventional government adopting conservative social and economic policies but undertaking an innovative foreign policy to disturb US interests is resolved. As the ideological articulation between neo-developmentalism and post-neoliberal regionalism is unveiled, the role of the PT political economy for South America emerges not as what it would like to be, but as what it has been: the instrumentalization of regional integration for the purposes of the internationalization of Brazilian oligopolic business on the basis of the prevailing international division of labour, in a process that promised Brazil a political leadership role in the subcontinent, to be exercised at critical moments in line with the strict limits tolerated by the hegemonic power.

### Notes

1. All Portuguese quotes have been translated by the author.
2. The National Bank for Economic and Social Development, by its full name, is a state-owned development bank that was founded in 1952.

3. The PIS and the PASEP are compulsory savings required from companies, established by Brazilian law in 1970.
4. Powerful Brazilian soybean growers in Paraguay, for example, get their inputs mostly from Monsanto. At the other end of this supply chain, the commercialization of the soybean is undertaken by corporations such as Cargill, Archer Daniels Midland and Bunge.
- 590 5. In June 2013, massive mobilizations occurred in over a hundred cities against fare hikes for public transport, poor-quality education and health care services, and the immense public investment in ‘mega-events’ such as the 2014 Football World Cup and the 2016 Olympic Games.
6. The Puntofijo Pact was an agreement between the leading political parties in Venezuela in 1958, which led to an alternation in the presidency between the two principal parties, the AD and Copei. The Pact was interrupted only by the election of Hugo Chávez in 1998.
- 595 7. The term ‘sociedad abigarrada’ was coined by Bolivian intellectual René Zavaleta Mercado (1935–1984) to refer to his native country where different ethnic groups do not mingle (Zavaleta Mercado, 1982).
8. ‘Sumak kawsay’ (also ‘suma qamaña’) refers to an heterogeneous set of conceptions that reclaim indigenous values as a counterpoint to market relations. It has played an important political role in recent years, particularly in Bolivia and Ecuador.
- 600 9. Venezuela’s political developments under Chávez have been described as the ‘Bolivarian Revolution’, evoking South America’s independence leader Simón Bolívar (1783–1830) who nurtured projects of regional integration.

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