Venezuela and the Common Market of the South: A Case Study of Regional Integration in Latin America

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Abstract

This research explores why Venezuela became a full member of the Common Market of the South (MERCOSUR). It examines three theoretical explanations; the liberal economic, realist and neoliberal institutionalist approaches by utilizing a single case study analysis. The results suggest that an economic explanation alone is insufficient. Instead, the findings support the claim that through MERCOSUR, the Venezuelan government was able to pool the capabilities of the region in order to strengthen its bargaining position in the Free Trade Area of the Americas (FTAA) negotiations in 2005.

As mankind entered into the twenty-first century, many scholars, students and practitioners of international politics envisioned a world in which international institutions would maintain order and peace among nations. The basic assertion is that under this condition, states are able to focus primarily on economic matters, such as integrating into the global economy through either multilateral regional or global organizations. This assumption implies that economic interests and the “sets of implicit or explicit principles, norms, rules and decision-making procedures” (Krasner, 1982) of institutions, not power, are and will be the primary motivators of state behavior in this “new world order”.

This study’s goal is to illustrate that the current era of globalization does not represent a clear break from Cold War thinking of international politics that is based on power. Instead, power configurations within the international system continue to shape state behavior. A clear example of power’s salience in contemporary international politics is found in the motivation of states to join and support regional trade agreements (RTA), such as the Common Market of the South (MERCOSUR).

To demonstrate how power configurations within the international system continue to shape state behavior, this research focuses on the analysis of Venezuela’s bid to become a full member of the RTA MERCOSUR. The Bolivarian Republic of Venezuela accomplished this goal on July 4, 2006, when its President Hugo Chavez, along with the presidents from Argentina, Brazil, Paraguay and Uruguay, officially signed its membership protocol making it the fifth full member of the trade bloc (ABC News, People’s Daily Online). Why did Venezuela become a full member of the RTA MERCOSUR? Why has Venezuela been so eager to leave other RTAs, such as the Andean Community (CAN) and the Group of Three (G-3)? Is
there more to gain economically from a full membership in MERCOSUR? If yes, then why didn’t Venezuela become a full member sooner? Is the appeal of MERCOSUR’s institutionalized structure the primary motivator of Venezuela’s behavior? These are some of the questions that this study will address in order to formulate well-informed explanations of Venezuela’s behavior.

This study focuses on how external factors such as Venezuela’s weak position within the international system, led it to pursue membership in MERCOSUR. The central purpose of this study is to argue that Venezuela pursued full membership in order to combine the capabilities of MERCOSUR to strengthen its bargaining position against the United States, thus increasing its chances to shape its own future. This research explains how this strategy has been motivated by the inability of Venezuela to unilaterally resist one specific United States policy – the proposed Free Trade Area of the Americas (FTAA) initiative. The findings suggest that Venezuela’s strategy was most effective during the fourth and final stage of FTAA negotiations because: 1) the Chavez administration found that the original MERCOSUR members Argentina, Brazil, Paraguay, and Uruguay shared the goal of at least delaying and reforming the FTAA in the short-term; and 2) the United States’ focus was primarily centered in the Middle East, thus enabling Venezuela and the other MERCOSUR members greater maneuverability. Moreover, this study argues that Venezuela’s pursuit of full membership was motivated by short-term power calculations rather than the possibility of long-term economic gains accrued from MERCOSUR. Recent conflict between MERCOSUR’s members further support the claim that Venezuela’s strong support for MERCOSUR coincided with a greater similarity in goals amongst the five members. Since the demise of the FTAA, support for Venezuela’s membership by itself and by the other members, particularly Brazil, has recently waned as the common goal has diminished.

Nevertheless, Venezuela continues to pursue a wide range of foreign policy goals and the Chavez administration has adopted a wide range of strategies to implement these goals. This study does not address all aspects of Venezuela’s behavior. Instead, it focuses primarily on Venezuela’s efforts to delay the proposed FTAA by combining the capabilities of MERCOSUR in order to strengthen its bargaining position against the United States. Therefore, the first task of this study is to demonstrate that Venezuela’s bid to become a full member of MERCOSUR can be understood in this way. Secondly, this study argues that the success of Venezuela’s strategy is primarily reliant on its ability to develop and demonstrate a coherent goal, delay the implementation of the FTAA; and to demonstrate that this goal is similar to those of the other members of MERCOSUR, particularly the strongest actor: Brazil. Furthermore, the United States’ lack of commitment in directly confronting the FTAA challenge due to its narrow focus on the Middle East, provided a unique window of opportunity that enabled the trade bloc to effectively counter the FTAA during the most intense and final stage of negotiations.
This analytical study is divided into four parts. The first part provides a historical overview of MERCOSUR. The second part examines this study’s main theoretical position, realism, as well as two other alternative explanations, liberal economic theory, and neoliberal institutionalism. The third part offers a defense of the main argument by utilizing qualitative data to illustrate Venezuela’s realist behavior. The fourth part provides conclusions regarding the effectiveness of realist theory in explaining state behavior in the twenty-first century.

**Literature Review**

The study of the “second wave” (Cohn, 2005) of regionalism beginning in the mid-1980s has benefited from a variety of economic and political theories. However, this study focuses only on three approaches: the realist, liberal economic and neoliberal institutionalist theories. The importance of these three paradigms is that they emphasize different factors that explain why states pursue membership in regional trade agreements.

Realism in the twenty-first century has come under fire from academics and students alike. However, the realist approach is helpful in analyzing Venezuela’s behavior in that it illustrates that even in this “new world order”, states are still concerned with their relative power position within the international system. With no peer competitor in sight, the US, as the world’s most powerful state, has the ability to shape the world in its image, whether others like it or not. Realism identifies ways in which weaker states resist US policies and pressure. Liberal economic theory is useful in two ways. First, liberal economic theory is regarded as the primary motivator behind states behavior in the current era of globalization. Secondly, it challenges the realist notion that states are primary actors in international politics. Instead, this approach views non-state actors as instrumental in states joining RTAs. Finally, neoliberal institutionalism, besides being the predominate challenger to realism, views the increase in global and regional institutions as a response to growth of economic interdependence since the 1980s. Because economic negotiations at global multilateral institutions were increasingly complex, states sought to create their own regional institutions to facilitate deeper interdependence. The following discussion of each theory provides the basic tenets of each approach and explanations as to why Venezuela would want to become a full member of MERCOSUR.

**Realism**

This research is greatly influenced by the writings of “classical” and “structural” realism. The study’s main argument assumes that the structure of the international system is the primary determinate of Venezuela’s behavior. This realist approach “depicts international affairs as a struggle for power among self-interested states” (Walt, 1998, p. 31). Within the international system, states are considered to be the primary actors in international politics (Morgenthau, 1960; Waltz, 1979; Mearsheimer; 2001). Realists assume that in
an anarchical international system, in which there is no central authority to protect states from one another, states must rely on their own capabilities to ensure their survival (Waltz, 1979; Walt, 1998; Mearsheimer, 2001). Since no state seeks its own demise, realists view states as rational and unitary actors that seek to minimize risks and costs and to maximize benefits (Morgenthau, 1960; Mearsheimer, 2001).

Based on these assumptions, Venezuela’s bid to become a full member of MERCOSUR is understood to be a result of its relative position within the international system and its national power capabilities. In this view, Venezuela is behaving as all states do, they are attempting to increase their power and security in relation to the other states, particularly their stronger rivals, in the international system (Waltz, 1979) by pooling the capabilities of MERCOSUR’s members. Although realists tend to view the anarchical nature of the international system as an inhibitor of cooperation, realists believe that states build alliances in order to enhance their relative power capabilities (Mearsheimer, 2001). For Venezuela, defeating the FTAA or at least delaying its implementation through its membership in the MERCOSUR was an attractive strategy since it lacked the ability to unilaterally counter the United States’ attempt to reconsolidate its economic and ideological hegemony over the Latin American region.

The most effective way for Venezuela to increase its relative bargaining position according to realism is to combine its capabilities with the original MERCOSUR members. Venezuela at first pursued this strategy by signing a series of bilateral agreements with each individual MERCOSUR member. By 2003, mounting international pressure by the United States through the FTAA negotiations threatened not only to reconsolidate American economic hegemony over the region, but threatened to limit the ability of the Chavez administration to maintain these bilateral agreements with its Latin American neighbors. Further complicating Venezuela’s strategy was the fact that it found itself at odds with the sole superpower, the United States, which had consistently and frequently openly voiced its hostility towards the economic and political agenda of the Chavez administration. Waltz (1997) correctly argues, in this case, that states such as Venezuela will perceive or experience “unfair treatment” resulting from the hegemon’s (US) actions (p. 915-6). He argues that in response, states such as Venezuela will pursue regional integration to restore a balance of power by combining capabilities with the end goal of moving towards a bipolar or multipolar system (p. 916). Gilpin, a self-proclaimed realist, writes:

Regional groupings of states have increased their cooperation in order to strengthen their autonomy, increase their bargaining position...as a means to extend national concerns and ambitions (2001, p. 357).

In other words, in a unipolar world in which one superpower has unparallel economic and political-military strength, there are some issues that cannot be dealt with alone. Therefore, weaker states in this system will pursue
membership in RTAs in order to effectively confront challenges to their power in this new era.

**Liberal Economic Theory**
The position taken in this study is tested against two predominate international relations theories: liberal economic theory and neoliberal institutionalism. Proponents of the liberal economic theory focus on whether RTAs are trade-creating or trade-diverting (Bhagwati & Panagariya, 1996; Bhagwati, 1999; Mansfield & Milner, 1999). In this view, regional trade agreements or what Bhagwati & Panagariya (1996) refer to as “preferential trade agreements” stimulate trade among members (trade-creating) while deflecting trade away from non-members (trade-diverting) (Bhagwati, 1999; Mansfield & Milner, 1999). The assumption here is that trade creation through the opening of markets and the reduction of trade barriers that accompany RTAs such as MERCOSUR are beneficial in improving the welfare of the state and its citizens through the growth of the Gross Domestic Product (GDP), per capita income and in trade, then all barriers to global multilateral trade should be decreased (Gilpin, 2001; Cohn, 2005). A more extreme version of this argument is that “every government lives under the fear of a no-confidence vote from the herd [market]” (Friedman, 1999, p. 62, p. 115). From this perspective, states must pursue global integration at all costs.

The focus on the economic well-being of the state and its citizens is understood as the fundamental motivation for Venezuela’s behavior. Liberal economic theorists also view domestic factors such as appropriate economic policies and not merely the international economic system as the sole root of Venezuela’s pursuit of full membership in MERCOSUR. In this view, Venezuela’s behavior is understood as not only a reaction to external pressure, but as a response to its sociopolitical characteristics. In other words, Venezuela’s bid to become a full member of MERCOSUR is viewed as a result of both internal and external pressures that drive the Venezuelan government towards MERCOSUR.

**Neoliberal Institutionalism**
Another alternative explanation views the creation of MERCOSUR as recognition by Venezuela of the need to facilitate global interdependence through a solid institutional structure. This school of thought argues that states such as Venezuela pursue international institutions such as MERCOSUR “to reduce conflicts of interests and risk by coordinating their behavior” (Keohane, 1982, p. 332-33). The foremost proponent the neoliberal institutionalist school, Keohane (1982; 1984), argues that states seek international institutions in order to create mutual agreements that would be impossible without a coordinating mechanism. More than this, institutions arise out of the need to restrain the most powerful states in the region and international system (Buszynski, 2002).
Why would Venezuela want to coordinate trade through an institutionalized structure? Why not pursue deeper relationships through bilateral agreements? For neoliberal institutionalists, there are two main reasons. First, Keohane (1982; 1984) argues that the primary motivation to create these institutions is to deal with market failures and to reduce the shadow of the future. In an increasingly economically interdependent world, the increase of predictability and regularity of state behavior promotes the maximization of benefits and the reduction of costs (Keohane, 1982; 1984). Second, when states cooperate, there is always a concern that these same states have the propensity to cheat because there is no higher authority to enforce the rules. Thus, in order for Venezuela to achieve the Pareto-optimal outcome or the best collective outcome for itself, cheating by the other MERCOSUR members must be controlled.

Neoliberal institutionalists argue that states such as Venezuela can control deviant behavior (cheating) in two ways. The first is that states may pursue a strategy of tit-for-tat and cooperate on a conditional basis through strategies of reciprocity or that a country benefiting from cooperation will provide roughly equal benefits in return (Axelrod & Keohane, 1993). According to this assumption, Venezuela could have maintained informal bilateral ties. Why did it not continue to do so? Conditional cooperation, such as the bilateral agreements that characterized Venezuela’s relationship with the original four MERCOSUR members, according to this perspective, is complicated in that high verification costs and the regular sanctioning of cheaters usually outweighs the benefits and can discourage further relationships. Therefore, Venezuela would pursue full membership in order to reduce verification costs, punish cheaters and facilitate deeper integration among the five states through institutionalizing reciprocity (Keohane, 1984; Axelrod & Keohane, 1985).

In sum, Venezuela’s behavior according to neoliberal institutionalist theory understands its quest for full membership as a way to reduce verification as well as transaction costs, punish cheaters, facilitate deeper integration and to benefit from the neutral institutionalized setting that MERCOSUR provides.

**MERCOSUR’s Historical Antecedents**

This section illustrates the evolution of MERCOSUR from its original geopolitical foundations towards its current position as Latin America’s strongest economic and negotiating bloc.

The creation of a common market is generally viewed as a way for states to facilitate closer economic relationships. However, the original motivations behind the creation of MERCOSUR were as political as they were economic. Roett (1999) argues that during the 1970s until at least the mid-1980s, the creators of MERCOSUR, Argentina and Brazil, were “locked in a zero-sum game” over which state would be “the dominant player in the region” (p. 1). Political and economic competition rather than cooperation accurately characterized their often tense relationship. Fortunately for the citizens of
Latin America, the process of redemocratization beginning in the 1980s, replaced military dictatorships in both Argentina and Brazil, which eventually paved the way for greater regional integration.

In 1986, following the debt crisis and start of structural adjustment programs in Latin America, Argentina and Brazil signed a bilateral trade agreement to strengthen economic cooperation and regional integration. The Program for Integration and Economic Cooperation (PICE) was seen as an attempt to increase the planning and consolidation of industrial processes and as a way to improve diplomatic relations through balancing trade among their specific sectors (Manzetti, 1993-94; Pereira, 1999). With the breakdown of the bipolar international system that characterized the period between 1947 and 1989, states in the international system began to solidify their global position by creating and strengthening regional trading blocs. As a response to increasing regionalization in North America, Europe, and East Asia, Argentina and Brazil pursued deeper integration through the 1988 Treaty on Integration, Cooperation, and Development, and the 1990 Act of Buenos Aires (Pereira, 1999; Phillips, 2004). Overall, the increase in bilateral economic cooperation between Argentina and Brazil and throughout Latin America generally reflected the context of the international system (Manzetti, 1993-94).

On March 26, 1991, in Asunción, Paraguay; the presidents of Brazil, Argentina, Paraguay, and Uruguay agreed to create the Common Market of the South (MERCOSUR) (Manzetti, 1993-94; Pereira, 1999). The Treaty of Asunción laid out the specifics of the trade agreement in the areas of trade liberalization, the common external tariff, the institutional structure, 24 special protocols protecting sensitive economic sectors, and established the goal of creating a customs union by the end of 1994 (Pereira, 1999; Preusse, 2001; Phillips, 2004). The Protocol de Ouro Preto (Ouro Preto Protocol), signed in December 1994, created a customs union that formally institutionalized political and economic integration amongst the original four members (Pereira, 1999). Compared to past regional integration attempts in Latin America, MERCOSUR proved to be more than a vague promise.

Despite the description of MERCOSUR as an “imperfect” customs union, especially when compared to the European Union, it has facilitated a growth in intra- and extra-MERCOSUR trade. Following the implementation of the customs union, there was a 90% reduction (approximately) of tariffs on trade goods and an 88% reduction on dutiable goods (Preusse, 2001). In 2005, the overall amount of trade within pre-Venezuela MERCOSUR increased at a rate of 13.3% in current dollars (INTAL, 2005). Additionally, overall exports were up 20.8% and imports were up 19.1% over the previous year. In contrast to the average annual growth rate of merely 1.3% between the years 1997 and 2002, total trade has grown by an average annual rate of 22.6% since the end of this period (INTAL, 2005).

More specifically, intrabloc trade between 2003 and 2005 grew by a cumulative average of 27.4%. This finding illustrates the resilience of
MERCOSUR in that, between 1997 and 2002, total trade was cut in half among all members due to the Brazilian and Argentina response to their economic crises in 1999 and 2001, respectively. Similarly, extrabloc trade, although not as dramatic as intrabloc, recorded a favorable 21.1% cumulative growth rate over the 2003-2005 period. All indicators suggest that if there is not another financial crisis or sharp decrease in diplomatic relations, MERCOSUR’s excellent performance is expected to continue. Furthermore, with the recent addition of Venezuela, MERCOSUR has expanded its gross regional product to more than US$1 trillion and now accounts for nearly 75% of the region’s economic activity, as well as 65% of the total Latin American population (The Trumpet, 2006). Moreover, Bolivia and Chile have continued to support MERCOSUR by maintaining their associate member status. On the surface, the answer seems incredibly clear as to why Venezuela pursued full membership given the economic strength of MERCOSUR. However, upon closer inspection, the economic benefits accrued from MERCOSUR membership is less of a concern for Venezuela than the achievement of political goals. Instead, Venezuela’s bid for full membership in MERCOSUR is a result of their inability to unilaterally defeat the United States’ proposed FTAA. In this section, the overall argument that Venezuela became a full member in order to pool the capabilities of MERCOSUR to increase its bargaining position against the US is analyzed by examining the explanations offered by the two alternative theories.

**Methodology**

In order to examine the explanatory power of the three theories, this study utilizes a single case study that draws principally from both primary and secondary data sources. Primary source readings consisted of official statements made by MERCOSUR’s authoritative body, the Venezuelan government and of original documents posted on trade-related websites, such as those of the World Trade Organization (WTO), and the Institute for the Integration of Latin America and the Caribbean (INTAL).

Secondary sources included works by foreign policy and international relations experts. The researcher utilized a single case study to analyze the explanatory power of three predominate international relations theories in explaining Venezuela’s decision to become a full member of MERCOSUR.

**Results**

Although the liberal economic theory can explain some state behavior, it is insufficient in explaining Venezuela’s bid to become a full member of MERCOSUR. The purpose of this section is to illustrate the claim made previously by analyzing the relevant qualitative empirical evidence. Despite the “you’re in or out” approach described by globalizations foremost proponents, negotiating multilateral global trade initiatives between states has been difficult. For instance, the troubled and cumbersome negotiating
process within the World Trade Organization (WTO) has made regional multilateral linkages more attractive and advantageous (Cohn, 2005). Bagwell and Staiger (1997) determined that preferential trade agreements (regional trade agreements) are desirable when the global “multilateral system is working poorly” (p. 28). From this perspective, Venezuela’s push to become a full member of MERCOSUR may be a result of the stalled multilateral trade negotiations in the WTO and the impressive performance of MERCOSUR. However, the possibility of economic benefits from an increase in regional trade linkages does not fully explain Venezuela’s behavior.

As stated previously, Venezuela’s membership in MERCOSUR adds nearly 14% to the region’s GDP. Despite the immediate increase in markets and trade capacity, Venezuela’s impact on the MERCOSUR’s economic and trade profile is moderate at best in two ways. Although Venezuela’s GDP is larger than half the members at US$110.1 million and its per capita GDP is higher than all the other members at US$4,235, the size of its import market is rather small (US$14,688 million) compared to Brazil’s (US$62,782 million) and Argentina’s (US$23,288 million). It is also estimated that nearly 80% of Venezuela’s population is destitute, so in terms of market expansion for the other members, Venezuela does not provide much of an opportunity. Specifically, Brazil provides 7.7% of Venezuela’s total imports while Argentina delivers 1.9%, Paraguay 0.6%, and Uruguay a mere 0.2% (INTAL, 2005). Surprisingly, the majority of Venezuela’s imports come from the United States at 31.8%. On the export side, Venezuela is responsible for less than 1% of the total exports to the four other members. Upon analyzing these statistics, one might assume that Venezuela pursued full membership in order to increase the size of its import market and to facilitate deeper trade linkages through MERCOSUR. Although it is clear that Venezuela has pursued a wide range of economic strategies to facilitate an increase in market size and trade diversification, the degree they will fulfill the government’s objectives is unclear.

For instance, one strategy the Chavez administration has pursued has been to diversify and develop its economy in order to limit its sole dependency on oil exports. As of April 2007, exports of fuels and mining products represented an astounding 88.8% of Venezuela’s export total (WTO Country Profiles). Manufactured products represented 86.6% and agricultural products represented 11.0% of Venezuela’s total imports. The government has attempted to economically diversify by following an endogenous or “development from within” path to development (Boudin, Gonzales & Rumbos, 2006, p. 126). One way in which the government has turned theory into practice is through its missions, specifically the Vuelvan Caras mission, whose main purpose is to train and develop Venezuelans to create and participate in cooperatives. The government has focused specifically on agriculture, industry, tourism, infrastructure, services, and other government industries. As of March 31, 2005, a little less than 300,000 Venezuelans had graduated and were participating in these cooperatives (p. 72). If Venezuela is
trying these kinds of strategies, then according to the liberal economic theory, why not pursue full membership in MERCOSUR? Venezuela did become a full member in 2006. As stated previously, MERCOSUR was experiencing outstanding growth, which, on the surface, seemed to have the ability to provided ample opportunity for Venezuela to expand its market size and trade linkages. However, the empirical evidence suggests that Venezuela’s membership is more likely to benefit the other MERCOSUR members than itself.

The Institute for the Integration of Latin America and the Caribbean (INTAL) performed a product selection exercise to identify trade growth opportunities after Venezuela’s entry into MERCOSUR. A Trade Complementarity Index (TCI) was utilized to determine the existence of trade complementarity among the five MERCOSUR members. In order to calculate trade growth potential, the comparative advantages for the exporting country were compared to the comparative disadvantages for the importing country (INTAL, 2005). The exercise’s main conclusion was that trade growth opportunities favor Venezuela’s MERCOSUR members, rather than Venezuela itself (INTAL, 2005). Table 1 illustrates the opportunities for trade expansion for both Venezuela and the other members.

The limited number of trade growth opportunities stems from Venezuela’s non-comparative advantage in any sector with the exception of energy resources. The statistics presented previously demonstrated that Venezuela’s economy is solely reliant on oil and natural gas exports for income. To the dismay of the Chavez administration, the development of other economic sectors in previous administrations were delayed and even ignored. While this may be the case, the reality is that Venezuela is not in a position to compete against the two economic powerhouses of Latin America: Brazil and Argentina. If Venezuela lacks a comparative advantage in all sectors excluding energy resources, then why would it want full membership in MERCOSUR? Is Venezuela’s membership likely to harm rather than promote future economic growth?

According to several prominent business organizations, particularly in the agricultural and industrial sectors, it argues ‘yes’. From this perspective, Venezuela’s membership will limit if not hinder future growth in these sectors. Noel Álvarez, the president of Venezuela’s National Council for Trade and Services (Consecomercio) stated that “Aside from the economic consequences we will have to face...these announcements (joining MERCOSUR) [were] made without” the business sectors consent (Associated Press, Business News, “Venezuelan Business Leaders Criticize Decision to Leave”). Furthermore, Noel explained to the newspaper El Universal that the

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<th>MERCOSUR Members</th>
<th>Number of export opportunities to Venezuela</th>
<th>Number of export opportunities for Venezuela</th>
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<tbody>
<tr>
<td>Argentina</td>
<td>109</td>
<td>25</td>
</tr>
<tr>
<td>Brazil</td>
<td>103</td>
<td>18</td>
</tr>
<tr>
<td>Paraguay</td>
<td>35</td>
<td>12</td>
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<tr>
<td>Uruguay</td>
<td>50</td>
<td>11</td>
</tr>
<tr>
<td>Total:</td>
<td>224</td>
<td>45</td>
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Source: INTAL, 2005
Chavez administration never discussed strategies to overcome the economic “troubles or asymmetries” that business groups understood accompanied Venezuela’s MERCOSUR membership (El Universal, “Venezuela joins Southern Common Market”).

A research associate with The Council on Hemispheric Affairs, Bolduc (2006), examined several reactions by these business groups after Venezuela’s membership protocol had been signed by the original four members. Bolduc notes that Grupo 400+, a claimed representative of “society’s representatives,” the Venezuelan Confederation of Industries, the National Council of the Federation of Trade and Industry Chambers (Fedecámaras), and other agribusiness groups vehemently voiced their opposition to Venezuela’s MERCOSUR membership. Bolduc identified three main complaints of the various business groups. The first two, which were alluded to by Venezuela’s Consecomercio president Noel Álvarez, were that MERCOSUR was negotiated without regard to the potential and, according to their perspective, assured economic harm, and without the consent of the business sectors. The third most common complaint was that the full membership was implemented without an extensive national discussion within the national assembly or among the people. Bolduc writes that “the accusations do beg the important question of whether joining MERCOSUR was undertaken with good economic reason, or only as the next phase of Chavez’s war of ideas with Washington” (Bolduc, 2006). It is important to note that these business organizations were the primary supporters of the 2002 attempted coup on President Chavez and the 2003 economic strike that nearly brought the country into total chaos. Nevertheless, these statements and concerns illustrate that economic interests were not the primary motivator in Venezuela’s pursuit of full membership in MERCOSUR.

In sum, the liberal economic theory is unable to explain Venezuela’s behavior in that: 1) its addition into MERCOSUR does not represent a significant increase in market access for the other four members, which calls into question Venezuela’s expedited membership process; 2) by joining MERCOSUR, Venezuela has very little to gain due to its lack of a comparative advantage in any other sector besides energy; and 3) various business sectors in Venezuela have demonstrated that by competing against the larger and more efficient economies of Argentina and Brazil, it will in the short- and long-term promote harm rather than economic utility. This study does not argue that Venezuela is unconcerned with potential economic gains that are associated with the excellent performance of MERCOSUR. However, this review of the empirical evidence does suggest that Venezuela’s decision to join an economic trade agreement was done for non-economic reasons. If economic interests were not the primary motivator behind Venezuela’s pursuit of full membership, then what was?
A Realist-Based Institutionalist Strategy

Although realism provides a better general framework to understand Venezuela’s bid to become a full member of MERCOSUR, the role of institutions in countering the United States’ power is crucial in understanding Venezuela’s behavior. The findings of this study suggest that Venezuela pursued an institutionalist strategy, based on realist premise and not according to neoliberal institutionalist theory. Venezuela pursued full membership primarily to pool the capabilities of MERCOSUR to strengthen its bargaining position against the US. The main purpose of this strategy was to delay if not defeat the FTAA. The Venezuelan government was able to accomplish its goal by: 1) developing a coherent and similar goal with the other members of MERCOSUR; and 2) by taking advantage of the United States’ concentrated focus on the Middle East. This strategy stems from Venezuela’s relatively weak position that hindered its ability to unilaterally defeat the FTAA. What is the difference between weak and strong states? What determines the relative power capabilities that distinguish states ability to act unilaterally, multilaterally, or even at all?

Although there is no single measure, one way to measure a state’s power capability is to measure its aggregate economic output or Gross National Index (GNI). The GNI, according to the World Bank, is the best way to measure a state’s general economic capacity. The GNI basically illustrates a state’s ability to conduct certain actions. Table 2 illustrates that Venezuela’s ability to conduct a wide range of activities is quite limited when compared to the United States or even its regional neighbor Brazil.

The purpose of these statistics is to: 1) illustrate the rather trivial addition Venezuela provides to MERCOSUR; and 2) demonstrate the weak position of Venezuela and its MERCOSUR partners when compared to the United States. Even with their combined capabilities, the ratio of MERCOSUR’s members GNIs is roughly 1/10 that of the United States. Venezuela’s ratio is 1/82 to that of the United States. In terms of bargaining power, Venezuela’s membership is likely to increase its position.

At this point, it is necessary to discuss the inherent advantage of Venezuela’s own unique bargaining chip: oil. The Chavez administration has used oil to increase its influence in Latin America and throughout the world. In 2000, Venezuela, a founding member of the Organization of Petroleum Exporting Countries (OPEC), was elected president of the organization. The Chavez

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<th>MERCOSUR Members &amp; United States</th>
<th>GNI (in millions of US dollars)</th>
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<tr>
<td>Argentina</td>
<td>201,410</td>
</tr>
<tr>
<td>Brazil</td>
<td>892,806</td>
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<tr>
<td>Paraguay</td>
<td>8,396</td>
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<tr>
<td>Uruguay</td>
<td>17,594</td>
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<tr>
<td>Venezuela</td>
<td>163,996</td>
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<tr>
<td>United States</td>
<td>13,446,031</td>
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administration quickly imposed quotas that were crucial in not only raising the price of a barrel of oil, but provided the government with the resources to carry out its Bolivarian Revolution as well as strengthen its political influence throughout the region. To a certain extent, Venezuela’s national power capabilities as well as its bargaining position has been increased by the changes it has been able to make within OPEC. However, this exception is not enough to allow Venezuela the ability to unilaterally set the international agenda, let alone defeat a single US proposal. One strategy for achieving the Venezuelan government’s various objectives is to strengthen its bargaining position through its membership in MERCOSUR. The proposed FTAA negotiations between the United States and all of Latin America (with the exception of Cuba) provide an excellent case study to illustrate one strategy of Venezuela’s overall foreign policy.

Case Study: Free Trade Area of the Americas (FTAA)

In the fall of 2005, increasing international pressure by the United States through the Free Trade Area of the Americas negotiations threatened not only to consolidate American economic hegemony over the region, but threatened to limit the political influence of Chavez among his Latin American neighbors. As the deadline for the implementation of the FTAA drew nearer, popular media outlets and analysts characterized the trade talks as the ultimate battle between US style market capitalism and Chavez’s goal for twenty-first century socialism. Still, a majority of these analyses forgot to mention that if the FTAA was ratified, the member states of the agreement would not only become even more dependent on the US for their political and economic needs, but it would increase their vulnerabilities and reduce their ability to shape their own futures. The FTAA would accomplish both by exposing weak Latin American industries to the most competitive and efficient American corporations, and by allowing the US to tighten its grip on the maneuverability of each state.

The Venezuelan government and President Chavez in particular, have openly rejected any attempt by the United States to reconsolidate its economic hegemony over the region. This degree of unity within the Venezuelan government is unique in that the current political make-up allows it to behave as a unitary actor. This is an important factor in that various theories, such as the alternative ones presented in this study, argue that state action is determined by the individual, households and firms of a state (Moravcsik, 1997). In contrast to this study’s interpretation, these theories argue that the state “is not an actor but a representative institution” of societal actors (p. 518). While domestic actors are important, their role in determining Venezuela’s foreign policy is extremely limited. Besides a majority of support in Congress, President Chavez has been granted special presidential powers that enable him to pass foreign policy measures without interference from domestic social, economic and political interests. Among these powers, President Chavez has the ability to negotiate free trade agreements such as
MERCOSUR and the FTAA with little input from societal groups. This special power is similar to the fast-track authority that was granted to the current President Bush by the US Congress to negotiate the FTAA with Latin America.

President George W. Bush was not the only president granted fast-track authority to implement the FTAA. The Free Trade of the Americas initiative began with a proposal by President George H.W. Bush to create an Enterprise for the Americas Initiative (EAI) in the mid-1990s. The main goal of the initiative was the elimination of all trade barriers by all countries located within the western hemisphere. The US government first assumed that it would sign individual trade pacts with specific regional blocs and then combine these agreements into one comprehensive free trade area. In 1994, under the Clinton administration, the successful integration of Canada and Mexico into NAFTA led Vice President Al Gore to call for a 1994 summit of the western hemispheric states. At the Miami summit, all 34 countries, with the exception of Cuba, agreed to begin the negotiating process and while in Santiago, Chile in April 1998, agreed that the FTAA would become reality no later than 2005. However, by 2004, negotiations had stalled and the prospects for a hemispheric free trade area were dismal (Cohn, 2005). By the end of the 2005, President Chavez had declared the FTAA “dead and buried” (UPI “Venezuela: Chavez says FTAA is dead”). What enabled President Chavez in his own words, to “bury” the FTAA?

The Chavez administration was able to defeat or at least delay the FTAA in two ways. First, the Venezuelan government developed and transmitted a coherent goal that was similar to the other MERCOSUR members. As previously mentioned Venezuela sought to defeat and “bury” the FTAA. However, the other MERCOSUR members as well as the majority of Latin American states have expressed their interests in establishing a free trade area with the US but under two main conditions. The first is that the US reduce or eliminate its agricultural subsidies that prevents not only Argentina and Brazil from exercising one of their extremely limited comparative advantages, but the rest of Latin America and the developing world. The second request is that the US reduces or eliminates its barriers that prevent developing countries’ exports from coming into its market (Cohn, 2005). Although the concerns and proposals of Paraguay and Uruguay are regularly ignored due to their weak position within MERCOSUR, they both support Argentina and Brazil’s more moderate goal of delaying the FTAA. Despite their support, the most important actor in pursuing at least the short-term delay of the FTAA is Brazil. Table 3 illustrates the position of each state or group.

Brazil, similar to Venezuela, is not interested in solely maintaining regional trade ties. Brazil regularly engages in multilateral trade negotiations with
non-members without the consent of other MERCOSUR members, a direct violation of the trade agreement (Country Studies). Unfortunately for the other members, they really have only two options: 1) follow Brazil in whatever direction it pursues; or 2) leave MERCOSUR and face isolation or extreme competition at the international level. This finding illustrates Brazil’s ability to more or less dictate the terms of MERCOSUR’s external agenda. Although it is Brazil’s plan is to eventually engage in non-discriminatory multilateral trade regardless of region, MERCOSUR, since its inception, had successfully served Brazil as a counter weight to the United States’ attempt to consolidate its economic and political hegemony in the western hemisphere. Smith (2001) argues that “Brazil,…attempting to affirm its position as a subregional hegemon,” utilizes “MERCOSUR…as a powerful instrument for collective bargaining with the European Union and…the United States” (p. 48-50). Furthermore, Brazil’s support for MERCOSUR has been “to accumulate negotiating power for dealing with broader integration schemes in the Americas,” such as the FTAA (p. 51). Similarly, Guedes da Costa (2001) argues that Latin American countries gain “bargaining power” through MERCOSUR (p. 105). This strategy is effective for stronger states such as Brazil as well as weaker ones “which can follow a piggyback strategy” of benefiting from an increased hemispheric presence (p. 105). This researcher found that Venezuela clearly understood its predicament in the international system. In particular, the Venezuelan government understood that as a weak state, it could not defeat a proposal by the strongest state in the world (the US) alone. In order for the Venezuelan government to successfully resist the FTAA, they would need to combine its capabilities with the most powerful state in Latin America: Brazil. Venezuela found that they shared the goal with Brazil of at least indefinitely delaying and reforming the trade agreement. This strategy is not solely reflective of Venezuela’s views, as the rest of Latin America generally views Brazil as the region’s leader. Harris and Azzi (2006) write that Brazil has taken on this leadership role and “in certain circumstances [Brazil] has been able to alleviate some of the external pressures placed by the US upon the region’s weaker states” (p. 106). So, as the fourth and final stage of the FTAA negotiations began in 2002, Venezuela sought to strengthen its ties with Brazil.

The Chavez administration, although strongly opposed to the FTAA, clearly recognized it had little power to influence the implementation of the initiative unilaterally. President Chavez described his government’s position in an interview with Marta Hanecker (2005) when he was quoted as saying, “one week after my [first] election I was in Brasilia and I said: “Venezuela wants to integrate with MERCOSUR” (p. 127). In November 2003, President Chavez said “We are going to lead a battle” with Brazil at the upcoming FTAA negotiations (AP, “Venezuela refuses to accept free trade”). Within MERCOSUR, Brazil was also gearing up for the final stage of negotiations. The title of an article in Time Magazine correctly characterized the FTAA negotiations as “A David-vs.-Goliath trade battle” in which Brazil (David)
would face off against the US (Goliath) (Time, “Lula’s Next Big Fight”). However, Latin American states were not the only ones gearing up for the upcoming battle. Robert Zoellick, then the US trade representative, in response to Brazil’s growing opposition to the FTAA, threatened that if Brazil did not support the FTAA, it would “be reduced to exporting to Antarctica” (Rohter, 2003).

**Institutionalist Strategy**

In the final year of negotiations in 2005, MERCOSUR took a strong stance against the FTAA. A year before, in 2004, Venezuela had become an associate member of MERCOSUR. Venezuela’s associate member status enabled it to benefit from preferential trade treatment but without the ability to directly influence MERCOSUR’s external agenda. However, its associate status enabled Venezuela to demonstrate its similarity of goals with MERCOSUR’s full members.

Although some realists argue that “institutions are basically a reflection of the distribution of power in the world” (Mearsheimer, 1994/95, p. 7), this study illustrates that the effectiveness of negotiating as a bloc in challenging US interests made institutions an important tool in Venezuela’s foreign policy toolbox (Jiang, 2006).

In a unipolar world where one state obtains primacy in political-military and economic terms, there is little that weak states can do unilaterally against this great power. Weaker states such as Venezuela have found that in an increasingly institutionalized world, one way to counter US hegemony is through institutions. Through such institutions, Venezuela can benefit from the combined political and economic forces of the MERCOSUR and other blocs that seek to limit US power. A central premise of realism is that when one state maintains an extreme unbalance of power in its favor, it will be viewed as the ultimate threat in the international society. Walt (2005) in his book *Taming American Power*, outlines several strategies that states use to respond to unbalanced power in the international system. He argues that one way states attempt to right the balance is through “combining their capabilities with others” (2005, p. 120). Chavez illustrated this realist position on several occasions. He stated, “The twenty-first century should be multipolar, and we all ought to push for the development of such a world. So long live a united Asia, a united Africa, a united Europe” (Rohter, 2000). As the FTAA deadline drew nearer, President Chavez’ calls for a “multipolar” world became more frequent. In August 2005, President Chavez in a meeting with Iranian President Mahmud Ahmadinezhad, proclaimed “We are after a multipolar rather than a unipolar world” (BBC, “Iranian and Venezuelan presidents”). In a meeting to create preferential oil agreements with thirteen Caribbean countries, President Chavez said that “the new plan is part of a vision of a “multipolar” world no longer controlled by U.S. imperialism” (Associate Press, “Chavez oil deal in Caribbean”). Again, in October 2005, President Chavez along with French President Jacques Chirac shared their
vision for a multipolar world (BBC, “French president, PM “show support”). However, this does not imply that Venezuela was willing to combine capabilities with anyone. Instead, Venezuela has carefully chosen which countries to ally with not only due to its relative power capabilities, but also according to its affinity with the US.

In April 2006, Venezuela officially withdrew all ties from the regional trade bloc, the Andean Community (CAN). This trade agreement included Bolivia, Colombia, Ecuador, and Peru as its members. President Chavez stated publicly that the withdrawal was a response to other member countries (specifically Colombia and Peru) entry into free trade agreements with the US. Nearly seven months later, Venezuela’s foreign ministry announced the government’s withdrawal from the Group of Three (G-3) trade bloc with Colombia and Mexico. The official reason given by President Chavez was a result of the decision to focus “on the integration of MERCOSUR” (Associated Press, “Venezuela formalizes withdrawal from G-3”). However, upon closer examination, the decision to choose one institution over another emphasizes the realism that underlies Venezuela’s foreign policy. More specifically, the Venezuelan government has sought to strengthen its potential allies while weakening the allies of the US, Colombia, Mexico, and Peru, which did not share a similar goal of Venezuela. In other words, these states favored the implementation of the FTAA rather than its demise. More than this, the bargaining position of these two trading blocs is tremendously weaker than MERCOSUR’s.

Table 4 illustrates the combined GNIs of each trade bloc and the US.

<table>
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<tr>
<th>Trade Blocs &amp; United States</th>
<th>GNI (in millions of US dollars)</th>
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<tr>
<td>CAN</td>
<td>256,178</td>
</tr>
<tr>
<td>G-3</td>
<td>903,058</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>1,120,206</td>
</tr>
<tr>
<td>United States</td>
<td>13,446,031</td>
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</tbody>
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Source: World Bank, World Development Data Indicators database

Although the Group of Three’s combined GNI is close to that of MERCOSUR’s, its strongest member, Mexico, is the United States’ closest Latin American ally. For Venezuela, the original MERCOSUR members not only openly declared their similarity in goals but provided a better opportunity for Venezuela to complete its goal of defeating the FTAA.

In February 2005, Paraguayan Foreign Minister Leila Rachid noted that the members of MERCOSUR were negotiating a FTAA with every country except the US (BBC, “MERCOSUR negotiating on FTAA”). Along a similar tone, in April 2005, Brazilian President Lula da Silva remarked that the FTAA had been “taken off [Brazil’s] agenda (Associated Press, “Brazil’s Silva: Americas free trade zone “off the agenda” for South America’s largest economy). In November 2005, President Chavez had declared the FTAA
“dead and buried” (UPI “Venezuela: Chavez says FTAA is dead”). In a
desperate response, Mexico, the United States’ main ally in negotiating the
FTAA, floated the idea of a hemispheric trade agreement minus dissenting
countries, such as Venezuela. However, by December 2005, the United
States had lost interest in negotiating the FTAA. President George W. Bush
admitted a month earlier, in November 2005, that the FTAA had “stalled”
(AP, “Bush admits creation of free trade”). In other words, Venezuela along
with the other members of MERCOSUR had defeated a proposal by the
strongest state in the international system.

US Preoccupation in the Middle East
The second way the Venezuelan government was able to “defeat” the FTAA
was due to the United States focus on the Middle East. Although it has been
argued that the US has never really been interested in Latin America as a
whole (Grandin, 2007), the current Bush administration maintains a particular
interests in Venezuela’s internal and external affairs. President George W.
Bush acknowledged this by pledging to “look south, not as an afterthought,
but as a fundamental commitment of my presidency” (p. 211). However, the
horrendous events of September 11, 2001, changed all of that. By 2003, the
United States government was tied down in two wars, and by 2004 lacked
the effort to confront or deal with the various challenges that arose from
several Latin American states opposition to their unilateral strategy to invade
Iraq. Although the US did not pursue a full fledged fight for the FTAA, it
did resort to polarizing Latin America’s opposition. David Cloud (2005) in a
New York Times article described a visit by Donald Rumsfeld in Latin America
as a “throwback feel of a mission during the Cold War” (Cloud, 2005). The
reporter also recorded what the US government saw as the main security
threat in Latin America: “leftist insurgencies and Communist infiltration.”
The two states that constituted a preeminent threat to the United States
interests were Venezuela, and of course Cuba. How are these statements
perceived by the Venezuelan government? What would we expect from a
state that has been labeled in the same category as Afghanistan, Iraq, Iran,
Libya, North Korea, and Sudan?

As President Chavez and the four other member presidents celebrated the
entrance of Venezuela into the MERCOSUR in the capital city of Caracas,
each president expressed his optimism, dreams, hopes and fears of the future.
President Chavez discussed the importance of MERCOSUR in the twenty-
first century, stating:

If we apply free trade between Brazil and Uruguay (or Paraguay or
Venezuela), the small Uruguay will disappear...We are talking about
fair trade...That’s why we don’t want to go to the FTAA (Free Trade
of the Americas) (Fox, 2006, p. 1).

As President Chavez stated, MERCOSUR was effective in challenging the
United States’ economic superiority. However, Venezuela’s pursuit of full
membership in MERCOSUR is only one strategy of the government’s overall foreign policy. It can be argued that the Venezuelan government, according to the open hostility of the US government, is convinced that the US is intent on regime change. There is evidence that illustrates US support for the attempted military coup against Chavez in April 2002 (Golinger, 2006). As a result, the battle against the US is perceived by the Chavez administration as one for survival. This is evident in the Chavez government’s ties not only with potential global powers, but with all governments that are opposed to the US ideology. Chavez has supported Iran, Libya, and, the archenemy of the United States: Cuba. Chavez attempts to label this occurrence as purely a result of interstate competition, but in general it reflects a commitment by President Chavez to create a world that enables his government greater flexibility to create its own future.

Security Concerns
Another strategy the Venezuelan government employed is illustrated in its response to the threat of US-style globalization and its covert support for the demise of the Chavez administration. Venezuela has sought to modernize and increase the size of its military forces to deal with these threats. At the end of 2004, Chavez visited Russia and announced a deal to purchase over 100,000 rifles, and by November 2005 the Venezuelan government had received 30,000 of them along with three helicopters (Associate Press “Venezuela to Receive 30,000”). Then in February 2005, Venezuela announced a deal with the Brazilian government to buy Tucano patrol aircrafts (Latin America Weekly Report “Brazil-US: Reacting to Veto on Aircraft Sales”). The invasion of Iraq by the US signified that Venezuelan’s archenemy was willing to use military force in order to defeat states on the growing ‘axis of evil’ list (Copley News Service, “Too many countries qualify for Axis of Evil slot”). However, the increase in military purchases may not solely be a response to faraway threats. Venezuela’s neighbor, Colombia, is the third largest recipient of US military aid (Canadian Business and Current Affairs, “America’s other war”). Recently, the US government approved US$55 million to be released to the Colombian government to fight terrorist elements within its country (Agence France Presse, “US frees 55 million dollars”). In the realist view, Venezuela’s motivation to become a full member of MERCOSUR is shaped by the international, not domestic, structures of the international system.

Limitations
Time constraint was the primary limitation of this study, which was limited to a single rather than a multiple case-study. One drawback was the inability to generalize Venezuela’s motivation to regionally integrate to other cases of regional integration. Additionally, the researcher’s limited fluency in Spanish and Portuguese resulted in cumbersome and time-consuming translation
methods of several key official documents and other relevant reading materials.

CONCLUSION

As the Cold War came to an end, there were several cheers for the apparently diminished relevancy of traditional power politics as a guide for future interaction among states. The demise of the Soviet Union, it was argued, would bring forth peace and prosperity due to a reduction in global violence that accompanied the two superpowers competition. Fukuyama (2006) famously stated that with the end of the Cold War, the world was witnessing “the end of history” in which “the universalization of Western liberal democracy as the final form of human government” (p. 16). Present George H. W. Bush, the first person in all of human history with the ability to truly be a world leader with the capabilities to shape the globe in its image, envisioned a “new world order” in which liberal idealism rather than realism would determine the future. The developments that occurred during his administration in Latin America generally seemed to have verified these assumptions. By the early 1990s, nearly all of the Central and South America governments were democratically elected and their economies closely followed the free market neoliberal economic policy prescriptions. In Venezuela, democracy had reigned uninterrupted for nearly 40 years and the “invisible hand” was clearly the director of the economy.

If the trends in the early 1990s were enough to call for a new world order and represented the demise of realism, the turn of the century, it is assumed, clearly marked the death of traditional power politics thinking. Walt (1998) correctly identified the sentiment among international relations scholars as he describes that “the end of the Cold War led a few writers to declare that realism was destined for the academic scrapheap” (p. 35). Similarly, Legro and Moravcsik (1999) in the title of their article asked, “Is Anybody Still a Realist?” The central argument of this study, Venezuela sought to strengthen its bargaining position against the United States by combining the capabilities of MERCOSUR, demonstrates that states still act within a realist framework. This study illustrated that while those who share different interpretations of international politics can help explain some state behavior, however, they cannot stand alone. The same can be said for realist theory as this study borrows heavily to support the study’s main argument from its primary challenger: neoliberal institutionalism. Nevertheless, the realist theory provides a better context in which to understand Venezuela’s behavior in the international system.
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