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# MERCOSUR and the Brazilian Leadership Challenge in the Era of Chinese Growth: A Uruguayan Foreign Policy Perspective

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**Abstract:** In recent years, China has expanded its presence in Latin America leading to increased trade flows, foreign direct investment, and bilateral cooperation agreements. At the same time, Brazil has attempted to emerge as a global player from its belief in itself as a regional leader. While both countries are part of the emerging South, they are also competing for influence in the South American area. We hypothesize that for MERCOSUR members, deepening commercial ties with China would be a viable option to counterbalance Brazil's regional leadership, using Uruguayan legislators preferences as a tool for our study. Using logistic models, we conclude that that the probability of supporting a hypothetical free trade agreement with China is larger when politicians viewed MERCOSUR as an obstacle to the interests of his or her country and when he or she had doubts about Brazilian *de facto* regional leadership. This empirical evidence allows us to reflect on the political consequences of free trade agreements, on Brazil's leadership in South America, and Brazil-China relations from the perspective of South-South relations in general.

**Keywords:** MERCOSUR-China relations, FTA with China, Uruguayan Foreign Policy Brazilian leadership

## Introduction

The rise of China in Latin America is not a new phenomenon (Jörn and Goodman 2012). While Brazil is said to be experiencing a crisis of leadership in its own sphere of influence due to the country's failure to provide leadership goods after

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Lula's second mandate (Burges 2015), China has proven willing to offer economic gains to South American countries in exchange for improving bilateral relations (Strüver 2014). Is China a competitor for Brazilian leadership in South America? Through a novel dataset on the legislative preferences of Uruguayan legislators, we attempt to determine – at least for the Uruguayan case – whether China and Brazil are seen as competing models of leadership in South America. This question poses policy implications concerning the increasing economic role that China is playing in the Southern Common Market (MERCOSUR) and the perception of Brazil by its neighbors. China, which is already a competitor for Brazil domestically (Jenkins 2012; Urdinez 2014) is becoming a competitor regionally, as well (Jenkins 2014). Drawing special attention to regional power rivalries and a relative resource deficit, Malamud (2011) has defined Brazil a “leader without followers”, or a country that is likely to fashion itself as a middling global power before gaining recognition as a leader in its own region. Here, other authors have highlighted Brazil's difficulty in being the *de facto* regional leader (Burges 2015; Flesmes and Wehner 2015). Brazil has eschewed the power-political game that is central to realist theory (Hurrell 1998), acting instead as a “consensual hegemon” that creates consensus through the inclusion of seemingly contradictory priorities that work to shape positive outcomes (Burges 2008).

Despite Brazil's newfound global status in recent decades, scholars are divided on the role the country plays regionally. Some have argued on the affirmative side that Brasilia is the current regional leader because it possesses the will to assume the costs of a regional paymaster and enjoys acceptance by its counterparts (Saraiva 2010; Pinheiro and Gaio 2014). The more dubious approach suggests that Planalto is not prepared to assume the costs of such leadership (Flesmes 2009; Burges 2015) as its position would also be contested by other middle powers in the region (Flesmes and Wojczewski 2010). We argue that external powers could contest the Brazilian position. The United States (USA) historically played this role, whereas China is the contemporary challenger (De Oliveira 2012).

Uruguay, with only 3.4 million people, is highly dependent on foreign markets, and trade represents 52% of its economy<sup>1</sup>. The country has long requested that the two largest members of the MERCOSUR, namely Argentina and Brazil, support access to new markets through, on the one hand, the advancement of FTA negotiations between the block and the European Union (EU) and, on the other hand, greater flexibility in the so-called FTA clause (clause 32/00), which would allow members to freely negotiate bilateral treaties

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1 Measured through an openness index:  $(X_t + M_t)/GDP_t$ . Data retrieved from World Bank Data, at <http://data.worldbank.org>

with other countries.<sup>2</sup> Currently, we argue, Uruguay is the member that is most willing to push the agenda of making MERCOSUR a more flexible institution in terms of trade integration.<sup>3</sup>

Although the USA has historically been the most attractive market for Uruguayan governments, China is also an appealing alternative. In 2006, the president of the Chinese National Assembly, Wu Bangguo, visited Uruguay and began discussions toward pursuing a bilateral negotiation for deeper relations. Both governments signed three agreements: a Chinese preferential loan of 220 million yuan (over US\$ 27 million) and two agreements concerning economic and technical cooperation for 20 million and 10 million yuan, respectively (US\$ 2.5 million and US\$ 1.2 million). During that visit, President Tabaré Vázquez said, “It is virtually agreed that a Joint Commission between the two countries will begin to study mechanisms to improve trade between Uruguay and the People’s Republic of China”.<sup>4</sup> Since then, the Joint Commission has advanced trade negotiations through several bilateral meetings in Montevideo and Beijing.

During President Wen Jiabao’s visit to South America in 2012, he expressed great interest in discussing an FTA with MERCOSUR members.<sup>5</sup> At that time, Uruguayan president José Mujica argued that “[...] we all know what China means and we should not be ashamed of saying it: the great big buyer and seller of our time”.<sup>6</sup> What Mujica did not say is that every FTA that MERCOSUR had negotiated as a block with large economies had stagnated due to internal discussions among Member States. Would it be possible to negotiate an FTA with China bilaterally? What influence would Uruguayan policymakers’ perceptions of MERCOSUR and Brazilian leadership have? In particular, we are interested in the perception of Brazil as a regional leader and of MERCOSUR as a political project worthy of commitment.

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<sup>2</sup> An example of this is the waiver given to countries belonging to the Latin American Integration Association (LAIA) to sign trade agreements, which led to FTA negotiations between Mexico and Uruguay.

<sup>3</sup> There is a debate in the literature on the progress made by MERCOSUR in the process of integration among its members. Although authors cite a rigidity crisis in trade integration, they also mention the progress made in areas such as infrastructure, social issues and political rights (Carranza 2003; Paiva and Gazel 2003; Arieti 2005; Malamud 2005; Caetano 2011; Doctor 2013; Gómez-Mera 2014; Carranza 2014; Baer and Elizagaray 2014).

<sup>4</sup> The declaration was taken from the Presidency website: [http://archivo.presidencia.gub.uy/\\_Web/noticias/2006/08/2006083014.htm](http://archivo.presidencia.gub.uy/_Web/noticias/2006/08/2006083014.htm), accessed on May 2015.

<sup>5</sup> By that moment China had signed three FTAs in Latin America: with Chile (in force since 2006), Peru (in force since 2010) and Costa Rica (signed in 2011) (Dosch and Goodman 2012, 9).

<sup>6</sup> Declaration taken from La Nación (Argentina) (26/06/2012). China asks Mercosur for a free trade agreement. Available at: <http://www.lanacion.com.ar/1485264-china-plantea-al-mercosur-un-acuerdo-de-libre-comercio> (accessed 06/05/2015).

The structure of the paper is as follows: In the next section, we discuss the recent history of Uruguay's foreign policy in light of its membership in MERCOSUR and its search for partners outside the region. We then develop our hypotheses, relying on the International Political Theory literature. Thereafter, we explain our empirical strategy and describe our dependent and independent variables. We capture legislators' perceptions through an extensive survey. The empirical results are then presented and discussed. We conclude the paper with theoretical reflections and policy discussions.

## Trapped Between “Openness to the World” and “Commitment to the Region”

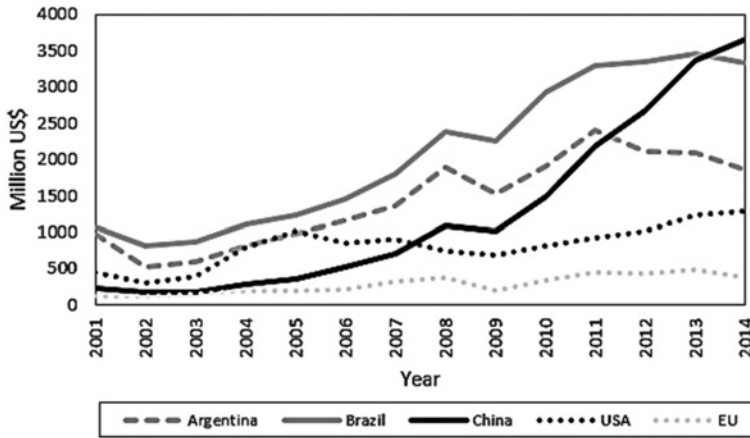
Although MERCOSUR has previously considered FTAs with the USA and EU,<sup>7</sup> China has become a major foreign actor due to its increasing economic relevance. In Uruguay, for example, in less than 15 years, China went from the country's 4th to 1st trade partner and, as reflected in Figure 1, trade with China has grown at a faster pace than that with Argentina, Brazil, the EU or the USA in the last decade. In 2014, trade with China was 2.7 times larger than that with the USA and 10 times larger than that with the EU, and China was Uruguay's most important trade partner for both exports and imports, followed by Brazil – its historical main market – and this trend is expected to continue in coming years (UN Comtrade, 2015).

In 1999, the devaluation of the Brazilian currency started a crisis among MERCOSUR countries. In Argentina, the economic crisis led to the worst political and institutional crisis in the country's history, and in Uruguay, the crisis also had a marked social impact. The strategy developed by the Member States of MERCOSUR was to re-launch the integration process with the aim of creating an operational common market, an objective that had been postponed since 1991. In this context, in June 2000, the Common Market Council (CMC)<sup>8</sup> approved

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<sup>7</sup> Between 1992 and 1995, progress was made in negotiating an FTA with the EU, which later stagnated, and in 2015 – as of this writing – the negotiations continue. Furthermore, in 1991, seeking to move towards an FTA with USA, the Rose Garden Agreement was signed (also called the “4 + 1 agreement”) within the framework of the Enterprise for the Americas Initiative, a program intended to increase hemispheric trade, released by President George H. W. Bush in 1990.

<sup>8</sup> This is one of the three decision-making bodies of MERCOSUR. It has decision-making authority over important issues and is composed of the Foreign Ministers and Finance Ministers of the Member States.



**Figure 1:** Uruguay's bilateral trade with its main partners.

Source: Comtrade, 2015.

decision 32/00 (referred as “FTA clause”). Article 1 reaffirmed “[...] the commitment of Member States of MERCOSUR to jointly negotiate agreements of a commercial nature with third countries (or groups of countries) outside the zone in which tariff preferences are granted”, and Article 2 stated that one year after the approval of the “FTA clause”, the “[...] Member States may not sign new agreements [...] which have not been negotiated by MERCOSUR.”

There is a normative discussion regarding the capacity of enforcement of Decision 32/00 because it was not incorporated into the domestic legal systems of any of the MERCOSUR Member States. In sum, those who seek greater flexibility claim that the “FTA Clause” is not applicable for incorporation into national legislation. However, those in favor of MERCOSUR insist on the political importance that the clause has for the integration process. The debate between these different visions continues.

In December 2001, China formally became a member of the World Trade Organization (WTO), which had a substantial impact on its integration into the world economy in the following years (Ianchovichina and Martin 2001). However, it was not until five or six years later that China surpassed the USA as Uruguay's third main trade partner, and the increasing role played by China in the Uruguayan domestic economy coincided with a declining influence exerted by the USA in the domestic political debate. Before then, the USA was Uruguay's only serious alternative to Brazilian leadership in the region.

From 2000 to 2005, the Uruguayan government was in the hands of the liberal Colorado Party (PC). During his tenure, President Jorge Batlle increased

Uruguay's openness to free trade by approaching the USA and distancing the country from MERCOSUR. That foreign policy failed to achieve consensus in the political arena. His campaign for free trade led him to take advantage of a waiver granted by MERCOSUR to its members to sign trade agreements with member countries of LAIA. In this context, in 2003, Uruguay signed an FTA with Mexico.<sup>9</sup> With the leftist Frente Amplio (FA) occupying the presidency in Uruguay after President Batlle's term, the Uruguayan government expressed its opposition to the Free Trade Area of the Americas (FTAA) during the Fourth Summit of the Americas and aligned with MERCOSUR under Brazilian leadership.

However, between 2006 and 2007, Uruguayan discomfort with MERCOSUR increased. A bilateral dispute with Argentina over the installation of cellulose processing plants on the Uruguay River margin (the border between the two countries) was the main reason for this discomfort (Payne 2011). In an attempt to resolve the dispute, Uruguay moved closer to Brazil by calling for greater Brazilian involvement to resolve the dispute, which did not occur. In a move that International Relations theory would characterize as a classic bandwagoning strategy (Waltz 1979), the FA, counting on a parliamentary majority, evaluated the possibility of signing an FTA with the United States and abandoning the regional block.

The proposal came from the more centrist wing of the FA, led by Economy Minister Danilo Astori, who initially had the support of President Vázquez and the favorable opinion of the business sectors and the opposition parties. The left wing of the FA, led by the Foreign Minister Reinaldo Gargano, combined trade unions and a set of neo-developmentalists intellectuals who opposed the proposal. Fears of economic retaliation from Argentina and Brazil influenced the decision. Finally, the president ended the negotiations under the justification that the proposed terms were not beneficial for the country (Garcé 2014).

As trade increased (see Figure 1), China began to be considered an appealing partner, particularly because efforts to strengthen ties with the USA had already proven to be a failure. In 2009, Uruguay recognized China as having Market Economy Status within the WTO during President Vázquez' official visit to Beijing. Between 2013 and 2014, under the government of José Mujica, Uruguay began to discuss the possibility of Uruguay becoming a full member of the Pacific Alliance, an alternative that would give Uruguay greater access to the Pacific, and in particular, to the Chinese market.<sup>10</sup> The proposal, as in the

<sup>9</sup> AAP CE No. 60 within the framework of LAIA.

<sup>10</sup> Despite China being merely an Observer and not a full member. The Member States are all Latin American countries with coastlines on the Pacific Ocean: Chile, Colombia, Mexico and Peru.

case of the FTA with the USA, was promoted by then Vice President Danilo Astori, leader of the centrist wing of the FA. Both the National Party (PN) and the PC, together with the business sector, considered this a beneficial proposal. The left wing of the FA objected, insisting on the importance of respecting the rules of MERCOSUR and the costs of political isolation from Argentina and Brazil.

Currently, there are two opposing viewpoints within the FA. The left wing of the FA, favoring regionalism, leans towards Brazilian leadership and encourages South-South relations. The center-right wing of the FA, by contrast, supports a model of “open regionalism”, a euphemism that means more flexible rules within MERCOSUR to allow bilateral negotiations of trade agreements with third countries. The right-wing parties, PN and PC, advocate for relaxing the block’s “FTA clause”, and among its most radical members, leaving MERCOSUR is a tempting idea (López Burian 2015).

The current political debate in Uruguay on international insertion focuses on “openness to the world” versus “commitment to the region”. In the FA government program for the period 2015–2020, China is described as an actor of great importance, both commercially and politically, at the international level.<sup>11</sup> Overall, it is described as an attractive partner, but potential asymmetries and the importance of maintaining political and economic sovereignty during negotiations is also highlighted.<sup>12</sup> China went from being an insignificant partner to the main trade partner through its active engagement in the region in terms of trade, foreign investments and financing (Urđinez et al., 2015). Could this translate into policymakers perceiving China as an alternative to Brazilian leadership?

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**11** “China participates in the main international organizations – both economic and political – on an equal footing with other powers. We regard a China growing in Africa, where it is the main economic partner, a China that expands its Foreign Direct Investment in Southeast Asia, and a China that is increasing the dynamism of the economies of Latin American countries. In this regard, the relationship with China must account for the principles of fairness and respect for political and economic sovereignty. China must understand its new role as a promoter of the global economy, as a new factor of equilibrium between powers and as an alternative to enable mutual growth. Commercial, cultural, touristic, political and military agreements with China must be mutually advantageous and recognize the asymmetries between the two “(FA 2014, 140–41).

**12** “Any negotiation to conclude bilateral or multilateral trade agreements should ensure the needs and objectives of national development. The terms on which they agree to negotiate in areas such as competition rules, government procurement, intellectual property, services or technical barriers to trade should not impair the country’s sustainable development, its labor sources or its power to implement public policies. Particularly, it should not affect the strategy of integration that has been taking place, especially our priority of belonging to MERCOSUR” (FA 2014, 146).

## Definition of Hypotheses

This paper will understand foreign policy decisions as a two-level game. This implies that domestic politics condition (and are conditioned by) foreign policy. The actors, in both arenas, are individual or collective. These actors formulate goals that guide their strategy, rationally using their resources to implement it. Furthermore, they are interrelated within institutional frameworks, which define both formal and informal rules (Acuña and Chudnovsky 2013). From these definitions, countries' preferences are expressed by an array of actors: political parties, their factions and their legislators, are major domestic players in the Uruguayan case. The reason is that in Uruguay, the Foreign Service is not an isolated bureaucracy; hence, corporations, unions and business actors use political parties as the main agents for mediating and representing their interests.

Reviving Ikenberry's (1996) classic definition of leadership, a regional leader must: (a) possess the aspirations and resources necessary to assume such a position; and (b) enjoy recognition and acceptance from its neighbors, especially by other regional middle powers, which are the only ones that could counter-balance its power. Using this definition as a guide, we analyze if Uruguayan policymakers recognize Brazilian leadership *vis a vis* the material goods China provides the small nation. From a constructivist standpoint, the idea of leadership is not merely a title but a construction that depends on both the leader's own aspirations and the recognition of its followers. As Wehner (2015) puts it, to lead means that the leader's initiatives are based on a symbolic legitimacy that exceeds its material capabilities, which in turn would explain why other regional nations consent to be led. When we apply this thinking to our own analysis, we argue that Brazil's role does not exclusively depend on its self-awareness as the dominant material power in the region. It also depends on other nations' perceptions of itself, specifically whether or not the other regional actors recognize Brasilia as holding this specific status. In addition, Brazil's functionality as a leader depends on whether the secondary powers either support or resist its desire for greater global power (Wehner 2015, 438).

We have reasons to theorize that the perception a legislator has of Brazilian leadership will influence the likelihood of supporting an FTA with China. Brazil emerged in the last two decades as the most powerful country in South America, economically and politically (Schenoni 2014) which raised great interest among International Relations scholars.<sup>13</sup> At the height of its international projection

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<sup>13</sup> The literature on Brazilian leadership peaked in 2010 but has steadily diminished since then which, we assume, is a sign that the idea is now being revisited by scholars (see Appendix 1).



during Lula's government (2003–2011) it attempted to promote IBSA forum (de Oliveira and Onuki 2010; [Schor 2014](#)), interfere as a mediator in the Iranian nuclear program (Jesus 2012), and even get a seat in the Security Council of United Nations (Mendes 2015) In recent years, however, China has been regarded as a natural competitor of Brazil in South America, the latter's area of natural influence ([Vadell 2013](#); [Jenkins 2014](#); [Borges 2015](#)) and China represents a potential partner for Uruguay to balance against Brazilian influence (Waltz 1979; Genna and Hiroi 2005; [Merke 2015](#)). China, at the same time, has used trade agreements and its economic weight as a strategy of Soft Power (Houlden and Schmidt 2014).

The role attributed to Brazil in the regional integration process also has normative implications. For example, Brazil has been identified as the leader in the South American region ([Saraiva 2010](#)) the exponent of a “post-liberal regionalism project” in South America ([Sanahuja 2010](#)) and a country that could improve the “regionness” in South America ([Hettne and Söderbaum 2006](#)). For all these reasons, a congressman in favor of Brazilian leadership could be considered less likely to support any initiative that could potentially hamper this leadership.

The first hypothesis we want to test is

*H<sub>1</sub>: those who disagree with the affirmation that Brazil has to be the regional leader will be more likely to support an FTA with China because most will regard it as an opportunity to balance against Brazilian power in the region.*

We assume that regional economic integration produces winners and losers ([Venables 2003](#)), and such losers are willing to break their commitment to remain members of an agreement if the benefits of doing so exceed the costs ([Milgrom and North 1990](#); [Chayes and Chayes 1993](#); [Greif 1993](#)). Given the lack of formal enforcement within MERCOSUR, the costs of breaking the rules remain primarily political ([Levy 1997](#); [Grossman and Helpman 1995](#); [Mansfield and Milner 2012](#)). From an economic perspective, it is clear that Uruguay would largely benefit from an FTA with China. [Baier and Bergstrand \(2007\)](#) found empirical evidence that, on average, an FTA approximately doubles two members' bilateral trade after 10 years. If such an agreement were reached in our case, China would surpass Brazil as Uruguay's main trade partner in a few years. From a political standpoint, leaving MERCOSUR would be costly for Uruguay, and Brazil would be seen as a weak leader in the Southern Cone.

There are also domestic costs to be considered. Suppose that an opportunity arises for these two countries to sign an FTA in the near future. Would such an agreement be politically viable? [Grossman and Helpman \(1995\)](#) argue that when an FTA reduces many or all (bilateral) tariff rates to zero, the negotiations pit the

export interests in a country directly against the import-competing interests in the same country. The potential exporters covet preferential access to the partner's market, whereas the import-competing industries seek to preserve their protection by scuttling any agreement. This argument is in line with [Rogowski \(1989\)](#), who argues that increasing exposure to trade resulting from an FTA must result in urban-rural conflicts in economies that are abundant in land but scarce in capital and labor, such as Uruguay. Overall, the negotiation of an FTA is expected to produce political conflict among domestic economic sectors, which is likely to affect the negotiation.

Furthermore, the incumbent government is in a position to set trade policy, which means that it can either work toward a FTA or terminate the discussions. Politicians may receive contributions from the various interest groups hoping to influence its decision. Politicians value these contributions – because they improve politicians' re-election prospects or for other reasons – but they also may care about the well being of the average voter (Grossman and Helpman 1995). The tradeoff between representing the interests of the average voter and benefiting particular interests is key to understanding the behavior of each legislator. This means that, apart from a purely economic cleavage, as described by [Rogowski \(1989\)](#), we can expect to find a political cleavage between incumbent and opposition parties.

In the same direction, according to Mansfield and Milner (2012), trade agreements are often motivated by domestic political conditions. Political leaders focus on how trade agreements can reassure the public and domestic groups about their decision-making, but they also worry about domestic costs involved in ratifying agreements. A central domestic political cost of signing a preferential trade agreement involves the ratification process. For an agreement to occur, governments and certain domestic groups have to believe that reaching an accord is preferable to the lack of one. The ratification cost can be directly inferred from legislators' preferences. How can we capture their perceptions of the costs of negotiating an FTA with China?

[Levy \(1997\)](#) proposed a scenario in which a simple majority of voters is required to pass a proposal. Agents are presented first with a potential bilateral FTA and then with a multilateral FTA. Each potential agreement offers agents new equilibrium prices and product varieties. They will approve a bilateral agreement only if it is (a) preferable to a multilateral arrangement because it leads to higher welfare, or (b) if the bilateral agreement will not prevent the adoption of a preferred multilateral agreement. Because the second condition is not possible in MERCOSUR due to Clause 32/00, legislators will only consider a bilateral FTA if the benefits for representing interest groups are sufficiently large or if the legislators expect to benefit politically when they know that the FTA will

provide the median voter with disproportionately large gains with relatively small losses. By asking legislators about MERCOSUR membership costs and the personal costs of supporting FTA negotiations based on their constituency and their party, we can infer the political determinants of supporting this negotiation.

Derived from the classical literature we have discussed, we propose as a second hypothesis:

*H<sub>2</sub>: the worse the opinion of a congressperson regarding Uruguay's benefits from being a MERCOSUR member, the more likely he/she will be to support an FTA with China.*

There is also a set of auxiliary hypotheses that we wish to test:

The probability of supporting a bilateral FTA with China is conditioned by whether the legislator is a member of the incumbent party because the incumbent party has the power to advance the agenda and because a legislator from the incumbent party will face the costs of MERCOSUR member retaliation (H<sub>3</sub>); right-wing congressional representatives are more open to FTAs than left wing congressmen because they are aligned ideologically with the agribusiness export sectors, which would gain from increased access to Chinese buyers (H<sub>4</sub>); legislators from urban areas (in Uruguay, these are mainly in Montevideo, which has approximately 40% of the country's population) are less likely to support an FTA with China because they are more sensitive to pressures from local small industrialists who would be substantially harmed by Chinese imports (H<sub>5</sub>).

## Research Design

Although foreign policy in Uruguay is a constitutional responsibility of the Executive Branch, the Congress has an important role in the policy-making process in foreign affairs. The latter can constrain the actions of the Executive, and if it reaches the necessary majority, it can vote to censure the Minister of Foreign Affairs' actions. If this happens, the President has two institutional options: to remove the Minister or dissolve Congress and call new elections. In addition, the Congress ratifies international treaties signed by the executive branch; thus, it can block them by not passing them. This makes party discipline a key aspect of the success of foreign policy.

In Uruguay, parties and coalitions exhibit a high degree of party discipline because of the institutional resources that party leaders possess to control the behavior of legislators in parliament (Chasquetti 2014). Although member of the

FA's centrist wing represent the majority in the Executive Branch, the left wing has a majority in both houses of Congress.<sup>14</sup> Therefore, the balances among the three top leaders (President Tabaré Vazquez, the Minister of Finance Danilo Astori, and Senator and former President Jose Mujica) are key to party discipline. The FA has an adjusted majority, and hence a lack of party discipline by a single legislator would mean a minority in Congress. Building consensus within the FA in this area is complicated and has a history of conflict. The attempts to sign an FTA with the United States and Uruguay's entry as a full member of the Pacific Alliance did not reach the level of consensus needed for approval; internal conflict was intense, and it was decided not to advance these issues to preserve party unity.

To answer our research question, we conducted a survey of Uruguayan congressional representatives. The survey was administered between June 15 and December 27, 2013, a period during which there were no major external shocks that could have biased the answers.<sup>15</sup> During this period, we were able to obtain responses from 125 of the 130 members of congress, representing 96 % of our universe.<sup>16</sup> As Uruguay does not record nominal votes, the best alternative way of measuring their preferences on foreign policy issues is by directly targeting them through a survey.

Our dependent variable was operationalized using the responses to the following question: "Would you be willing to strengthen the bilateral relationship with China, regardless of regional considerations, by signing a free trade agreement?" The response distribution for this question was 44.3% positive answers and 55.7% negative answers. As independent variables, we considered (a) a question regarding Brazil being a leader worth following; (b) two indicators of the legislator's opinion about MERCOSUR: one regarding the importance Uruguay should accord to MERCOSUR and another regarding the block's influence over Uruguay; (c) a question regarding each legislator's ideology on a scale

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**14** An indicator of the fractionalization of Uruguayan parties in Congress shows that PN and the PC have two fractions each, whereas the FA has four, which behave, at various times, like two separate wings. FA has a greater fractionalization and a greater ideological distance, and hence the wings of FA differ in their positions concerning the international economy and have greater difficulty achieving consensus than other parties (López Burian 2015). This indicator is a measure proposed by Daniel Buquet (2000), analogous to the effective number of parties (NEP) prepared by Markku Laakso and Rein Taagepera (1979), which makes it possible to count the number of relevant parties, in this case, among parliamentarians. It is calculated by dividing one by the sum of the squares of the ratios (in this case, seats) of fractions. Its formula is  $NEP = \frac{1}{\sum p_i^2}$ .

**15** We hired 15 political science graduate students to administer the questionnaires.

**16** Representing 30 of the 31 senators (97%) and 95 of 99 deputies (96%).

ranging from 1 to 10, with 1 being extremely leftist; (d) variables for the party each legislator belongs to; and (e) interaction terms between ideology and partisanship. The descriptive statistics of our variables are presented in the Appendix 2.

Because our dependent variable is dichotomous, we estimated a logistic model. Before analyzing the results, we ensured that robust and non-robust standard errors did not differ substantially, tested for specification errors to determine whether we had omitted relevant variable(s) or our link function was not correctly specified, and ran collinearity diagnostics. We tested our hypotheses using six different model specifications as will be further detailed in the next section.

## Empirical Results

The regression results are presented in Table 1. The coefficients are presented as marginal effects. We specified six models, presented such that variables are added to the baseline model to test the two main hypotheses and identify the model with the best fit. Apart from coefficients, we report Pseudo  $R^2$  and Akaike's information criterion (AIC) as measures of the goodness-of-fit of each model.

Model 1 tests our two main hypotheses without controls. Regarding the first hypothesis, of those who believe that Uruguay should prioritize the region and follow Brazilian leadership, have a 59% likelihood of supporting strengthening the bilateral relationship with China, regardless of regional considerations, by signing an FTA, *ceteris paribus*. As shown in Figure 2, legislators consider China to be the second-most influential player in Uruguayan foreign policy, just behind Brazil and ahead of the United States and the EU. This is not a minor finding considering that the Uruguayan government could regard an FTA as a future strategy to counterbalance Brazilian power to obtain something in return.

Regarding our second hypothesis, we considered two different independent variables. A dummy variable takes value 1 if the legislator believes that MERCOSUR should be the priority of foreign policy, and a continuous variable ranges from 1 to 10 according to the degree of influence that MERCOSUR should have in determining Uruguayan foreign policy. Both are statistically significant and confirm our hypothesis: if a legislator believes that MERCOSUR should be the foreign policy priority, his/her probability of supporting strengthening the bilateral relationship with China, regardless of regional considerations, by signing an FTA is 62%, whereas the more influential MERCOSUR is perceived to be

**Table 1:** Logistic regression models.

|   | (1)                 | (2)                 | (3)                 | (4)                 | (5)                 | (6)                 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| MERCOSUR is a priority                    | -0.29**<br>(-2.63)  | -0.38***<br>(-4.29) | -0.38***<br>(-3.67) | -0.44***<br>(-4.13) | -0.38***<br>(-3.28) | -0.41***<br>(-3.43) |
| MERCOSUR's influence                      | -0.062*<br>(-2.42)  | -0.029<br>(-1.05)   | -0.012<br>(-0.42)   | -0.03<br>(-0.96)    | -0.02<br>(-0.56)    | 0.01<br>(0.32)      |
| Brazilian leadership                      | -0.59***<br>(-6.92) | -0.46***<br>(-3.80) | -0.32*<br>(-2.12)   | -0.33*<br>(-2.16)   | -0.34*<br>(-2.11)   | -0.34*<br>(-2.11)   |
| Congressperson's Ideology                 | -                   | 0.23***<br>(3.55)   | 0.04<br>(0.57)      | 0.08<br>(1.09)      | 0.19<br>(1.93)      | 0.15<br>(1.47)      |
| Incumbent party (FA)                      | -                   | -                   | -0.66***<br>(-5.42) | -                   | -                   | -                   |
| Opposition party (NP)                     | -                   | -                   | -                   | 0.65***<br>(5.43)   | 0.91***<br>(8.94)   | 0.86***<br>(5.53)   |
| Opposition party (CP)                     | -                   | -                   | -                   | 0.46**<br>(2.76)    | 0.90***<br>(15.79)  | 0.94***<br>(16.20)  |
| Urban area representative                 | -                   | -                   | -                   | -0.04<br>(-0.31)    | -0.05<br>(-0.37)    | 0.002<br>(0.02)     |
| Opposition party (NP) × Ideology          | -                   | -                   | -                   | -                   | -1.43<br>(-1.43)    | -0.83<br>(-0.83)    |
| Opposition party (CP) × Ideology          | -                   | -                   | -                   | -                   | -0.50**<br>(-2.96)  | -0.67<br>(-1.87)    |
| Current relations with Chinese government | -                   | -                   | -                   | -                   | -                   | -0.05<br>(-0.05)    |
| Observations                              | 116                 | 114                 | 114                 | 114                 | 113                 | 97                  |
| Pseudo R <sup>2</sup>                     | 0.25                | 0.41                | 0.51                | 0.50                | 0.53                | 0.55                |
| AIC                                       | 127.3               | 101.2               | 87.1                | 94                  | 92                  | 81.5                |

Marginal effects at the means; standard errors in parentheses. Note regarding significance: \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .

for Uruguayan foreign policy, the less likely a legislator is to regard China as a means of balancing against Brazilian leadership (see Figure 3).

Model 2 differs from Model 1 in that it includes a control for the congressional representative's ideology. This variable is positively associated with our dependent variable, which means that without controlling for party membership, the more rightist a legislator is, the more likely he/she is of supporting a move towards China. Consistent with Model 1, those who believe that Uruguay should prioritize the region and follow Brazilian leadership and those who believe that MERCOSUR should be the foreign policy priority are less likely to support strengthening the bilateral relationship with China.

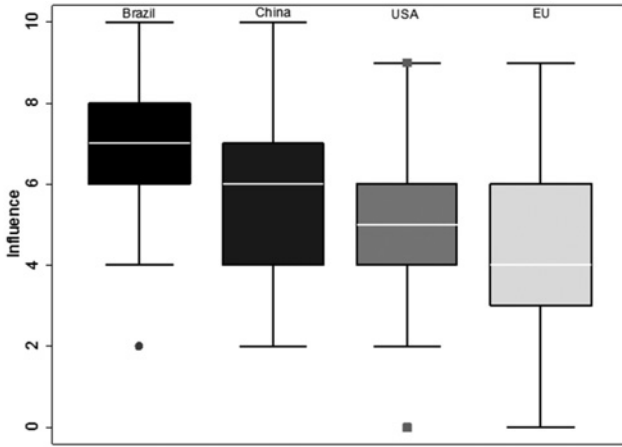


Figure 2: Box plots of the influence per country. Source: Elaborated by the authors.

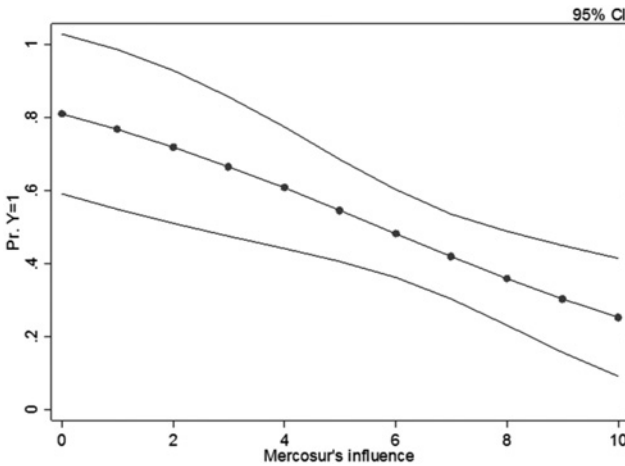


Figure 3: Predicted probability of answering positively to the dependent variable. Source: Elaborated by the authors.

Model 3 includes a dummy for government-opposition preferences, named “Incumbent party (FA)”, because the ruling party when the survey was conducted was FA. The model shows that this variable is highly significant and its inclusion makes ideological positions non-significant. However, the perception of the importance of MERCOSUR remains significant, as does the perception of

Brazilian leadership. By observing the marginal effects, we see that the combination of belonging to the incumbent party and believing in MERCOSUR and Brazilian leadership reduces the likelihood of supporting our dependent variable to virtually zero.

The purpose of Model 4 was to open the “black box” of the opposition parties to better understand which parties were more supportive of strengthening the bilateral relationship with China regardless of regional consequences. To accomplish this task, the dummy variable for government-opposition was replaced by dummies for the PC and PN, the two main opposition parties when the survey was conducted; furthermore, we also included a dummy to control for possible differences between legislators from Montevideo and from the rural areas of the country. The model shows that, although legislators of the two parties would support a strategy of balancing Brazil with China, PN supporters are more likely to do so than PC supporters. However, under this specification, the effect of each legislator’s attitude towards MERCOSUR increased whereas the perception of Brazilian leadership remained significant and similar in magnitude to the results of previous models.

To deepen our understanding of the characteristics of legislators who would be more favorable to supporting an agreement with China, in Model 4, we incorporated two interaction variables between belonging to opposition parties and the ideology of the legislator. This model reveals that within the PC, those with a leftist ideology are the most likely to support the agreement. By contrast, within the PN, legislator ideology does not have a clear effect. To better assess the results of this model we plotted predicted margins at a 95% confidence interval, as seen in Figure 4.<sup>17</sup> We see that within the FA, the more right-leaning the legislator, the larger his/her probability of supporting an FTA with China, whereas within the PC, the opposite occurs. In the case of the PN, ideology has a small and ambiguous effect that can be ignored because the probability remains high (over 75%) independent of the legislator’s ideology.

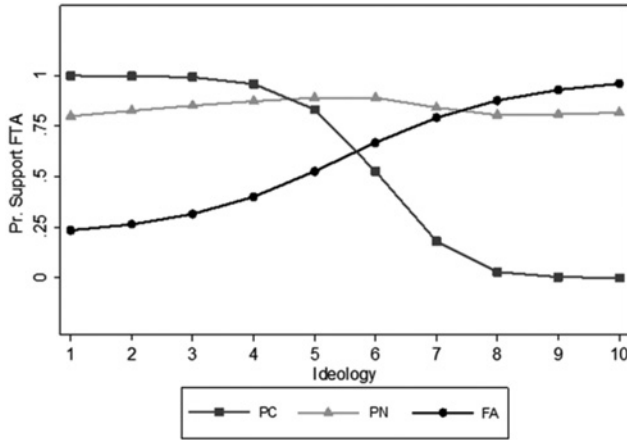
Finally, Model 6 incorporates a dummy control variable that reports the answers to the question “Compared with 10 years ago, do you think that Uruguay’s relations with China are better, the same or worse”. We wished to test whether the growing importance of China in Uruguayan foreign policy could affect the answers. Although this variable does not show any effect on the dependent variable, note that after including this variable, our results remained unchanged.

The models show consistent empirical evidence that support our two main hypotheses. We found that, overall, the probability of supporting an FTA with

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<sup>17</sup> We removed the confidence interval lines to improve the view of the figure.





**Figure 4:** Marginal effect of ideology over  $\Pr(Y = 1)$ .

Source: Elaborated by the authors.

China increases (a) when a legislator's perception of MERCOSUR is that it is costly for Uruguay's national interests and (b) when Brazil is not regarded as a leader worth following. This effect is stronger (c) the more rightist the ideology of the legislator. Furthermore, parties diverge clearly on their positions. (d) Incumbent party (FA) legislators appear to be less likely to support signing an FTA with China relative to opposition party legislators (NP and CP); however, (e) the more right-leaning the FA's legislators are, the more likely they will be to support the agreement; this probability is over 80 % when they are at the extreme right of the scale. Finally, we could not find significant evidence of differences between legislators from rural areas compared with legislators from urban areas. In the next section, we discuss the policy implications of these findings.

## Policy Implications

In Uruguay, the changes in the government following the arrival of the left (FA) involved a prioritization of the region and emerging countries, particularly Brazil, as strategic partners (López Burian 2015). A key element to consider is that although positioning on this issue is relatively homogeneous within the opposition parties, this is not the case for the governing party (FA). Although the government of José Mujica (2010–2015) emphasized the region and South–South relations, the second government of Tabaré Vazquez, inaugurated in 2015, has

begun to show a change in its foreign policy orientation through the prioritization of the open regionalism strategy.

In that context, President Vazquez and his Foreign Minister, Rodolfo Nin Novoa, have emphasized the importance of structuring foreign policy on the basis of commercial economic relations and seeking the commercial opening of MERCOSUR by streamlining its external agenda through the easing of the 32/00 clause. This orientation of the Uruguayan government was reaffirmed when Vazquez met with Brazilian president Rousseff, on May 21, 2015, when he expressed the idea of moving into a trade agreement with the European Union and that MERCOSUR members should join this agreement at different rates and not simultaneously.

These developments reflect changes in the regional situation. The first is the position of the government of Dilma Rousseff in favor of greater flexibility when negotiating with third countries. The idea of “different speeds” expresses the will to make progress on the external agenda under the implicit recognition that Argentina’s model of economic development suggests that the country will not support joint negotiations that could affect some of its protectionist policies. Brazilian economic conditions and changes in the cabinet of President Rousseff appear to be generating a more favorable scenario for negotiations with third parties in MERCOSUR.<sup>18</sup>

We foresee two different scenarios that bode favorably for the feasibility of an FTA with China, depending on the interaction between internal and external games. First, a MERCOSUR-friendly scenario would depend on agreeing to conduct negotiations “at different speeds” within the trade bloc’s framework, which is likely to be supported by Tabaré Vazquez.<sup>19</sup> Brazilian support for such an idea would be vital, as the FA and its left wing in particular regard Brazil as a

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**18** In Brazil, this approach was promoted by a strong corporate actor; the Federação das Indústrias do Estado de São Paulo (FIESP), in its position paper (Proposals for the External Integration of Brazilian Industry, 2014), stated: “The agreement MERCOSUR-EU is an immediate priority for Brazilian foreign policy [...] the agreement may also be implemented at different speeds through scheduled differentiated tariff reductions [...]”. (FIESP 2014, 1).

**19** Within the executive branch, the President, the Foreign Minister and the Minister of Finance are encouraging the easing of rules on negotiations within MERCOSUR. Carlos Perez del Castillo, Special Adviser to the Minister of Foreign Affairs, when asked about the position of the Brazilian private sector on easing negotiations with third parties, said: “I know they create a lot of pressure; thus, they could be a good ally”. Declaration taken from the interview with El País (Uruguay) (04/03/2015). Mercosur is exhausted as a model of integration. Available in: <http://www.elpais.com.uy/informacion/mercosur-agotado-modelo-insercion.html> (accessed 06/01/2015).

strategic ally. For evidence, one is encouraged to examine the FA's government program of FA, which treats Brazil as follows:

as never before in our country's foreign policy, we must take into account a very important change in its nearby reality: Uruguay is bordered by a currently emerging country that it is a global power, namely, Brazil. [...] This partner can become our gateway to increased commerce, regional and global development, and privileged political dialogue with other emerging actors (FA, 2014, 140–41).

This same strategy has been suggested to address the FTA with the EU. The second scenario, we believe, is much less likely to be politically taxing. If Uruguay enters into a bilateral agreement outside MERCOSUR, President Vazquez would have countless difficulties disciplining legislative representatives, due to the splintered nature of his party. These scenarios are intellectual exercises to think of the political disputes within MERCOSUR, and to reflect on how smaller countries such as Uruguay and Paraguay can put pressure on Brazilian leadership despite their smaller material capabilities.

## Conclusions

Are Brazil and China viewed as competitors in South America? To date there is no available empirical information to answer this question, so the goal of this work is to operate within the existing literature to develop the question's understanding.

To answer our research question, we conducted a survey of Uruguayan congressional representatives. We were able to obtain responses from 125 of the 130 congressional representatives, representing 96% of our universe. Thereafter, we specified a logistic model to address each of our hypotheses. We found that the probability of a legislator supporting an FTA with China increases (a) when his/her perception of MERCOSUR is that it is costly for Uruguay's national interests and (b) when he/she does not consider Brazil a leader worth following. Uruguayan policymakers perceive China as an actor of great importance, both commercially and politically, something that is clearly reflected in Figures 1 and 2. Only Brazil is regarded as more influential than China, which poses the question of whether China could be used by MERCOSUR members to balance against Brazilian leadership. In addition to the specific findings of this work, this paper provides a model for the study of other cases in which researchers wish to explain the determinants of the acceptance or rejection of FTAs in countries participating in regional integration processes

with significant levels of coordination in their extra-bloc trade agendas (Yin 2009).

Within the governing party, China is described as an attractive partner, but potential asymmetries and the importance of maintaining political and economic sovereignty were also highlighted. When we conducted our surveys, only 44% of congressmen said that they would support an FTA with China. To gain political weight, this support should be at least 66%. The necessary conditions for the viability of an FTA between China and Uruguay would be (a) increasing bilateral trade; (b) increasing discomfort towards MERCOSUR, mainly within FA; and (c) moderate sectors within FA, backed by Astori and Vázquez, gaining greater influence within the governing party. Given these conditions, we believe that there would be sufficient domestic support for a negotiation.

This paper contributes to the literature on Uruguay-China bilateral relations in particular and on Brazilian leadership in South America and Brazil-China relations in general. To date, there has been little research based on empirical data, and hence this paper is an attempt to contribute to filling this gap. We believe that this paper opens an agenda for studying China's impact within MERCOSUR and has relevant policy implications for both Uruguayan policy-makers and MERCOSUR's advocates. Through the case of Uruguay and China's potential for signing an FTA, we have discussed other topics such as the rigidity problem within MERCOSUR and the interrelation between domestic and foreign politics in Uruguay. Further research should deepen the study of these issues, subjects on which little empirical research exists.

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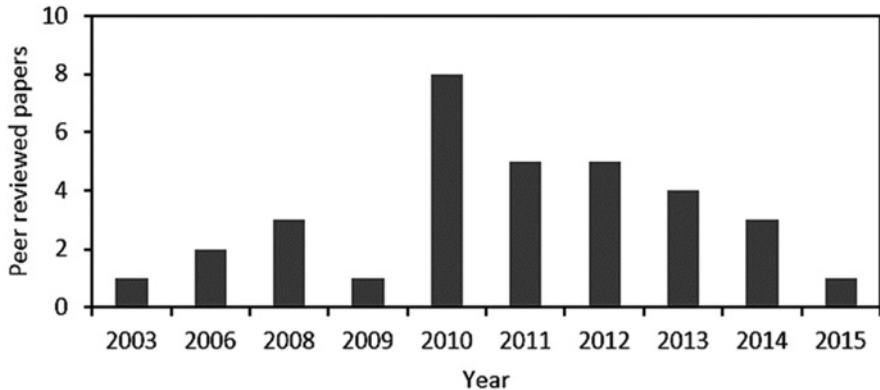
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## Appendix 1: The Concept of Brazilian Leadership in Peered-Reviewed Papers

We registered in Google Scholar all the peer-reviewed papers published since 2001 in Social Sciences journals containing in their titles the words "Brazilian" and "leadership", "Brazil" and "leader", "Brazil" and "leadership" or "Brazilian" and "leader" in English, Portuguese or Spanish. In total, we registered 33 papers containing the aforementioned combinations. Figure 5 shows that 2010 was the year with the most number of papers containing both words (8) and since then the number has gradually decreased. Interestingly, two of the four paper we registered for 2014 and 2015 focus on how Brazilian leadership is under crisis since 2012/2013 (Vanbiervliet 2014; Burges 2015).

We are aware that our methodology might be excluding papers which are of our interest but do not contain the explicit references to Brazilian leadership in their titles. We assume that this methodology is a proxy for the academic interest in Brazilian rise as an emerging leader and not an exhaustive examination. The list is available within the replication file package at request.



**Figure 5:** Number of peer reviewed papers per year.

Source: Elaborated by the authors.

**Table 2:** Descriptive statistics.

| NAME                          | QUESTION  | TYPE        | MEAN | SD    | MINIMUM | MAXIMUM |
|-------------------------------|---|-------------|------|-------|---------|---------|
| <b>Dependent Variable:</b>    | “Would you be willing to strengthen the bilateral relationship with China, regardless of regional considerations, by signing a free trade agreement?” | Dichotomous | 0.44 | 0.498 | 0       | 1       |
| <b>Independent Variables:</b> |   |             |      |       |         |         |
| Brazilian leadership          | “Do you agree that Uruguay should prioritize the region and follow Brazilian leadership?”   | Dichotomous | 0.69 | 0.46  | 0       | 1       |
| MERCOSUR is a priority        | “Should MERCOSUR be the priority of national foreign policy?”   | Dichotomous | 0.14 | 0.34  | 0       | 1       |
| MERCOSUR’s influence          | “On a scale of 0–10 (where 0 is zero and 10 is maximum) What degree of influence does MERCOSUR have in Uruguayan foreign policy?”                     | Ordinal     | 6.43 | 2.14  | 0       | 10      |

(continued)



Table 2: (continued)

| NAME  | QUESTION  | TYPE        | MEAN | SD   | MINIMUM | MAXIMUM |
|---|---|-------------|------|------|---------|---------|
| Ideology                                    | “In politics, we speak of ideology in terms of left and right. By using this scale from 1 to 10 (where 1 is left and 10 is right), I am going to ask you to indicate what position you would say you occupy.” | Ordinal     | 3.90 | 1.64 | 1       | 8       |
| Incumbent party (Frente Amplio Party)       | (publicly known information)  | Dichotomous | 0.53 | 0.50 | 0       | 1       |
| Opposition party (NP)                       | (publicly known information)  | Dichotomous | 0.29 | 0.45 | 0       | 1       |
| Opposition party (CP)                       | (publicly known information)  | Dichotomous | 0.17 | 0.37 | 0       | 1       |
| Urban area representative                   | (publicly known information)  | Dichotomous | 0.24 | 0.43 | 0       | 1       |
| Opposition party (NP) × Ideology            | –   | Ordinal     | 0.81 | 1.88 | 0       | 7       |
| Opposition party (CP) × Ideology × Ideology | –   | Ordinal     | 1.54 | 2.52 | 0       | 8       |
| Current relations with Chinese government   | “Compared with 10 years ago, do you think Uruguay’s relations with China are better, the same or worse?”  | Ordinal     | 1.36 | 0.77 | 1       | 3       |