Regionalist governance in the new political economy of development: ‘relaunching’ the Mercosur

NICOLA PHILLIPS

ABSTRACT  The splintering of the Mercosur following the Brazilian devaluation in early 1999 has given way to an important re-crafting of the regional vision and a significant expansion of the scope of the regional project. This article contends that these trends can best be understood as coalescing into a new (and nascent) form of regionalist governance in the Southern Cone, in which the Mercosur is reconfigured as a vehicle for a new set of developmentalist and strategic objectives. This emerging form of regionalist governance is both causative and indicative of a new political economy both of the subregion and of the wider region of the Americas, and reflective of the crystallisation of a new political economy of development.

Notions of an emerging ‘new political economy of development’ need to be located within an understanding not just of the globalisation of capitalism and the global governance structures that emerge from it. They need to be located within a broader understanding of structural change which acknowledges the various dimensions of the spatial reorganisation of capitalism: to focus simply on the ‘global’ or ‘globalising’ aspects of such processes and structures is to focus on only one level of an extremely and increasingly complex landscape of governance, development, and capitalism. I would suggest, in this light, that regionalism—or the regional reorganisation of development, capitalism, or governance—constitutes a pivotal dimension of the new political economy of development, but one which frequently is neglected in these broader discussions.

The reason for this neglect would appear to stem from the tendency to conceptualise regionalism and regionalisation as part and parcel of the neoliberal globalisation project, which is usually encapsulated in the ‘building block’ vision of the relationship between them. To an extent, of course, such a vision is an accurate one, or at least could be at certain times in certain places, and reflects the changing nature of development itself. Philip McMichael’s observation that development has come to be centrally concerned with ‘global positioning’, rather than with the management of the national household, is particularly instructive here: regionalism in its most recent incarnations has been framed almost invariably as a means to the achievement of competitiveness in the globalising...
world economy, and as a platform from which to participate in the international trading system and attract capital flows. South American regionalist projects, with which this article is centrally concerned, have always been understood in this light. However, I would suggest that the relationship between regionalism and globalisation is not that simple, or perhaps no longer that simple. The central argument of this article holds that the nature of regionalist governance is being redefined, along with its relationship with the global reorganisation of capitalism, and that this redefinition reflects the emergence and crystallisation of a new political economy of development.

This argument is elaborated here with particular reference to regionalism in the Southern Cone of Latin America. The so-called ‘relaunching’ of the Mercosur in mid-2000 constituted an important re-crafting of the subregional vision and a significant expansion of the scope of the subregional project: Chile announced its intention to upgrade its associate membership to full membership; Brazilian President Cardoso called for an expansion of the Mercosur to encompass cooperation in such areas as scientific research, education, military and defence policy, and the manufacture of products labelled ‘made in Mercosur’; macro-economic policy coordination was placed right at the heart of the subregional agenda; and most importantly the intention to work towards a common currency was announced under the banner of a ‘little Maastricht’ for the Southern Cone. The result seems to have been a genuine crystallisation of political will around a deepening of integration—premised on an intensification of collective policy strategies—coupled with the projection of the Mercosur as a political and strategic unit. (Cardoso’s plans to put together a new subregional football team capable of ‘destroying the Europeans’ was the icing on this particular cake!).

These trends, I argue, can best be understood as coalescing into a new (and nascent) form of regionalist governance in the Southern Cone, which itself is both causative and indicative of a new political economy both of the subregion and of the wider region of the Americas. After a short introductory section mapping the evolution of the Mercosur over the 1990s, the second section sets out to explain the rationale for this rethinking of the subregional project. The third section then turns its attention to the specifics of the deepening agenda, considers the prospects for the achievement of intensified coordination, and offers an argument, drawn out in the final section of the article, that trends associated with this agenda constitute a genuine shift in the nature of the sub-regional project and of regionalist governance in the Southern Cone.

The road to ‘relaunching’: Mercosur in the 1990s

Southern Cone regionalism in the 1990s, as is well-known, was tightly bound up with the responses of South American governments to the challenges of the globalising world economy, and with the associated processes of neoliberal restructuring which were in full flight in most countries. The adoption of ‘open regionalism’ was seen as a direct reflection of the policy imperatives generated by globalisation processes, and as such regional integration constituted an attempt on the part of the member countries to improve their competitive positions in the world economy both individually and as a bloc. For much of the
1990s, in this sense, Southern Cone regionalism approximated a type of ‘meso-globalisation’, which featured a ‘bottom-up’ process of integration consistent with the objective of increasingly deep engagement with the process of globalisation. Apart from facilitating trade liberalisation, open regionalism was designed to enhance the potential for countries to attract foreign direct investment, as a result of the lure of larger markets to multinational corporations eager to take advantage of economies of scale. In addition, regional integration—involving the relocation of decision-making authority and a consequent contraction in space for discretionary government policy—was of particular utility in providing an escape valve against the political pressures fanned by the impact of neoliberal policies on, for example, formerly protected or uncompetitive industries, public sector employees and unskilled workers. The dynamics of regionalism in the 1990s were thus informed by a perceived need to ‘lock in’ a particular neoliberal orientation and to respond to the exigencies of globalisation: in this sense, sub-regionalism can be seen to be as much about domestic political economy (the national capitalist project) as it was about a ‘new international political economy’ at the regional and global levels.

The evolution of the Mercosur in the 1990s, however, was characterised as much by divergence as by convergence. One of them relates to key differences in the size and type of economies in question, as a result of which the Argentine, Uruguayan and Paraguayan economies remain significantly more dependent on the regional market than the Brazilian economy. Because Brazil by the start of the 2000s was the only country with which Argentina maintained a trade surplus (and over 30% of Argentine exports were directed to the Brazilian market), Argentine participation in the Mercosur—like the Uruguayan and Paraguayan—remained motivated by economic necessity to a far greater extent than its larger neighbour’s. Brazil, on the other hand, tempered its commitment through the 1990s to the subregional agenda with its greater attachment to the pursuit of a multilateral agenda: the relatively high level of Brazilian engagement in the subregional process during the period up to 1994 was replaced by a shift towards a strategy of ‘freezing’ subregional commitments and a distancing from the objectives of perfecting and deepening the customs union. This reflected the ‘neo-activist’ orientation of Brazilian economic policy, which over the 1990s consistently diluted Brazilian commitment to neoliberalism and gave rise within the Mercosur to a series of sectoral and commercial conflicts. By extension, significant divergence has also been long visible in member countries’ visions of regional integration: whereas the Argentine vision rested principally on the notion of ‘deepening’ and expansion, the Brazilian vision of integration—while later in the decade focused also on expansion—continued to emphasise a loose economic association in which institutionalisation and policy harmonisation played a negligible part. Uruguay and Paraguay have consistently voiced the usual insistence of smaller countries in regional arrangements on the need for institutions and special treatment corresponding to relative levels of development. As a result of these areas of divergence—as well as the lukewarm commitment of Brazil to the subregional agenda—the Mercosur since its inception has evolved on the basis of a relatively shallow level of integration. By the start of 2000, it constituted a (very!) imperfect customs union, which had made signifi-
significant strides in the removal of tariff barriers to trade and the attraction of FDI, but precious little progress in basic areas such as the harmonisation of customs procedures, and in important areas such as trade in services, exchange rate coordination, intellectual property, government procurement, the free movement of workers, and institutionalisation.

The internal divergences within the Mercosur were brought repeatedly to the fore by the impact of political and economic shocks, both external and internal. The financial volatility at the end of the 1990s was the most destabilising of these shocks. The devaluation of the Brazilian *real* in early 1999 generated a severe contraction in net inflows of foreign capital to the tune of 18%,⁹ the results of which generated an absence of growth in the levels of regional trade for the first time since the creation of the Mercosur in 1991, and a contraction of intra-Mercosur trade which was significantly greater than the contraction of trade with third countries (see Table 1). Until that point, furthermore, the overvaluation of the *real* had favoured the Argentine external sector and reinforced Argentina’s trade surplus with Brazil. The devaluation thus generated sharp and immediate difficulties for Argentina, constrained by the limitations imposed on the use of exchange rate and monetary policy by Convertibility.¹⁰ The drop in Argentine exports was greater than that suffered by the Brazilian economy, the variation between 1998–1999 being −6.1% for the former and −1.8% for the latter. Imports similarly showed respectively variations of −18.7% and −14.7%, demonstrating a fierce alteration to the trade balance.¹¹

Because of the impact of devaluation on capital flows and relative economic competitiveness, questions of Argentine competitiveness within the Mercosur were pushed to centre-stage,¹² prompting the Argentine government to press the Brazilian government either to negotiate ‘escape clause’ and ‘safeguard’ provisions to offset the immediate impact (such as the temporary raising of intra-Mercosur tariffs), or else to dismantle a significant proportion of the non-tariff barriers to bilateral and subregional trade. Each of these proposals was rejected by the Brazilian government, which limited itself to offering to address *specific*

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Mercosur trade (US$ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth rate (%)</td>
<td>23.6</td>
</tr>
<tr>
<td>Total exports from Mercosur countries</td>
<td>46.43</td>
</tr>
<tr>
<td>Growth rate (%)</td>
<td>−0.5</td>
</tr>
<tr>
<td>Intra-Mercosur exports/total exports (%)</td>
<td>8.9</td>
</tr>
</tbody>
</table>

sectoral tensions, in conjunction with the private actors concerned. As a result of such concerns, the couple of months immediately following the devaluation in January 1999 were characterised by a spate of unilateral measures by both the Brazilian and Argentine governments. The first instance of an arbitration ruling of the Ad Hoc Mercosur Tribunal since its establishment occurred on 28 April 1999, relating to a dispute brought by Argentina against Brazil on the latter’s application of restrictive measures on reciprocal trade. A dispute over textiles prompted Brazil to announce in February 2000, after plentiful rumours to the effect, that it was taking the case to the WTO for arbitration. In the meantime, in the absence of more satisfactory possibilities, sectoral negotiations proceeded with varying degrees of success.

The effect of the 1999 devaluation was in this sense predictable in its unleashing of the most profound political crisis in the Mercosur since its inception. Significant divergences were manifest in national responses to the crisis: while the Argentine government was talking about dollarisation, common currencies and macroeconomic policy harmonisation, Brazilian elites were concerned with more specifically national priorities of dealing with the impact on prices and interest rates, and in trying to salvage the fortunes of the beleaguered President Cardoso, rescue the reform agenda, and bring the belligerence of the provincial governments under some semblance of centralised control. The opinion expressed in the Brazilian newspaper Folha de São Paulo in mid-1999 that ‘... never has the integration project in the Southern Cone been as close to exhaustion as now. ... Perhaps the disintegration of the process would be better for Brazil than the insupportable consequences of the concessions to the Argentines that the Government has been pursuing over recent years’, was reflected in official circles: it was subsequently reported in early 2000 that the option of abandoning the Mercosur had been tabled for consideration before the Brazilian government. Similar sentiments were washing around in Argentina at the same time: former Economy Minister Cavallo, for example, called in mid-1999 for a ‘suspension’ of the Mercosur while countries engaged in nationally-defined damage limitation exercises.

The eventual response to these fissures was the articulation of a need to return to the drawing board: in the words of Brazilian senator Antonio Carlos Magalhaes, ‘the Mercosur is useful, but it must be rethought’. One concludes from the context that this rethinking was deemed necessary not only to overcome the political maelstrom of the late 1990s, but also in order to make the regional project more compatible with the interests of the member countries and to minimise the consistently fragmentary implications of the divergences discussed above. Specifically, the rationale for this rethinking was essentially three-fold: first, in order to address questions of competitiveness between member countries; second, as a means of propelling the emergence of a new form of market governance; and third, in order to construct a strategic and political platform from which to participate in key processes in the wider regional/global political economy. The next section addresses the first two of these as a prelude to the later discussion of the third.
Rethinking regionalism

The rationale for the deepening of Southern Cone integration at this particular juncture revolves in important ways around the question of competitiveness, and the consequent concern to locate interaction between actors and economies on something approximating a level playing field. One interesting take on this issue is Sylvia Ostry’s discussion of ‘system frictions’, in her particular case between the United States and Japan in the area of competition policy. Lags in market-driven convergence create an escalation of such ‘system frictions’ as the resulting imbalances move market interactions into the realm of domestic politics, with the result that domestic structures of other countries become stakes in local politics. In the Southern Cone, for example, tensions in this respect have clustered around the exchange rate issue, industrial policy, import policy, and so on, usually in the form of bemoaning the advantage thus accruing to the Brazilian economy. System frictions in this sense lead to a build-up of pressures not only for collective multilateral solutions, but also for convergence in key policy areas and, crucially, in the institutional structures associated with different models of capitalism. Diversity residing in social-institutional differences—that is, in models of capitalism—is seen to constitute factor advantage or disadvantage in the same way as natural resource endowment. Writ large, then, notions of ‘system frictions’ and what we might call ‘competitive advantage’ lie at the root of calls for a levelling of the playing field through mechanisms of coordination. Taken to their logical conclusion, and indeed in the ways they are approached by governments and multinational corporations, these issues thus gel into an argument for convergence.

An appealing argument can therefore be made that when a balance of competitiveness is disturbed—or else an existing imbalance is exacerbated—by financial crisis or unilateral policy innovation, the maintenance of a regional project depends on collective action between states. The system frictions that came right to the fore following the Brazilian devaluation have for these reasons been met with strong arguments in favour of political and macroeconomic coordination in order to level the playing field and foster an evening out of the structures of advantage and disadvantage that hitherto characterised the internal functioning of the bloc. The political crises within member countries, as well as between them, were largely fuelled by tensions between governments and socio-economic actors relating to imbalances within the subregion. In Argentina these internal political wranglings found much of their strongest expression in industrialists’ resentment of the competitive advantages accruing to Brazilian industry as a result of more active forms of government policy, and their consequent demands on the Argentine government to make reciprocity the principle underlying industrial policy. The behaviour of governments in this sense is integral to notions of competitive advantage and disadvantage. Aside from reflecting the ideological and academic disputes regarding the institutional structures most favourable to national economic competitiveness, divergence in this respect between member countries of the Mercosur is seen to have necessitated convergence in the manner in which economies are governed by states, as well as in narrower policy arenas: the relatively activist form of state in Brazil
has been the focus of Argentine claims of competitive disadvantage accruing to the Brazilian economy.

The elimination of system frictions, however, is only part of the story. Another central and interesting part lies in the rethinking of neoliberalism underway by the end of the 1990s, which is crystallising into the emergence of a new mode of market governance. A central element of this mode of market governance revolves around the notion of public power and its deployment within the confines of a broadly neoliberal model. Broadly speaking, the emphasis has fallen squarely on the role of governments in governing markets in order to make the capitalist strategy more legitimate and sustainable, and on the reinvigoration of public power in order to achieve a range of policy and social goals. It is notable that in policy communities and in public debates about globalisation it was only towards the end of the 1990s that significant attention was turned back to the notion of the ‘public domain’ or else to the mutually constitutive nature—long recognised in the academic literature—of states (and other forms of public authority) and markets. Much of this reinvigoration of the ‘public’ stemmed from the contradictions of globalisation processes which became evident in the financial volatility of 1997–99, as a result of which the notion of ‘market failure’ received a fresh injection of vigour. Social injustice and exclusion came to be associated with the absence of effective economic regulation, or at the very least with the process of deregulation which most countries have been engaged in engineering for much of the 1990s, and the role of governments in fulfilling these regulatory functions thus fell under the spotlight. The movement away from ‘automatic pilot’ market strategies in this sense represents an emphasis on the market-making role of the state, in which its role is seen to be one of underpinning markets, regulating privatised companies and, especially, service providers, and providing a range of public goods in order to facilitate—and compensate—market activity.

The manifestations of these trends in Latin America became clear especially in the state of presidential elections at the end of the 1990s and into the 2000s. Political climates at the end of the 1990s were dominated by heightened awareness of the social responsibilities of governments, propelled by rising levels of popular mobilisation (in countries like Chile), increasingly salient social inequities (such as in Brazil) and persistently high levels of unemployment (most obviously in Argentina). Electoral politics over this time demonstrated that, while public opinion stopped short of condemning the fundamentals of the economic model, support had become notably contingent on governments’ commitment to mediating the socially deleterious effects of global liberalisation. Even in Argentina, for example, opinion polls conducted in late 2000 identified a sharp change since 1995 in attitudes to both free markets and the state: 77% of the public were reported in 2000 (as opposed to 35% in 1995) to be of the opinion that the state should play a greater role in regulating the economy, and only 32% agreed that service companies should be privately owned, as opposed to 60% in 1995. Such opinions are also clearly in evidence in government circles. In contrast to the heyday of neoliberal rhetoric—and obviously also in response to it—the political climate shifted to discussions of the necessary and appropriate role for governments and for states in producing a more socially acceptable
version of the economic model. As such, there is a general convergence in the
literature on Latin America (and particularly South America) on a notion of a
basic market vision ‘softened’ by government action in a variety of policy areas.²⁶

However, the key to understanding this emerging form of market governance
—which has been sketched only very briefly here—lies in its regional dimen-
sions, and its propulsion both by and within the subregional project of the
Mercosur. This ‘regionalisation’ of market governance in essence takes two
forms. The first is an ideational convergence on the principles of a broadly
developmentalist policy orientation, which in many ways represents a con-
vergence on a roughly Brazilian vision of the nature of the relationship between
state and market. There has been, in this respect, a significant attenuation of the
anti-statism that characterised Argentina during the Menem administrations
of the 1990s. The De la Rúa government, which came to power in 2000, aligned
itself far more with an economic programme emphasising industrial strategy as
part of a broader conception of re-inserting public authority into a model
dominated by the private sector. Cabinet Chief Rodolfo Terragno was recently
reported in the press to have elaborated a new ‘integral development programme’
based on the notion that ‘without a development plan between the public and
private sectors there is no future’.²⁷ The similar tenor of the public debate is
echoed in newspaper editorials which indicate ‘the need for regulation and
rigorous control that demonstrates a genuine commitment of the state to develop-
ment and public welfare’.²⁸

The second is a push to achieve regional concertation in the formulation and
execution of a development plan. The Brazilian government, in this respect, spent
much of 2000 not only pushing Argentina towards a recognition of the need for
active development strategies, but also insisting that it was time for cooperation
in this endeavour. Conversations were held in March 2000 between Brazilian and
Argentine officials on the possible elaboration of a development plan approxi-
mating the Brazilian plan known as Avança Brasil, which incorporates 365
projects and investment of $600 000 million over four years. Taking this as the
model, the idea of an ‘Adelante Mercosur’ (Mercosur Forwards) programme was
proposed and enthusiastically received, despite some concern that such a detailed
analysis of the development needs of a country was until that time unheard of in
Argentina.²⁹ During 2000, Cardoso also proposed a project of regional physical
integration, which would propel a new cycle of development. In statements to the
press, he remarked that ‘I am convinced that it is possible to do in Latin America
what Juscelino Kubitschek did with the interior of our country’, referring to the
developmentalist policies between 1956–61 which rested on major public works
projects.³⁰

As such, although a developmentalist orientation in Brazil is not new, what is
new is the effort to broaden such plans to the regional level. The rhetoric reflects
the sentiment articulated by the Brazilian Secretary of Planning that ‘if Brazil is
attractive to the world, a development plan on a Mercosur scale will be even
more attractive’.³¹ This said, there is clearly a sharp divergence between the
leeway governments enjoy in such matters, especially as regards fiscal consider-
tions. The Chilean economy, being in relatively better health and external
standing than the Argentine or Brazilian economies, is more equipped to sustain
an expansionary strategy such as the one the Chilean government envisaged for 2001, involving a 7% increase in social spending (especially health, education, public works and housing) financed by new privatisation revenues and a 6% growth rate. As such, it is important to reiterate that the identification of emerging signs of convergence does not ignore, nor wipe away, national specificity in policy formulation, nor variation in both the capacity and the preferences of national states. The conjunctural context continues to define governments’ ability to engage in concrete projects of policy convergence, and domestic priorities continue to diverge in important respects. Clearly, in addition, these ‘redefined’ strategies of economic management have yet to become fully entrenched in subregional and domestic policy agendas. Nevertheless, the point is that there is clear evidence of an emergence of patterns of policy coordination, to the extent that it would seem that we can start now to talk of the ‘regionalisation’ of market governance in the Southern Cone.

The discussion thus far of the rationale for strengthening subregionalism in the Mercosur thus clearly depends on the formulation and execution of a significant deepening of integration. The objectives of the ‘relaunching’ in mid-2000 in this sense were to set in train a process of convergence between member countries designed to construct not only a tighter economic unit but also a political unit and a distinct subregional identity. However, to claim that collective strategies are warranted does not guarantee their emergence, and says nothing about the sorts of coordination that might be viable, and indeed the prospects for the achievement of these goals have prompted some pessimism. These issues constitute the focus of the next section.

The ‘Little Maastricht’ and the consolidation of the Mercosur

At the heart of the return to the drawing board in the Mercosur lies the issue of macroeconomic coordination, encapsulated in the intention to construct a ‘little Maastricht’ for the Southern Cone. This proposal was supported by the president of the Inter-American Development Bank (IDB), and by the head of the Bundesbank, who saw monetary union as a means of preserving ‘monetary sovereignty’ in the subregion. Three measures laying the foundations for the common currency were established at a December 1999 meeting in Montevideo: the harmonisation of national statistics (starting in September 2001); the establishment of common standards for ‘fiscal responsibility’ (to be announced in March 2001); and the obligation to report on efforts at achieving economic stability at future summits. A ‘convergence agreement’ announced in late April 2000 between Argentina and Brazil included an agreement to make progress in the reduction of investment incentives as a means of overcoming the sorts of ‘system frictions’ that characterised regional relations over the course of 1999. Subsequently the XVI Summit of Mercosur Heads of State in Asunción in June 2000 gave rise to the so-called ‘relaunching’ of the Mercosur, which laid out the preparatory framework for convergence in a range of areas, including market access; the incorporation of Mercosur norms into the legal structures of member countries; the strengthening of the Administrative Secretariat and other institutions; the perfecting of the Brasilia Protocol system of dispute resolution; the
common external tariff; competition policy; trade relations with extra-regional parties; macroeconomic coordination; incentives to investment, production and exports; and external relations. A high level working group of Central Bank managers was established to study macroeconomic coordination, along with another ad hoc group on ‘Monitoring the Economic and Trade Situation’. 37

In this way, by announcing the goal of a common currency, member countries effectively created a single package of macroeconomic convergence measures. This in itself was viewed optimistically given that both Argentina and Brazil already had implemented laws of fiscal responsibility, and that Brazil had made progress in the reduction of its fiscal deficit while keeping control of prices and interest rates in the midst of devaluation. But crucially, as the authors of the IDB’s Mercosur Report for 1998–99 observed, ‘not even a convergence of macro-economic performance is enough to establish stable competition conditions if the development models and the policies applied by the various countries differ among themselves’. Their assessment of the announcement of a ‘little Maastricht’ by Presidents Cardoso and Menem in June 1999, in this light, was that such a development would entail a wide range of policy measures and adjustments, including the lowering of inflation to international levels through the establishment of the independence of Central Banks; the coordinated fixing of debt and debt limits in order to achieve a self-sufficient financial sector necessary to ensure this independence; legislation for the free movement of factors of production (especially labour) and greater flexibility in prices and wages, both of which are designed to eliminate the use of exchange rate modification for adjustments in relative prices; the construction of exit barriers to ensure commitment to monetary union; and the harmonisation of exchange rate policies. 38 The ‘little Maastricht’ is in this sense the label that has been stuck on a much more wide-ranging package of policy priorities, which in part serve the purpose of laying the foundations for a common currency but also constitute policy goals in their own right.

The announcement of the ‘little Maastricht’, furthermore, represents not only a policy departure in the Mercosur (and a particular departure for Brazil) but also a rethinking of the underlying principles informing the model of regionalism. The most convincing interpretation of the shift is that it represents an important movement in the Southern Cone away from a ‘structuralist’ towards a ‘monetarist’ view of regionalism. 39 While the structuralist view of regionalism sees monetary union as the culmination of an economic integration process—echoing the sequence of stages advanced in Belassa’s classic conception of economic integration—40—the monetarist view takes the establishment of a common currency as the cornerstone of such a process, the rationale being (a) that it eliminates the prejudicial implications of competitive devaluations for trade and investment, and (b) that it imposes restrictions on public spending and fiscal deficits, thereby circumventing potential for financial instability. 41

Nevertheless, this assessment risks overlooking key economic and political difficulties in the achievement of such a sea change in the nature of the Mercosur. At first blush, indeed, it appears that after nearly ten years in existence the Mercosur is not equipped to ‘carry’ the sort of integration that significant policy innovation might require. First, the impact of financial volatility in 1998–99 can
be taken as evidence of an enduring fragility in regional trade linkages which continue to be defined largely by the conjunctural context, especially with respect to the availability of liquidity on the regional financial circuit.\(^{42}\) Second, as we have seen, the devaluation produced a fragmentation of the existing consensus and the pursuit of increasingly individualistic policy agendas rather than an enhancement of collective priorities, which is indicative of continuing political (as well as economic) fragility in the subregion. Third, the minimal level of institutionalisation of the Mercosur and with its slow progress (described above) on integration in key and basic policy areas prompts significant scepticism concerning its viability as a modus operandi for the articulation of collective strategies. And fourth, politics at the domestic level in member countries—as well as stubborn macroeconomic imbalances, distinct policy preferences, and the burden of adjustment in smaller member countries—would make the task of achieving monetary union at best arduous. In Brazil, the penchant for active sectoral policy is well entrenched, and it is highly improbable that either the government or key sectors of business would consent to significantly greater restraints on their autonomy in matters of industrial, agricultural and trade policy. While adjustment in Brazil would not be especially extensive given that Brazilian products are already regionally competitive,\(^ {43}\) nevertheless the political climate in Brazil remains dominated by notions of policy autonomy. Similarly, there is very little political legroom in Argentina for discussion of policy alternatives relating to macroeconomic coordination, especially in the exchange rate area. The support in business circles for the notion of a ‘little Maastricht’ remains contingent on the maintenance of the Argentine system of Convertibility. Despite a range of well-recognised problems associated with the fixed exchange rate regime—such as currency overvaluation, high levels of unemployment, and heightened vulnerability to external and internal shocks—the mere mention of a change to Convertibility still sends business interests (and much of the voting public) into a cold sweat. Conversely, and for these reasons, for the foreseeable future the Brazilian government is likely to be unwilling to abandon the benefits of its floating exchange rate.\(^ {44}\)

Consequently, in mid-2000 there was a good deal of scepticism about the prospects for macroeconomic and monetary coordination washing around even in Buenos Aires: somewhat surprisingly given the Argentine government’s protagonist in pushing for such an agenda. A good part of the debate within the subregion tends for these reasons towards the conclusion that the adoption of a monetarist understanding of the Mercosur and the achievement of a genuine customs union are less likely than the continuation of the structuralist vision and the status quo of non-institutionalised, imperfect integration.\(^ {45}\) This is surely an accurate assessment. Nevertheless, even given all these diverse grounds for scepticism about the achievement of a ‘little Maastricht’ in the Southern Cone, there exists a variety of reasons which would lead us towards a more positive assessment of the prospects for the long-term deepening agenda in the Mercosur.

First, to focus on the notion of a common currency \textit{per se} would appear to miss the point. The announcement of the end goal of monetary union has less to do with the end goal itself than with the immediate political and economic priorities served by deepening integration and coordinating macroeconomic policy, about
the merits of which there exists a good deal of consensus between governments and among social forces in all of the member countries. As Barry Eichengreen has observed, the existence of more open financial markets and more intense competition between manufacturing and services sectors generate heightened potential for protectionist backlashes in the event of currency fluctuations. In this sense, the dominant rationale for macroeconomic convergence at the regional level relates to the need to offset rising political pressures—principally from sectoral interests—that emerge from the dynamics, noted earlier on, of ‘system frictions’. The rhetorical ‘packaging’ of these priorities as part of a movement towards a full common market thus should be understood as constituting a political device by which Mercosur governments are seeking to increase the likelihood of political and legislative acceptance of the necessary domestic adjustments, especially given existing problems experienced in Argentina and Brazil in passing key reform legislation over the latter part of the 1990s. The substance of the ‘little Maastricht’ is less important than in its utility in propelling the immediate priorities of macroeconomic policy, and for this reason the perception of a decisive shift to monetarist conceptions of regionalism would seem to represent a grave misreading of trends in the Mercosur.

The second point is that the structural conditions for a greater rapprochement and convergence between Argentina and Brazil are more clearly in evidence now than for much of the 1990s. The politics of anti-statism in Argentina have undergone a significant attenuation in recent years, to the extent that greater state activism in key policy areas enjoyed significantly stronger legitimacy by the end of the 1990s than it had for much of the decade. It may well be that these conditions might therefore permit the more active management of the political pressures that regional policy coordination would create. The case of industrial policy is a good illustration here: there are early signs of a movement towards a less rigidly inactive industrial policy in Argentina which might, at the least, translate into a policy flexibility which could ease adjustment to regionally coordinated norms. From the Brazilian perspective, key shifts in government policy since the devaluation might also be seen to strengthen the opportunities for convergence: most importantly, over the course of 2000, the emphasis fell on fiscal discipline, which if maintained pushes the Brazilian economy far closer towards the conditions necessary for macroeconomic coordination than was the case over the 1990s. Clearly conjunctural conditions are important intervening variables, especially those relating to the economic performance (and especially the situation of the Argentine economy in 2000–1), but it would appear that in the broad sense the divergences which formerly impeded coordination have, of late been, attenuated by a process of progressive convergence.

Third, some (albeit rather gingerly) progress has already been made on the issue of institutionalisation. Not only was the 1999–2000 crisis worsened by the institutional and legal holes in the Mercosur, but ‘juridical insecurity’ also increasingly was seen potentially to reinforce the diversion of investment flows towards the larger Brazilian market. In this sense, deepening regionalism through institutionalisation came to be viewed as a means of redressing the structures of competitive disadvantage which were themselves a result of the institutional shortcomings of the bloc. Moreover, there appears to have been a
genuine softening of Brazilian (and Argentine) reticence in matters of the creation of institutions. When Chile announced its intention to pursue full membership of the Mercosur, it was reported in the Chilean press that Brazilian diplomats were of the opinion that this ‘would forge a greater institutionalisation of the bloc’. There is also recognition in Brazil that the resolution of key competition policy disputes with Argentina would require the construction of permanent institutions. These disputes centre on pressure from Argentina for curbs on Brazilian investment incentives in order to stem the perceived exodus of Argentine firms to Brazil, pressure from Brazil for an end to anti-dumping measures within the Mercosur seen to encourage dubious dumping claims against Brazilian products by the US, and pressure from both countries for common policy on unfair trading. The bundling of these issues into a single package is seen as one means of achieving their success, and perhaps further softening traditional Brazilian resistance to institutionalisation. The trends in Argentine anti-statism described above, furthermore, signified that in the run-up to the relaunching Argentina was widely perceived to be more firmly in favour than before of the creation of permanent institutions. These practical considerations, in sum, reflect the gradual development in Brazil of an intellectual position closer to that of the other member countries of the Mercosur on the issue of institutionalisation: probably less towards the open supranationality of Uruguay and Paraguay than towards the new Argentine position which favours a combination of intergovernmental and community institutions. Consequently, the issue of institutionalisation has been a priority on agendas at the meetings of the Joint Parliamentary Commissions (CPCs) of the Mercosur, which issued concrete proposals for the construction of institutions which would enjoy parliamentary, legislative and consultative functions, and subsequently an initiative emerged from members of the Argentine Congress for talks on the establishment of a permanent secretariat in Montevideo. Furthermore, it was agreed in mid-2000 to assemble a duty roster of judges to help, in the words of Argentine Industry Secretary Debora Giorgi, to develop an early semblance of ‘jurisprudence’ in the Mercosur.

Fourth, and crucially, one of the ways in which Mercosur governments have sought to weather the internal storm of the late 1990s has been to redefine the Mercosur as a political platform from which to conduct the external agendas associated, most notably, with the negotiations for a Free Trade Area of the Americas (FTAA) and talks with the EU. As such, the relaunching of the Mercosur was envisaged fundamentally as involving its transformation into a political unit, or as a ‘strategic objective’ in the words of President Cardoso. The real import of this project, though, lies in the ways in which the consolidation of the political unit seeks to offset internal divisions by making external negotiations the new ‘glue’ of the Mercosur. Despite the extent of internal fragmentation, in this way, Mercosur countries adhered to the principle of bargaining as a bloc in the Cochabamba meeting of the FTAA negotiations (held at a time when speculation about the imminent demise of the Mercosur was rife) and similarly produced a joint declaration in the negotiations on agricultural trade at the Seattle ministerials of the WTO. The notion of bloc bargaining is not unproblematic, as demonstrated by subsequent disputes over the Chilean government’s pursuit of...
bilateral negotiations with the US, and ongoing ambiguity concerning the Argentine government’s preferences in that respect, despite protestations of continuing subregional commitment from both. Nevertheless, the principle currently holds firm among the four full member countries, and at least in respect of the FTAA negotiations.

What this has also meant is that progressively the FTAA process has been characterised as a negotiation between blocs: the northern bloc dominated by the US, and a southern—possibly South American—bloc dominated by Brazil. The early politics of the FTAA certainly suggest that its future will be determined by the interaction of the northern and southern hegemons, with Brazil as the principal counterweight to the United States. While it is fully engaged in the FTAA process, Brazilian opposition to a US-led initiative has contributed to a situation in which each new move by the US has pushed Brazil closer to its subregional commitments, suggesting that the possibilities for a genuine strengthening and deepening of the subregional project were significantly better at the start of the 2000s than at most times during the preceding decade. On specific policy matters, the divergence between the Mercosur/Brazilian agenda and the US/NAFTA agenda also became visible in the early preparatory stages of the negotiations. The US strategy consists of the promotion of provisions which go beyond those agreed during the Uruguay Round, signifying an integration process which would go beyond a simple free trade area, while Brazil’s preference in the short term is to consolidate the measures agreed in the WTO. Similarly, Brazil and most other South American countries are concerned principally with trade issues, while the US’s objectives are more focused on ‘newer’ issues such as services, intellectual property rights, competition policy, government procurement and environmental and labour standards.

There is a sense, in addition, in which subregional dynamism in the Mercosur and the success of a hemispheric initiative are mutually important. There appears to be an increasingly widespread ‘external’ appreciation that the participation and survival of the Mercosur in an FTAA will depend on the deepening of subregional integration and the coordination of macroeconomic policies and targets: the UN Economic Commission for Latin America and the Caribbean (ECLAC/EPAL) explicitly made the point in a 2000 report that survival in a situation of hemispheric integration would require significant progress on the liberalisation of trade in services, movement of persons and movement of capital. Conversely, US diplomats have been reported as expressing ‘Washington’s’ view that an FTAA could advance if there existed a Mercosur which included Chile and which showed itself to be disciplined in fiscal and tariff policies. This not only harks back to the earlier discussion of the advantages of locating such policy challenges in the regional arena given the collective action problems besetting much of the domestic policy arena, but also indicates that, having established that the subregional units might constitute the building blocks of the process, the success of the FTAA negotiations depends on the health of the latter.

An additional dimension of this strategy of hemispheric engagement—and of strengthening the subregion—is Brazil’s articulation and propulsion of a ‘South American’ agenda, which found its first formal expression in a summit of South American heads of state in Brasilia in August/September 2000. The aim was very
explicitly to supplement negotiations for a free trade area in South America with broader moves to construct a South American—as opposed to Latin American or hemispheric—identity and establish the subregion as a coherent geopolitical unit. It is striking that the agenda laid out for the Summit had much in common with the Mercosur’s relaunching agenda, and it was articulated explicitly that the Mercosur in this respect constituted the ‘template’ for expanding and deepening integration in the wider South American region. Moreover, the Summit indisputably marked the positioning of Brazil in a subregional leadership role, the implications of which are particularly salient in the hemispheric negotiations, and indeed constitute an important part of the Brazilian and subregional strategy in this process. As a consequence of this interaction of subregionalism and hemispheric regionalism, therefore, it appears that the conditions for a genuine intensification and deepening of the subregional agenda are significantly more conducive at the start of the 2000s than during the 1990s.

Towards a new form of regionalist governance

My assessment of Southern Cone regionalism has sought to identify a set of nascent and emerging trends which mark a new direction in the regionalist project. These trends coalesce around a political agenda which seeks to deepen integration and intensify subregional policy coordination. The choices made by governments have been pushed and shaped by a structural environment characterised by a gradually increasing momentum in hemispheric integration in the Americas, as well as a marked instability in the global economy which has propelled an important redefinition of structures and policy priorities at the national and subregional levels. The interaction of these structural factors and the regionalist policy agenda articulated by governments has been highlighted throughout this paper.

My contention is that the result of the interaction has been the emergence of a new form of regionalism in the Southern Cone, which can usefully be understood as a new form of regionalist governance. The Mercosur in the 1990s corresponded well to what has been called, with reference to the Asia Pacific, a mode of ‘pre-governance’, by which is implied a market-driven form of regionalism which lacks the regional policy networks associated with the European Union and the ‘hub-spoke’ characteristics of North American regionalism. Propelled by the crisis at the end of the 1990s, but reflecting shifts in the wider environment of the subregional project (relating most notably to the process of hemispheric integration), Southern Cone regionalism has departed substantially from its ‘pre-governance’ features. The new form of regionalism rests on three sets of characteristics, which together draw out the main strands of the discussion in this paper. These characteristics relate respectively to the structures of regionalist governance, the mechanisms of economic governance, and the resulting form of regionalism itself.

The first refers to the position of Brazil, a change in which marks the articulation of a strongly political and strategic agenda under Brazilian leadership, on the one hand, and, on the other, a structure of governance which increasingly features a subregional hub state. This recent development constitutes a pivotal factor in
the changing architecture of subregional governance in the Mercosur, and indeed the changing architecture of the Americas more broadly. This is not to claim that the resulting form of regionalist governance approximates the ‘hub-spoke’ arrangement characteristic of North America: in the first place, despite some deviations towards bilateralism, the subregional hub state locates itself firmly within the principle of bloc bargaining in the Mercosur, which distinguishes this arrangement sharply from the subregional engagement of the United States; in the second place, Brazil does not approximate the level of subregional dominance exercised by the US in North America, either in terms of the extent of regional dependence on the US market or in terms of the political weight exercised by the global and regional hegemon. Nevertheless, the system of governance emerging in South America is propelled and defined by the progressive articulation of Brazil as the subregional hub state, and the motor of the regionalist process itself, which finds expression in the overlapping subregional agendas and the wider hemispheric process.

Second, subregionalism in the Mercosur has come to rest on a principle of policy coordination which implies, in the long-term, the articulation of a new form of market governance. This form of market governance rests in the first instance on a significant regionalisation of governance mechanisms. While this process does not imply the wholesale elimination of more ‘national’ forms of economic governance, progressively the trend is towards convergence upon a set of regionally coordinated policy norms and objectives and the location of market governance mechanisms at the subregional level. On the one hand, this process is designed to ease the ‘system frictions’ between national capitalist systems which previously have arisen as a result of a range of macroeconomic and other imbalances. On the other hand, the process is seen to have particular utility as a strategy of domestic (and subregional) political management. Clearly the European experience demonstrates that the construction of ‘parallel’ systems of market governance do not necessarily (or even often) attenuate domestic political pressures or enhance the political legitimacy of policy processes. Nevertheless, there are visible and solid signs, identified in this article, of a trend in the Mercosur towards a form of regionalism which rests progressively on collective policy strategies and a regionalisation of market governance mechanisms, and clear evidence that early steps in the realisation of this strategy are underway.

The third dimension of this emerging form of regionalist governance relates to the resulting form of regionalism. As we have seen, trends since the Brazilian devaluation have coalesced into a vision of the Mercosur as a platform for ‘autonomous economic development’ which is imbued with a range of strategic and developmental objectives. While the regional project remains conceptualised as a ‘market-making’ strategy, its nature and direction corresponds increasingly to a significantly more ‘heterodox’ project in which the Mercosur provides a space for the implementation of active developmental policies and in addition acquires strategic utility. As such, regionalism in the Mercosur of late appears to approximate closely Hettne’s notion of ‘developmental regionalism’ which is associated not with autarkic development strategies but rather with a selective and cautious approach to free trade and globalisation, and evolves in response to the needs among developing countries for—in varying degrees—the creation of
economic size and political weight in external negotiations; the creation of a ‘viable economy’ in that ‘self-sufficiency’ is only feasible at the regional level; and the promotion of development, peace and security.64 We have seen that the relaunching of the Mercosur reflects precisely these dimensions of a ‘developmental regionalism’. What it implies is not only the crystallisation of new dimensions of regionalist governance, but also a re-definition of the relationship between globalisation and regionalisation in the Southern Cone.

I would suggest, in this light, that our understanding of the relationship of regionalism with globalisation needs to move beyond the sterile building block/stumbling block argument. It needs, rather, to engage with the increasingly complex nature of the relationship between the global and regional dimensions of the spatial reorganisation of capitalism, governance and development. In particular, discussions of all three of these sets of structures and processes—and within the academic literatures denoted by each—need to take into account the centrality of regionalist governance in the new political economy of development.

Notes

The research for this article was conducted primarily in Argentina and Chile in July–August 2000, and many of the judgements emerge from confidential interviews and conversations over this time. I am also grateful to the participants of the 2001 BISA IPDG workshop for useful comments.


2 The Southern Common Market (Mercado Común del Sur), comprising Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as associate members.


8 For a detailed account of the principal conflicts during this period, see J Cason ‘On the Road to Southern Cone Economic Integration’, Journal of Interamerican Studies and World Affairs, 42 (1), 2000, pp 23–42.


10 The Convertibility Plan, implemented in April 1991, establishes a 1:1 parity between the Argentine currency and the US dollar, and requires that the monetary base be backed fully by available gold and hard currency reserves.

11 The figures for Paraguay also show an enormous vulnerability to the regional shocks: the 1998–99 variation for exports is –32.8% and for imports –30.6%. For Uruguay, the figures approximate the Argentine pattern, with a variation in exports of –18.9% and in imports of –11.9%. Figures from Inter-American Development Bank/Institute for the Integration of Latin America and the Caribbean (INTAL), Informe Mercosur No. 6, 1999–2000, Buenos Aires: BID-INTAL, 2000, pp 16–17.

For a detailed discussion of each of the principal sectoral disputes over this period, see INTAL, Informe Mercosur No. 6, chapter 2.

For financial times, see Financial Times, 16 February 2000.


Agência Estado, 6 August 1999.

Folha de Sáo Paulo, 18 July 1999, cited in INTAL, Informe Mercosur No. 6, p 27.


The Economist, 11 December 1999; La Nación, 10 May 2000.


Consejo del Mercado Común del Mercosur (CMC), ‘Relanzamiento del Mercosur’, decisions 22/00–32/00, Buenos Aires, 29 June 2000.


Nogueira, ‘El Mercosur Monetario’.


INTAL, Informe Mercosur No. 6, p 25.


La Nación, 4 July 2000.


La Nación, 26 March 2000.


La Nación, 30 August 2000.


