

Explaining Mercosur's Survival: Strategic Sources of Argentine–Brazilian Convergence

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Abstract. This article aims to address a fundamental question for analysts and students of MERCOSUR: what explains the bloc's survival despite its recurrent crises and frequent pessimistic forecasts predicting its collapse? It argues that the maintenance of co-operation after 1999, when the economic and political economy rationale of the project had almost disappeared, is best understood in terms of the convergent *strategic* interests of MERCOSUR partners. This convergence of interests in the continuity of the regional regime reflects three types of strategic incentives. First, *defensive* considerations reflecting external forces and a shared sense of vulnerability vis-à-vis the external environment have provided the main motivation for partners to engage in negotiations and attempt to move the process of integration forward. Secondly, the *offensive* incentives faced by Brazil, given its relatively stronger position within the region have also worked to foster regional co-operation. But besides these power considerations, the sustainability of co-operation has been at least partially assisted by an emerging process of socialisation among executive officials taking place within regional institutions. These processes of increased interaction and enmeshment have reinforced interests in regional integration, giving way to *positive* incentives to maintain MERCOSUR.

MERCOSUR was born as a political project reflecting a convergence of the foreign policy interests of Argentina and Brazil in the early 1990s. Fostered by perceptions of shared external pressures and common domestic economic goals, co-operation in the Southern Cone proceeded smoothly during the first few years after the signing of the Treaty of Asunción in March 1991. In contrast to previous attempts at regional integration in Latin America, MERCOSUR succeeded in generating unprecedented levels of intra-regional trade while furthering a high degree of coincidence between commitments and liberalisation achievements. This success would however not last for long.

After 1995, just as the period of transition to the (imperfect) customs union (CU) was completed, the sustained increase in trade interdependence was not matched by an equal progress in improving market access and

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implementing common policies. In the second half of the 1990s, the practice of signing agreements and failing to respect them became an endemic problem of the Southern Cone integration scheme. After 1998, MERCOSUR became the scene of frequent disputes or 'crises' typically triggered by partners taking unilateral measures which contravened previously institutionalised agreements. As members' internal economic situations deteriorated and instances of commercial and diplomatic conflict between Argentina and Brazil became more frequent, the sustainability of the regional project began to be seriously questioned. To many observers the bloc was becoming both institutionally and economically irrelevant, and incentives to regional co-operation seemed unclear. In fact, the extent of crisis in Argentina–Brazil relations during 1999 and 2001 led many to predict MERCOSUR's demise would shortly follow.¹

However, against these pessimistic forecasts, MERCOSUR has not collapsed. It has survived not only the severe crisis triggered by the Brazilian devaluation in January 1999, but also the strong shock caused by the Argentine crisis in 2001. Despite historically low levels of intra-regional trade and investment flows, and numerous 'imperfections' and exceptions in the common external tariff (CET), partners have repeatedly reaffirmed their commitment to the project. This article aims to explain the sources of this enduring commitment to the project, despite its decreasing economic rationale. It focuses on the preferences and interests of the two largest partners, Argentina and Brazil, and argues that despite recurring conflict between them between 1999 and 2001, it was in both countries' strategic interest to keep the project of integration alive. More specifically, the maintenance of institutionalised co-operation after 1998 when the economic and political economy rationale of the project had significantly eroded, can be understood by examining the persisting convergent foreign policy or 'strategic' incentives faced by Argentina and Brazil, given shared perceptions of external (and to some extent also internal) vulnerability. *Defensive* strategic considerations, ultimately reflecting the partners' awareness of their relative weakness within a highly asymmetrical international system, have constituted a major force motivating their willingness to overcome crises and further the integration process. At the same time, the *offensive* incentives faced by Brazil, given its relatively stronger position within the region, have also worked to foster regional co-operation. But besides these power considerations, this article argues that the sustainability of co-operation has been at least partially assisted by an emerging process of socialisation among executive officials

¹ See, for example, M. Carranza, 'Can MERCOSUR Survive? Domestic and International Constraints on Mercosur,' *Latin American Politics and Society*, vol. 45, no. 2 (Summer 2003), p. 70, and J. Onuki, 'Mercosul: Crise e Futuro,' *Carta Internacional*, no. 84 (2000), p. 5.

within regional institutions. These processes of increased interaction and enmeshment have reinforced interests in regional integration, giving way to *positive* incentives to maintain MERCOSUR. The argument presented here is consistent with realist-inspired or power-politics explanations of regional integration, especially with those focusing on external balancing. However, the analysis in this article also highlights the scope for complementarity between these rationalist perspectives and constructivist approaches that stress the importance of process and interaction in shaping states' interests in regional co-operation.

The focus on Argentine–Brazilian convergence in explaining the survival of the four-member MERCOSUR project needs justification. It is in no way intended to suggest that the smaller partners, Uruguay and Paraguay, are irrelevant in the dynamics of conflict and co-operation within MERCOSUR. Clearly, an erosion of their support and commitment to the bloc could potentially endanger its sustainability, and seriously modify the sets of trade-offs faced by the largest members. The argument here is *not* that the convergence of Argentine–Brazilian interests can by itself account for the endurance of MERCOSUR as a regional regime, but that it constitutes a central element. The analysis concentrates on the sources of Argentina and Brazil's somewhat puzzling enduring support for regional co-operation because these two countries have been the main protagonists of the most salient instances of commercial and diplomatic friction after 1998. Thus, although the role of Uruguay during the crisis that followed the devaluation of the Brazilian currency in January 1999 should not be overlooked, it was the unrelenting tension between Buenos Aires and Brasilia which was perceived as threatening the continuity of the bloc during the 1999–2001 period. It was also these two partners that most frequently resorted to unilateral measures contravening regional commitments during this phase. Similarly, Argentina and Brazil led initiatives to 'relaunch' or reinvigorate MERCOSUR in 2000 and 2001. Examining the sources of this seemingly ambiguous behaviour by the two largest partners illuminates but does not completely account for the survival of institutionalised co-operation in the Southern cone. A careful analysis of the interests and incentives faced by Uruguay and Paraguay which would complement the analysis in this article, is however beyond its scope.

The article is organised in four sections. The first section presents an overview of the main theoretical approaches to regionalism on which the subsequent analysis draws. The second part briefly discusses the evolution of integration between 1999 and 2001, placing emphasis on the declining economic relevance of the project, and the recurrent sectorial disputes between Argentina and Brazil. The third section addresses the main puzzle of the article, namely, what explains the persistence of the regime. It assesses

the relevance of several of the explanations outlined in the first section, looking at the role of domestic political economy, external strategic and institutional effects in the sustainability of co-operation in MERCOSUR. A brief final section summarises the main arguments.

Theoretical framework

This article draws on the main theoretical approaches to international co-operation and regional integration within International Political Economy (IPE) and International Relations (IR), which seek to explain why states choose to create and/or to join regional integration schemes. In general, theoretical explanations of the sources and persistence of international (and regional) co-operation can be loosely classified into rationalist, and constructivist or sociological approaches.²

Rationalist approaches view states' choices to participate in a regional integration agreement as an instrumentally-driven calculation of the relative costs and benefits involved. In other words, they assume that member states will choose to follow regional co-operation strategies *if* these satisfy their own goals or national interests better or at a lower cost than alternatives.³ Seen from this perspective, the maintenance of regional co-operation is determined by the ability of the regime to forward the national interest of member states better than can be achieved by other means. Scholars of IR and IPE have offered various explanations of the ways in which regional integration policies can contribute to the different sets of goals or interests of states.

Domestic political economy explanations, for example, focus on how regional economic integration can contribute to the accomplishment of domestic political and economic interests.⁴ A first group of theories views regional integration as driven by the preferences and goals of governments. These state-centred explanations highlight the different economic and political incentives that policy-makers might face to participate in a regional integration agreement. The welfare implications of regional trade agreements and customs unions on both members and third countries are believed to be at best ambiguous.⁵ Nevertheless, the creation of an expanded regional market is

² This classification follows M. Pollack, 'International Relations Theory and European Integration,' *Robert Schuman Centre Working Paper*, no. 2000/55 (2000), and A. Hurrell, 'Regionalism in Theoretical Perspective,' in L. Fawcett and A. Hurrell (eds.), *Regionalism in World Politics* (Oxford, 1995), pp. 37–71.

³ Andrew Axline (ed.), *The Political Economy of Regional Integration: Comparative Case Studies* (London, 1994).

⁴ K. Kaltenthaler and F. Mora, 'Explaining Latin American Economic Integration: The Case of MERCOSUR,' *Review of International Political Economy*, vol. 9, no. 1 (March 2002), pp. 72–97.

⁵ J. Viner, *The Custom Union Issue* (New York, 1950).

usually expected to have a number of positive economic effects, not only in terms of trade creation but also by facilitating the realisation of economies of scale. In addition, regional integration might serve as a magnet for foreign direct investment. These expected economic benefits, according to Manzetti, were important considerations for the governments of Alfonsín and Sarney as they took the first steps towards institutionalised co-operation between Argentina and Brazil in the mid-1980s.⁶ The attraction of foreign direct investment was also a significant incentive for their successors in the 1990s, given the strong reliance on foreign capital of their macroeconomic strategies. Apart from that, during the 1990s, Argentina benefited significantly from free access to the large Brazilian markets, which soon became the major export outlet for Argentine industrial sectors.

Alternatively, regional integration might be pursued in an attempt to forward the domestic political agenda of government officials, and particularly to stimulate political and economic reforms.⁷ First, governments that are encountering domestic opposition to a programme of liberal economic reforms may enter a regional integration agreement as a way of 'locking-in' these reforms.⁸ This may allow governments to legitimise their reforms by claiming that compliance with international agreements require them to adhere to certain economic policies. According to Manzetti, this was a particularly important consideration in Brazil, where resistance to market reforms was strongest. Presidents Collor de Melo and Franco thus used MERCOSUR's across the board tariff liberalisation as a means of pushing domestic business to lower prices and improve its competitiveness and efficiency.⁹ Similarly, Argentine President Carlos Menem relied on MERCOSUR commitments to legitimise some of the unprecedented reforms introduced in Argentina after 1991.¹⁰ Secondly, regional integration might be seen as contributing to the consolidation of democracy. Kaltenthaler and Mora have argued that this was even a stronger factor behind moves to institutionalise economic integration between Argentina and Brazil in the mid-1980s.¹¹ The two countries' leaders saw bilateral co-operation as a way of neutralising any military threat which could be

⁶ L. Manzetti, 'The Political Economy of MERCOSUR,' *Journal of Inter-American Studies and World Affairs*, vol. 35, no. 4 (1993–1994), pp. 101–41.

⁷ E. Mansfield and H. Milner, 'The New Wave of Regionalism,' *International Organization*, vol. 53, no. 3 (1999), pp. 589–627.

⁸ See for example, S. Haggard, 'Regionalism in Asia and the Americas,' in E. Mansfield and H. Milner (eds.), *The Political Economy of Regionalism* (New York, 1997), pp. 20–49; and Hurrell, 'Regionalism in Theoretical Perspective'.

⁹ Manzetti, 'The Political Economy of MERCOSUR'.

¹⁰ See, for example, Kaltenthaler and Mora, 'Explaining Latin American Economic Integration'.

¹¹ *Ibid.*

associated to or justified by the existence of a strategic competition/rivalry in the Southern Cone.¹²

A second group of domestic political economy approaches focus instead on the preferences of societal actors and interest groups and view regional integration as driven by their demands. These explanations begin with the assumption that regional liberalisation policies, like any other economic policy measures, have distributional consequences for domestic groups, creating winners and losers who inevitably become supporters or detractors of the project. Industries that obtain protection from competitors in third countries via the CET, and export oriented sectors that benefit from preferential access to neighbours' markets, for example, have obvious reasons to press for the establishment of a customs union.¹³ More specifically, firms that can exploit economies of scale and production sharing across borders in intermediate goods when gaining access to the regional markets face strong incentives to support and/or lobby their governments to seek regional trade agreements.¹⁴ Although there is widespread agreement that MERCOSUR began as a state-led project which was initially resisted by traditionally protected domestic industrial and agricultural sectors,¹⁵ there is evidence that as the process of integration deepened, some sectors came to benefit from it and hence to support it. As Sanchez Bajo has argued, sectors such as petrochemicals and steel came to participate actively in the construction of the regional market, and to make a crucial contribution to the sustainability of the integration process.¹⁶

¹² See C. Bonfili and P. Di Chiaro, *La política exterior del gobierno de Menem: seguimiento y reflexiones al promediar su mandato* (Rosario, 1997); A. Costa Vaz, *Cooperação, integração e processo negociador: a construção do Mercosul* (Brasília, 2002); and A. Hurrell, 'Regionalism in the Americas,' in L. Fawcett and A. Hurrell (eds.), *Regionalism in World Politics* (Oxford, 1995), pp. 250–82.

¹³ Mansfield and Milner, 'The New Wave of Regionalism'; Haggard, 'Regionalism in Asia and the Americas'.

¹⁴ K. Chase, 'Economic Interests and Regional Trading Agreements: The Case of NAFTA,' *International Organization*, vol. 57, no. 1, (2003), pp. 137–74; H. Milner, 'Industries, Governments and the Creation of Regional Trade Blocs,' in E. Mansfield and H. Milner (eds.), *The Political Economy of Regionalism* (New York, 1997), pp. 77–106; M. Busch and H. Milner, 'International Firms, Regionalism, and Domestic Politics,' in R. Stubbs and G. Underhill (eds.), *Political Economy and the Changing Global Order* (New York, 1994), pp. 259–76.

¹⁵ See, for example, J. Burrell and J. Cason, 'Turning the Tables: State and Society in South America's Economic Integration,' *Polity*, vol. 34, no. 4 (Summer 2002), pp. 457–77, and B. Ross Schneider, 'Business Politics and Regional Integration: The Advantages of Organization in NAFTA and MERCOSUR,' in V. Bulmer-Thomas (ed.), *Regional Integration in Latin America and the Caribbean: The Political Economy of Open Regionalism* (London, 2001).

¹⁶ C. Sanchez Bajo, *The Political Economy of Regionalism: Business Actors in MERCOSUR* (The Hague, 2000).

While most scholars tend to agree that interest group participation in the process of negotiations and integration has remained relatively low,¹⁷ societal theories have usefully highlighted the extent to which lobbying by negatively affected sectors has moderated governments' incentives to deepen integration. As Mansfield and Milner note, although it is impossible to construct a regional trading bloc that does not adversely affect at least some domestic economic sectors, it is often feasible to exclude them from the arrangement, and thus to increase political sustainability.¹⁸ Olarreaga, Soloaga and Winters have argued along these lines that the existence of important 'deviations' or exceptions from both the CET and intra-regional free trade can be explained by private sector lobbying. These exceptions, they argue, reflect governments' attempts to increase the political viability of the agreement.¹⁹

Instead of focusing on the domestic-level incentives faced by states to join regional integration agreements, *systemic theories* focus on international level forces and highlight the importance of the broader political and economic structures within which regional trade bodies exist. The two main systemic approaches in IR theory, neorealism and neoliberal institutionalism, concerned as they are with international co-operation in general, have much to say about the formation and/or sustainability of regional trade blocs. Neorealism, with its focus on political power competition, relative gains, balances of power and hegemony, provides a number of illuminating hypotheses regarding states' choices to pursue regional trade strategies. First, regional integration blocs may be formed as a response to external threats or challenges.²⁰ Such threats could be either political/security-related, as with the pressures which according to some scholars have played a crucial role in the process of European integration,²¹ or could have to do with mercantilist inter-state economic rivalry.²² Thus, the existence of either a regional

¹⁷ E. Avogadro and R. Bouzas, 'Trade Policy-Making and the Private Sector: A Memorandum on Argentina,' *INTAL Occasional Paper*, no. 13 (2002).

¹⁸ Mansfield and Milner, 'The New Wave of Regionalism'; and G. Grossman and E. Helpman, 'The Politics of Free Trade Agreements,' *American Economic Review*, vol. 85, no. 4 (1995), pp. 667–90.

¹⁹ M. Olarreaga, I. Soloaga and A. Winters, 'What's behind MERCOSUR's Common External Tariff?,' *World Bank Policy Research Working Paper Series*, no. 2231 (1996).

²⁰ See Hurrell, 'Regionalism in Theoretical Perspective'; and W. Hout, 'Theories of International Relations and the New Regionalism,' in J. Grugel and W. Hout (eds.), *Regionalism across the North-South Divide: State Strategies and Globalization* (London, 1999), pp. 14–28.

²¹ J. Grieco, 'State Interests and Institutional Rule Trajectories: A Neorealist Interpretation of the Maastricht Treaty and European Economic and Monetary Union,' *Security Studies*, vol. 5, no. 2 (1994), pp. 261–306; S. Hoffman, *The European Sisyphus: Essays on Europe, 1964–1994* (Boulder, 1996).

²² Hurrell, 'Regionalism in Theoretical Perspective'; E. Luttwak, 'From Geopolitics to Geoeconomics: Logic of Conflict, Grammar and Commerce,' *The National Interest*, no. 20 (Summer 1990), pp. 17–23.

hegemon or of rival trading agreements might trigger defensive incentives to act as a bloc, perhaps over concerns regarding competitiveness. Such a bloc might increase the market and bargaining power of its constituent members, improving the balance of power vis-à-vis larger actors and thus increasing influence in multilateral or inter-bloc negotiations. Several scholars have indeed interpreted the emergence of MERCOSUR in the mid-1980s, and its reinvigoration in the early 1990s, as a response to a series of international trends which triggered fears of marginalisation and vulnerability among the governments in the Southern Cone.²³

Second, from a realist or neorealist perspective, states might seek regional integration in order to affect political power relations among themselves, given the acknowledged effects of trade and economic interdependence on states' political-military power.²⁴ On the one hand, relatively weaker states within a region might seek regional institutionalised agreements with stronger neighbours in order to restrict their free exercise of power.²⁵ This argument might help to explain the greater interest of the smaller (and weaker) MERCOSUR partners, Argentina, Uruguay and Paraguay, in establishing more substantive and encompassing regional institutions. On the other hand, stronger states face *offensive* incentives to promote regional trade agreements a way of consolidating their power over weaker counterparts. States that are less vulnerable to disruptions of commercial relations within a regional bloc than their partners are likely to enjoy greater political leverage over those partners.²⁶ Brazil's attempts to expand MERCOSUR into a South American

²³ The emergence of regional co-operation in the 1980s has been interpreted as a joint attempt to increase the two countries' bargaining power in international negotiations over debt, investment and trade issues, given the increasing centrality of the US in the region. Similarly, for Presidents Carlos Menem and Fernando Collor de Melo, in the early 1990s, MERCOSUR was a defensive response to the challenges posed by a post-Cold War scenario characterised by growing economic globalisation, the emergence of regional blocs throughout the world (and particularly in North America), and the shift of international investors interest to Eastern European states. There was also growing frustration with the limited concrete results of the process of multilateral trade negotiations. See for example A. Hurrell, 'Latin America in the New World Order: A Regional Bloc of the Americas?', *International Affairs*, vol. 68, no. 1 (Jan 1992) pp. 121–39; Hurrell, 'Regionalism in the Americas'; and A. Van Klaveren, 'Why Integration Now? Options for Latin America,' in P. Smith (ed.), *The Challenge of Integration: Europe and the Americas* (New Brunswick, 1993), pp. 22–5.

²⁴ For example, J. Gowa, *Allies, Adversaries, and International Trade* (Princeton, 1994); A. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley, 1945); R. Keohane and J. Nye, *Power and Interdependence: World Politics in Transition* (Boston, 1977).

²⁵ See, for example, J. Grieco, 'Systemic Sources of Variation in Regional Institutionalization in Western Europe, East Asia and the Americas,' in E. Mansfield and H. Milner (eds.), *The Political Economy of Regionalism* (New York, 1997), pp. 164–87.

²⁶ B. Eichengreen and J. Frankel, 'Economic Regionalism: Evidence from Two Twentieth Century Episodes,' *North American Journal of Economics and Finance*, vol. 6, no. 2 (1995), pp. 89–101.

Free Trade Area (SAFTA) respond at least partially to its objective of consolidating its regional leadership, given awareness of its relative stronger position vis-à-vis its neighbours.

Rational or neoliberal institutionalism, also focusing on the systemic level, provides an alternative view of regional co-operation. This theory shares some of the core assumptions of neorealism, particularly about the anarchical nature of the international system, and the centrality and rationality of states. However, unlike neorealists, institutionalists believe that institutions can help self-interested states to solve co-ordination and collaboration dilemmas and hence achieve and sustain co-operation. From a neoliberal institutionalist perspective, the establishment of regional trade agreements can be interpreted as a joint response by states to the problems created by increased interdependence among them. As states find themselves involved in deeper levels of economic interaction, they face the need to manage the externalities and material problems generated by this increased interdependence. Regional regimes perform valuable functions which work to contain these externalities and to facilitate further intra-regional linkages – they provide information, reduce uncertainty, monitor behaviour, permit issue-linkage and enhance the importance of reputation.²⁷ Once regimes emerge to perform such specific functions, states develop an interest in maintaining them even when the factors that brought them into being are no longer operative.²⁸ This approach, which to some scholars sheds significant light on the origins of NAFTA²⁹ and the relaunching of European integration in the 1990s,³⁰ is perhaps not as useful when trying to understand the moves to institutionalise economic co-operation between Argentina and Brazil in 1986, given the low levels of economic interdependence among the two countries at the time.

All the theoretical approaches outlined so far rely on rationality assumptions. States or domestic actors calculate the relative benefits and costs of pursuing regional integration strategies, and only do so if the expected gains outweigh the costs. A second group of theories that have been deployed to explain regional co-operation reject this rationalist approach and rely instead

²⁷ R. Keohane, *After Hegemony: Co-operation and Discord in World Political Economy* (Princeton, 1984).

²⁸ A. Hasenclaver, P. Mayer, and V. Rittberger, *Theories of International Regimes* (Cambridge, 1997).

²⁹ S. Haggard, 'The Political Economy of Regionalism in the Western Hemisphere,' in C. Wise (ed.), *The Post-NAFTA Political Economy: Mexico and the Western Hemisphere* (Pennsylvania, 1998), pp. 302–38.

³⁰ For example, G. Garrett, 'International Co-operation and Institutional Choice: the European Community's Internal Market,' *International Organization*, vol. 46, no. 2 (1992), pp. 269–99; and G. Garrett and G. Tsebelis, 'An Institutional Critique of Intergovernmentalism,' *International Organization*, vol. 50, no. 2 (1996), pp. 533–60.

on a sociological perspective on world politics. Constructivist approaches emphasise the primacy of normative over material structures, the role of identity in the constitution of interests, and the mutual constitution of agents and structures. They challenge rationalist theories' exclusive focus on the strategic interaction of actors with stable preferences and instead seek to explain the content of identities/preferences, arguing that these are acquired or constituted by 'socialisation' into the inter-subjective structures of the international system.³¹ Alexander Wendt has argued that rationalist accounts tend to underestimate the ability of rule-based or institutionalised co-operation to sustain itself by making the evolution of community and the development of a 'collective identity' feasible.³² While Wendt does not reject the rationalist perspective on 'co-operation among egoists', he adds that, once established, rule-governed co-operation can change egoists into more altruistically orientated actors.³³ Constructivists agree with neoliberals or rational institutionalists that institutions matter, but they view them as playing a more important and fundamental role, constituting actors and shaping not simply their incentives but their preferences and identities as well. Thus some scholars of European integration claim that 'membership matters' in altering the preferences and identities of national elites interacting within European institutions.³⁴ Although this perspective has not been extensively applied to MERCOSUR, the next section will show that it can help to shed light on some aspects of the bloc's ability to overcome its most conflictive period.

MERCOSUR's Most Critical Phase: 1999–2001

For at least half a decade after its creation in 1991, MERCOSUR was considered to be one of the most successful attempts at regional integration between developing countries, and possibly the most durable and solid

³¹ See J. Checkel, 'The Constructivist Turn in International Relations Theory,' *World Politics*, vol. 50, no. 1 (1998), pp. 324–48, and J. Checkel, 'Social Construction and Integration,' *Journal of European Public Policy*, vol. 6, no. 4 (1999), pp. 545–60.

³² See A. Wendt, 'Collective Identity Formation and the International State,' *The American Political Science Review*, vol. 88, no. 2 (June 1994), 384–96.

³³ According to Wendt: 'Even if egoistic reasons were its starting point, the process of co-operating tends to redefine those reasons by reconstituting identities and interests in terms of new inter-subjective understandings and commitments'. See A. Wendt, 'Anarchy is What States Make of It: The Social Construction of Power Politics,' *International Organization*, vol. 46, no. 2 (1992), p. 417.

³⁴ For example, Christiansen, Jorgensen and Wiener have argued that: 'as a process, European integration has a transformative impact on the European state system and its constituents units. European integration itself has changed over the years and it is reasonable to assume that in the process agents' identity and subsequently their interests have equally changed'. See T. Christiansen, K. Jorgensen, and A. Wiener, 'The Social Construction of Europe,' *Journal of European Public Policy*, vol. 6, no. 4 (1999), p. 529.

Table 1. *Summary of Theoretical Approaches: Incentives for the Establishment of Regional Integration Agreements (RIAs)*

Approach	Incentives	Hypothesis
<i>Domestic Political Economy</i> State-Centred	<i>Economic</i>	RIAs pursued because of their expected economic effects at the domestic level: gains from increased trade, gains from regionalised production and economies of scale, and the attraction of foreign capital.
	<i>Political</i>	RIAs expected to consolidate and lock in political and economic liberal reforms.
Society-Centred	<i>Societal</i>	The establishment of RIAs reflects private-sector pressures, given the expected gains of export oriented sectors gaining access to the regional market, and import-competing sectors obtaining protection from third countries' producers.
<i>Systemic</i> Neorealism	<i>Strategic Defensive</i>	RIAs as a strategy to increase leverage of partners in multilateral negotiations, and vis-à-vis other blocs and/or extra-regional hegemonic states.
	<i>Strategic Offensive</i>	RIAs as a strategy to affect the balance of political power within the region: for stronger states, a way of consolidating leadership; for weaker states, an attempt to contain hegemonic exercise of power by stronger partner.
Neoliberal Institutionalism	<i>Institutional</i>	RIAs as a joint response to the problems generated by increased interdependence. Maintained because of the valuable functions they perform.
Constructivism	<i>Strategic Positive</i>	The emergence and maintenance of RIAs reflect common regional values and a sense of regional awareness and cohesion which is reinforced with time through increased enmeshment and institutionalised interaction.

co-operation scheme ever created in Latin America.³⁵ Perceptions of success stemmed from the unprecedented increase in levels of intra-regional trade that followed the Asuncion Treaty signed in 1991, as well as from the effective negotiation of a CET, permitting the launch of the customs union in 1995. Although analysts and media sources in Brazil and Argentina tended to depict the two as experiencing a number of diplomatic 'crises' during

³⁵ See, for example, R. Ruggiero, Address to the XII Meeting of the Common Market Council, Asunción, Paraguay (June 16, 1997).

these initial stages of the process of integration,³⁶ instances of conflict tended to be relatively rare, and of short duration. However, the Brazilian devaluation of January 1999 is identified as a turning point, putting an end to several years of steady increase in volumes of intra-regional trade and unprecedented progress in the construction of free trade area and the establishment of the CET. Moreover, the Brazilian currency crisis gave way to a very conflictive period in relations between the bloc's two largest countries, during which recurrent sectoral, commercial and diplomatic fall-outs led many to predict the collapse of the bloc.

The devaluation of the Brazilian currency, combined with a number of adverse trends in the international economy,³⁷ had adverse macroeconomic consequences on Argentina. Although the abrupt shift in relative prices did not lead to the expected 'avalanche' of Brazilian products into the Argentine market, it did result in a fall in Argentine exports to Brazil.³⁸ This not only exacerbated the increasingly serious recession in Argentina, but also translated into a marked decrease in levels of intra-regional trade.³⁹ Despite an initially conciliatory stance, the Brazilian government refused to give in to Argentina's demands for compensation for sectors adversely hit by the devaluation of the real. As a result, and in response to increasing pressure from the domestic private sector, the Argentine government took a number of measures of dubious compatibility with MERCOSUR agreements.⁴⁰ These moves, allegedly aimed at moderating the impact of the devaluation of the Brazilian currency on competitiveness, were utterly rejected by the

³⁶ See, for example, J. Cason, 'On the Road to Southern Cone Economic Integration,' *Journal of Inter-American Studies and World Affairs*, vol. 42 no.1 (2000), pp. 23–42; *La Nación* 14 June 1995; *Clarín* 16 June 1995; etc.

³⁷ The Brazilian devaluation exacerbated the impact of an external context characterised by the fall in international commodity prices, the deceleration in world trade and the contraction of foreign capital to developing countries following the East Asian and Russian currency crises in 1997 and 1998 respectively. See IDB/INTAL, MERCOSUR Report, no. 6, 1999–2000.

³⁸ D. Heymann, 'Regional Interdependencies and Macroeconomic Crises: Notes on MERCOSUR,' *CEPAL, Serie Estudios y Perspectivas* (Nov. 2001). The total value of Argentine exports to Brazil, which reached US\$ 7,949 millions in 1998, fell to US\$ 5,690 in 1999. See MERCOSUR Statistics, Centro de Economía Internacional (CEI) website (www.cei.gov.ar/anexos/mercosur).

³⁹ The value of total intra-MERCOSUR trade fell from US\$ 40,826 million in 1998 to US\$ 30,583 million in 1999. See MERCOSUR Statistics, CEI.

⁴⁰ The most prominent among these series of measures were antidumping duties in the steel sector, quotas for textile imports, including those from MERCOSUR, and most significantly, the failed attempt to introduce the LAIA system of safeguards (Resolution no. 70) at the MERCOSUR level. Finally, during the second half of the year, the Argentine government introduced technical restrictions on footwear imports. See IDB/INTAL, MERCOSUR Report, no. 6, and R. Rozemberg and G. Svarzman, 'El proceso de integración Argentina-Brasil en perspectiva: el ciclo cambiario y la relación público-privada en Argentina,' *INTAL, Documento de Divulgación*, no. 17 (2002).

Brazilian government and triggered a series of bilateral disputes. Tension escalated further when the Brazilian government began engaging in similarly protectionist behaviour in the second half of 1999.⁴¹ This 'tit-for-tat' behaviour, together with increasing complaints of the private sectors in both countries, cast doubt on the sustainability of the regional partnership.

The political will of the Argentine and Brazilian governments would however 'rescue' the project of regional integration from its much-forecasted demise. By the end of 1999, as the economic situation improved slightly in Brazil and a new government took office in Argentina, the two partners began discussing the so-called 'relaunch' of MERCOSUR. In mid-2000, Brazilian President Fernando Cardoso and his Argentine counterpart Fernando de la Rúa signed an agreement pledging their commitment to the bloc and their resolve to move forward in the establishment of a customs union. The relaunch agenda, which included plans for a 'Little Maastricht' agreement on macroeconomic convergence targets, was at the time perceived as formally ending the longest and most serious crisis in bilateral relations since the bloc was created in March 1991.

The deteriorating macroeconomic, financial and political situation in Argentina during 2001 would however prevent the relaunch negotiations from having little more than a mere rhetorical effect.⁴² A new crisis arose in MERCOSUR as a consequence of the Argentine government's decision in March 2001 to breach the CET. The 'competitiveness programme' introduced by newly re-elected Minister of Economy Domingo Cavallo as part of a broader package aimed at addressing the serious recession and stagnation of the Argentine economy raised the tariff on imports of consumer goods from outside MERCOSUR, and eliminated tariffs on imports of capital goods from outside the bloc in order to encourage domestic investment.⁴³ Both measures clearly violated MERCOSUR agreements.

Despite strong complaints from local industrial groups,⁴⁴ the Brazilian government's initial response was notably moderate, and sympathetic towards its smaller partner's problems. Brazil nevertheless refused to accept

⁴¹ For a more detailed account of the different sectoral disputes, see Rozemberg and G. Svarzman, 'El proceso de integración Argentina-Brasil en perspectiva'.

⁴² See IDB/INTAL MERCOSUR Report, no. 8, 2001-02.

⁴³ The changes affected 2700 tariff items, increasing customs tariffs for consumer goods from 12-30% to 35%, and eliminating aliquots on capital goods, as a way of fostering new investment in the country. See IDB/INTAL, MERCOSUR Report, no.7, 2000-01.

⁴⁴ In Brazil, the sector which opposed the measures more heatedly was the capital goods industry, which lost its preferential access to the Argentine market and now had to compete with capital goods from the rest of the world. According to ABIMAQ (Brazilian Association of Machinery Industries), the association representing the interests of this sector, the measures taken by the Argentine government would result in losses of around the US\$ 800 million. See *La Nación* 23 March 2001.

Cavallo's treatment of IT and telecommunications goods as capital goods on which import tariffs were reduced to zero.⁴⁵ Following bilateral negotiations in early April 2001 Argentina agreed to remove these goods from the list of products with a zero import rate, and Brazil formally accepted a temporary suspension of the CET. In July 2001, however, the controversy re-emerged, as the Argentine government passed another resolution violating the agreement signed in April.⁴⁶ Brazil now responded more strongly, suspending all bilateral negotiations and threatening to interrupt purchases of Argentine wheat and petroleum. Bilateral tension was exacerbated by Cavallo's frequent (and public) criticism of the on-going depreciation of the Brazilian currency, as well as by his calls for MERCOSUR to be downgraded to a free trade area. The evident worsening of the Argentine crisis convinced the Brazilian government that if MERCOSUR was to be maintained, and more importantly, if a joint position was to be presented in the coming Free Trade Area of the Americas (FTAA) and World Trade Organisation (WTO) negotiations, it had no option but to grant Argentina the flexibility it was demanding. Following a further deal signed by the four MERCOSUR members allowing Argentina to maintain its exceptions to the CET until December 31, 2002, Brazil agreed to the introduction of the safeguards regime which Argentina had been demanding since the Brazilian devaluation of 1999. The latter would allow Argentine sectors to obtain protection from competitive imbalances between the two countries.

Like the 2000 relaunch agenda, this new agreement was significantly vague in its scope and content⁴⁷ and would soon be made irrelevant by the collapse of the Argentine economy at the end of 2001. However at the time it was signed, it constituted a joint attempt by the Argentine and Brazilian Presidents, meeting in October 2001, to re-insert some political dynamism into the project of integration, and to dissipate growing rumours of its impending collapse. This enduring determination on the part of the two governments to maintain the regional regime in place, even if its rules were frequently ignored and its fundamental objective of regional free trade and economic integration was further postponed, is rather puzzling. It is even harder to explain why Argentina and Brazil tried so hard to avoid the collapse

⁴⁵ *La Nación* 25 March 2001.

⁴⁶ Resolution no. 258/01 reduced tariffs on imports of IT and telecommunications products from non-MERCOSUR countries. In practice, the measure gave exporters from third countries the right to claim the refund of the 'convergence factor' established by Cavallo's competitiveness programme for foreign trade operations. This meant that products from third countries paid the CET but received a discount of about 8%, calculated on the basis of the impact on the peso of the fall of the dollar against the euro. The Resolution discriminated in favour of Argentine imports from third countries, reducing the preference margin for products manufactured in Brazil and the region. See IDB/INTAL, MERCOSUR Report, no. 7. ⁴⁷ See, for example, *La Nación* 10 October 2001.

of MERCOSUR when taking into account the fading economic relevance of the project, evidenced by decreasing levels of intra-regional economic interdependence and eroded private sector support. The next section attempts to tackle this fundamental question by drawing upon the theoretical approaches outlined above.

Explaining MERCOSUR's survival

Domestic political economy factors: economic and political obstacles to co-operation

As noted above, domestic political economy explanations, particularly state-centred approaches, have been used extensively to account for the emergence of institutionalised co-operation between Argentina and Brazil in the mid-1980s, and the creation of MERCOSUR in the early 1990s. Several scholars have stressed the extent to which regional integration was seen as a *means* to a number of domestic economic and political *ends*. For Presidents Alfonsín and Sarney in the mid-1980s, MERCOSUR contributed to the consolidation of democracy and presented an economic alternative. For their successors in the early 1990s, it was instrumental to the 'locking-in' of neo-liberal reforms, the realisation of economies of scale, and the attraction of much-needed foreign investment. Can MERCOSUR's ability to survive its most conflictive phase be explained by reference to the domestic economic and political incentives faced by the governments of its largest members? Similarly, although there is widespread agreement on the relative lower explanatory purchase of interest-group or societal explanations, can it be argued that, given its distributional consequences, the process of integration has come to be sustained by a coalition of private sector 'winners' which have pressed their governments for the maintenance of MERCOSUR? This section argues that these domestic political economy explanations have limited explanatory power when considering MERCOSUR's survival in the 1999–2001 period. In fact, these approaches highlight the *obstacles* rather than the incentives which partners faced in the maintenance of regional co-operation.

State-centred explanations stressing the economic and political incentives for governments to join or participate in regional trade agreements shed limited light on the Argentine-Brazilian decision to renew their commitment to MERCOSUR in 2000 and again at the end of 2001. After more than 15 years of uninterrupted democracy in both countries, the strengthening of democratic institutions was no longer a key incentive for regional co-operation for the Argentine and Brazilian government. Similarly, the growth in intra-regional trade levels, which had been at the core of partners' perceptions of economic gains after 1991, had suffered a substantial reversal.

For Argentina, the reversal of economic incentives was particularly significant, given that these had played a major role in Argentina's interest in MERCOSUR during most of the 1990s.

Three factors worked to weaken Argentina's perceived economic incentives for participating in MERCOSUR during this phase. First, although the shift in relative prices brought about by the Brazilian devaluation did not result in the feared 'avalanche' of Brazilian imports due to the increasing severity of the internal recession, the relative overvaluation of the Argentine peso inevitably led to a fall in Argentine exports to Brazil. Although Argentina continued to enjoy a bilateral surplus, the reduction in exports not only deepened the internal recession, but also worsened the fiscal and balance of payments' deficits.

Second, Argentina was also affected by the high financial volatility and confidence crisis resulting from the Brazilian devaluation in 1999 and the continuous depreciation of the Brazilian currency during 2001.⁴⁸ Argentine economic policy-makers, concerned as they were with restoring confidence in the financial system and assuaging any fear of devaluation, resented their larger neighbour for the financial pressures on the Argentine peso which followed the devaluation of the real in 1999 and intensified during 2001.⁴⁹ The financial instability in the region, when combined with the dramatic reversal in foreign capital inflows to developing countries following the Russian and East Asian currency crises, resulted in a marked reduction of FDI levels into Argentina.⁵⁰ This contributed to weakening Argentina's economic incentives to participate in MERCOSUR, since a key element of this country's interest in the regional bloc had been the character of the enlarged market as a magnet of foreign investment.

Finally, the worsening of the macroeconomic and financial situation in Argentina during 1999–2001, and particularly in 2001, and the determination of Argentine policy-makers to maintain the convertibility regime, increased the perceived costs of relinquishing control over trade policy instruments due to regional commitments. While the currency board system constrained policy-makers' ability to use the exchange rate to adjust to internal and external balances, MERCOSUR commitments limited their autonomy to use tariff policy to reduce costs (and thus promote economic activity), or to improve the current account balance. During this phase, then, the incentives of the Argentine government to observe regional commitments fell dramatically, as both the unilateral protectionist measures in 1999 and the attempts to manipulate the CET in 2001 would demonstrate. This perception of the

⁴⁸ See F. Sturzenegger, 'Nos sigue conviniendo el MERCOSUR?', in *La Nación* 8 August 1998. ⁴⁹ Rozemberg and Svarzman, 'El proceso de integración Argentina-Brasil'.

⁵⁰ IDB/INTAL MERCOSUR Report, no. 8.

falling net benefits to Argentina of a customs union with a relatively more competitive partner lay behind Cavallo and his team's argument that it was in Argentina's interest to reduce MERCOSUR to a free trade area in which intra-regional free trade prevailed but where partners were free to set their desired levels of external tariffs.

Domestic economic and political motivations were more ambiguous for the Brazilian government. First, although the point has been significantly overstated in the literature on MERCOSUR, Brazil's economic interest in MERCOSUR had historically been more moderate than Argentina's.⁵¹ Beyond the asymmetries in market size, the relative overvaluation of the Brazilian currency since the introduction of the Real Plan in 1994 and consequent accumulation of bilateral deficits had led to a smaller reliance on the Argentine market. Despite the increase in exports to Argentina and the other MERCOSUR partners, the US continued as Brazil's first export destination during the 1990s. Although the devaluation of the real in January 1999 did increase the level of Brazilian sales to Argentina and hence reduced the bilateral trade imbalance between the two countries, the recession in Argentina made the expansion of exports much smaller than was anticipated by the government and the private sector.⁵² In addition, Brazilian export growth was hindered by the unilateral restrictions imposed by the Argentine government in 1999, such as anti-dumping duties on iron products, safeguards on textiles and labelling restrictions on footwear products.⁵³ The relaunch agenda introduced in 2000 stressed the potential economic benefits a well-implemented MERCOSUR could bring about. However, the economic crisis in Argentina would make its execution unfeasible. In addition, some of the measures taken in 2001 by the Argentine government, particularly the elimination of the CET on capital goods, had strong adverse consequences on the Brazilian capital goods sector.

But while after 1999 Argentine economic policy-makers came to see MERCOSUR as an obstacle to their more urgent priorities given the constraints it placed on their already limited availability of economic policy tools, the Brazilian government, and particularly the Ministry of Finance, continued to see membership in the regional bloc as instrumental to their broader economic objectives. In the two years prior to the devaluation of the real, business sectors had repeatedly and emphatically voiced their discontent with the overvaluation of the real and with the high level of interest rates. There had also been rising criticism within both the private sector and the

⁵¹ See, for example, Manzetti, 'The Political Economy of MERCOSUR'; and P. Da Motta Veiga, 'Brazil in Mercosur: Reciprocal Influence,' in R. Roett (ed.), *MERCOSUR: Regional Integration and World Markets* (Boulder, 1999), pp. 25–34.

⁵² Mario Marconini (Brazilian Secretary of Foreign Trade 1999), author interview, November 2002, Rio de Janeiro.

⁵³ See IDB/INTAL, MERCOSUR Report, no. 6.

government of the economic team's excessive focus on stabilisation goals at the expense of growth and development. For the neoliberal-minded policy-makers at the Ministry of Finance, the MERCOSUR CET and other regional agreements continued to play a disciplining role, tying their hands in the face of pressure from protectionist business groups and their allies within the bureaucracy. This same incentive explained, at least in part, Brazilian support for the macroeconomic co-ordination initiative that was part of the relaunch agenda in 2000. By ensuring the stability of the rules, MERCOSUR commitments added predictability to the Brazilian economic framework and contributed to the Finance Ministry's objectives of making Brazil an 'investment friendly' location.⁵⁴ After 1999, given the central role which credibility and external confidence played in the strategy chosen to escape the 1999 currency crisis, this seemed even more relevant than before.⁵⁵

If the domestic economic and political incentives of the Argentine government were during this stage negative, and those faced by the Brazilian policy-makers at best ambiguous, can we argue that the survival of MERCOSUR was driven by private sector demands? Not really. The declining overall economic relevance of MERCOSUR for both countries was, not surprisingly, accompanied by diminishing domestic political support for the project, particularly in Argentina. As noted above, business demands for some mechanism of compensation contributed to Argentina's establishment of a number of MERCOSUR-incompatible measures during 1999, and again in 2001. Strong protectionist pressure erupted after the Brazilian devaluation, mainly from sectors such as textiles, iron, footwear, paper and plastics, which had simultaneously been affected not only by the change in Brazil's currency regime, but also by the end of the exceptions introduced by the Treaties of Asunción and Ouro Preto.⁵⁶ These demands were in many cases accompanied by threats of relocation to Brazil.⁵⁷ Unable to ease the burden on domestic producers via the exchange rate due to the restrictions imposed by the convertibility regime, and facing Brazil's refusal to negotiate temporary safeguards, the Argentine government imposed restrictions on bilateral trade in a number of sectors. In 2001, largely the same sectors which

⁵⁴ M. Marconini, author interview.

⁵⁵ Marcos Caramuru de Paiva, (Secretary of International Affairs at the Brazilian Ministry of Finance, 1996–2002), author interview, November 2002, Brasilia.

⁵⁶ The Treaty of Asunción allowed each partner to exclude a number of 'sensitive' sectors of their choice from the process of intra-regional liberalisation. These sectors were to be gradually included into the agreement during a 'transition period' (1991–94). However, some remained exempt from the free trade area in the Ouro Preto Protocol, signed in December 1994. These sectors came to form part of the '*régimen de adecuación*' or adaptation regime, which assumed that they needed more time (until the end of 1998) to become competitive enough to participate fully in the process of regional integration.

⁵⁷ See IDB/INTAL MERCOSUR Report, no. 6.

had been at the centre of disputes in 1999 continued to be very vocal about the costs of Argentine participation in MERCOSUR, and even called for revision or suspension of the agreement.

In Brazil, business groups' input also worked to moderate rather than deepen the government's overall commitment to the integration process. Despite the strong pro-MERCOSUR rhetoric of the major industrial and agricultural associations, such as the São Paulo State Industrial Federation (FIESP), the National Industrial Confederation (CNI) and the National Agricultural Confederation (CAN), some sectoral chambers, particularly in the agricultural sector, continued to demand protection from intra-regional free trade. The agricultural sector's heavy lobbying was behind the Brazilian government's tough response to Argentina's unilateral measures in 1999. In fact, the plans to retaliate would have significantly benefited this group, since the retaliatory measure included license restrictions mostly on Argentine agricultural products. In addition, in 1999 the Brazilian government had also taken a number of unilateral measures of dubious compatibility with MERCOSUR commitments on regional free trade. In August 1999, for example, in response to the demands of the Brazilian Rice Producers' Federation, Brazilian customs authorities imposed a number of health regulations limiting the entry of Argentine rice. Three months later, the Brazilian Secretariat for Agricultural Protection introduced new regulations creating difficulties in the concession of garlic import licenses, aimed at stopping or limiting garlic imports from Argentina. Finally, health regulations intended to block the entry of Argentine honey were also introduced during the second half of 1999.⁵⁸

Interest-group explanations, then, do not help to explain the enduring commitments of the Argentine and Brazilian governments to MERCOSUR after 1999. Domestic political economy approaches, stressing the role of state and interest group preferences and the interaction among them, in fact shed more light on the sources of conflict between Argentina and Brazil in the 1999–2001 period. The economic turmoil in Argentina and Brazil during this period and the decreasing economic value of the project for both countries eroded the economic incentives to respect regional agreements, particularly in the case of Argentina. Although the Brazilian government continued to see the regional project as a mechanism for disciplining domestic protectionism, overall domestic political motivations were also relatively lower after 1998 and cannot explain the joint attempts to avoid the collapse of the bloc in 2000 and 2001. Similarly, the weakening support of domestic private sector groups observed in both countries after 1999 (especially in Argentina) contributed to the many diplomatic and commercial

⁵⁸ *Ibid.*

disputes between the two countries during this conflictive phase. If domestic factors cannot explain the endurance of co-operation between Argentina and Brazil, can we argue that it has been driven by systemic considerations? The next section will examine this question.

Power considerations: strategic and offensive incentives to preserving MERCOSUR

When turning to systemic approaches to the emergence and maintenance of regional co-operative schemes, it is clear that one of the main approaches, neoliberal institutionalism, has little to say about the survival of MERCOSUR. As stated above, institutionalists see co-operation as a joint response to the problems and ‘externalities’ created by interdependence. However, the relaunch of MERCOSUR in 2000 and the agreements signed in 2001 to grant greater flexibility to Argentina in the establishment of its CET and to establish safeguards mechanisms, were all responses to decreasing and not growing levels of interdependence. After 1998, there is a clear shift in the regional commercial trends that had been evident for much of the 1990s. While between 1990 and 1997 intra- and extra- regional trade had increased by 26 per cent and 11 per cent respectively, in 1998 it fell by 1.3 per cent and 3.8 per cent respectively. The Brazilian devaluation of January 1999, and the uncertainty and recession prevailing in the region greatly exacerbated the decrease in intra-bloc trade flows, which fell by 25 per cent in 1999. Although there was some recovery during 2000, the Argentine crisis in 2001 deepened this declining trend, having a particularly strong adverse impact on intra-regional trade levels, which in 2002 would represent 50 per cent of their value in 2000.⁵⁹ Moreover, during this period a process of ‘de-Mercosurisation’ began taking place, with partners trading more with other regions and countries than with each other.

Given this evidence of falling levels of interdependence, rational institutionalist explanations have little to say about the partners’ attempts to maintain MERCOSUR. After 1998, Argentina and Brazil faced fewer incentives to contain the externalities of high trade interdependence through regional institutions. Can the survival of the regime be explained in terms of the valuable functions they performed for members? Not really, as the bloc’s arrangements and their obvious inability to contain and effectively penalise cheating and to foster compliance and commitment to regional agreements led many to blame the thin and minimalist institutional structure for all the bloc’s problems.⁶⁰

⁵⁹ See IDB/INTAL MERCOSUR Report, no. 8.

⁶⁰ See for example, J. Assis de Almeida, ‘MERCOSUR’s institutions: Present and Future,’ *Network*, vol. 9, no. 3 (July–Sept 2000); M. A. Ekmedjan, ‘Sólo Mejores Instituciones Salvarán al Mercosur,’ in *Clarín* 13 September 1999; etc.

However, realist-inspired explanations, stressing the role of balances of economic and political power and strategic considerations, can provide a series of illuminating insights regarding the sources of MERCOSUR's survival after 1999. To a significant extent, the joint attempts to prevent the collapse of the regional bloc after intense bilateral crises reflected a convergence of foreign policy or 'strategic' incentives between the governments of Argentina and Brazil. First of all, enduring and even *renewed* support for MERCOSUR during this period had clear defensive roots: it constituted a joint response of the governments of Argentina and Brazil to the consolidation of the FTAA negotiations and a series of threatening trends in the international political economy, such as the reversal of international capital flows to emerging markets, the deceleration of international trade, the slow progress delivered by multilateral trade negotiations, and the economic and geopolitical uncertainty brought about by the September 11 terrorist attacks in 2001. Given the Argentine and Brazilian governments' perceptions of their relative weakness within the international system, these trends served to underline the relative costs of a 'go-it-alone' strategy and provided incentives for deepening regional integration in order to create a stronger and more influential regional bloc with greater leverage in hemispheric and international-level negotiations. Ultimately, this shared sense of vulnerability generated a convergence of interests in preserving MERCOSUR. The position of each country, however, was inevitably shaped by different considerations, given their relative sizes and positions within the international and regional systems and the particular ways in which domestic actors interpreted the external trends outlined above.

In Brazil, despite an official discourse which emphasised that MERCOSUR continued to be a key strategic priority, the 1999 crisis led to a deep rethinking of MERCOSUR within the government. In July 1999, Foreign Affairs Minister Lampreia proposed a discussion among the Ministers in the economic team and President Cardoso, aimed at 'shedding light on what Brazil wanted from MERCOSUR.'⁶¹ The exercise implied assessing the costs and benefits to Brazil of three options: to maintain MERCOSUR as it was, as an imperfect, conflict-ridden customs union; to reduce MERCOSUR to a free trade area, or to move towards the establishment of a genuine customs union, with a common external tariff and co-ordinated macroeconomic policies, and, most important at the time, able to act as a political and strategic bloc in international negotiations. According to the government officials interviewed, this third option was eventually chosen by the Ministers participating in the discussion, even though it

⁶¹ Luiz Felipe Lampreia (Brazilian Foreign Affairs Minister, 1995–2001), author interview, December 2002, Rio de Janeiro.

clearly required a genuine willingness by the Brazilian government to reduce its degrees of freedom and discretion through the creation of more permanent regional institutions. The so-called ‘relaunch agenda’, attempting to incorporate what Brazilians perceived was missing for MERCOSUR to become a full fledged customs union, was in fact the outcome of the commitments made during this process of rethinking. In this way, at the end of the 1999, Brazil’s position towards MERCOSUR came into greater focus.

But a fundamental question remains: what underlay this renewal of commitment to the regional project? As many authors have noted, defensive considerations played a key role. During this period, the main perceived external threat triggering Brazil’s renewed efforts at strengthening MERCOSUR – and agreement to discuss the issue of further institutionalisation in 2000 – was the consolidation of the FTAA negotiations, which were formally launched in April 1998.⁶² This renewed Brazilian policymakers’ concerns about the risk that the bloc might be diluted within the continental project. As stated by Barbosa: ‘[Progress in the FTAA negotiations] does not leave Brazil any option but to strengthen MERCOSUR, despite the difficulties it has been facing since 1999’.⁶³ The importance of strengthening the regional bloc increased as Brazil came to accept the irreversibility of the process of hemispheric integration and as concerns about the threat of becoming marginalised triggered a shift in its position from one of rejection to one of ‘conflict-ridden’ participation.⁶⁴ Once Brazil had no alternative but to participate actively in negotiations, the focus of attention (particularly at the Foreign Affairs Ministry) turned to the co-ordination of a common stance with Argentina at upcoming hemispheric meetings. A joint MERCOSUR position was viewed as essential for confronting the US at the negotiating table, especially after the failure of the WTO Seattle Round in November 1999 revealed how little developing countries could expect from the multilateral trade process. Although the September 11, 2001 terrorist attacks brought doubts about whether US commitment to the process of hemispheric integration would be sustained, it also created unprecedented financial, economic and political uncertainty in the international system, leading many to predict further world recession, trade depression, and limited availability of

⁶² See L. O. Baptista, ‘O Brasil na encruzilhada das negociações globais,’ *Política Externa*, vol. 10, no. 4 (2002), pp. 47–56; R. Bernal Meza, ‘Os dez anos do Mercosul e a crise argentina,’ *Política Externa*, vol. 10, no. 4 (2002), pp. 7–46; P. Da Motta Veiga, ‘O Brasil, o Mercosul, e a ALCA,’ *Carta Internacional*, no. 106 (2001), pp. 12–16; etc.

⁶³ R. Barbosa, ‘O impacto da ALCA sobre o Mercosul,’ *Revista Brasileira de Comércio Exterior*, no. 67 (2001), pp. 1–6.

⁶⁴ J. Guillon de Albuquerque, ‘A ALCA na política externa brasileira,’ *Política Externa*, vol. 10, no. 2 (2002), pp. 174–88.

external capital for developing countries,⁶⁵ thus increasing incentives for consolidating a solid and unified regional front. MERCOSUR was therefore perceived by the Brazilian government as the most appropriate foreign policy option.

To a large extent, these defensive considerations, in particular the FTAA process, also underlay Brazil's active moves to promote the formation of a South American Free Trade Area (SAFTA) around MERCOSUR, a project launched by the Franco administration in 1992, and revived and reinigorated by President Cardoso in 2000. But Brazil's more assertive attempts to orchestrate closer co-operation among South American countries, through the consolidation of both MERCOSUR and SAFTA, did not only have defensive roots. It also had a strong *offensive* element reflecting a deep-rooted Brazilian ambition to consolidate its leadership in the region. The search for regional prominence was not only seen as instrumental to Brazil's balancing strategy, that is, as a way of increasing the region's and Brazil's leverage at the hemispheric and multilateral levels. It was also an end in itself, which reflected historical beliefs among Brazilian foreign policy elites regarding the distinct destiny of their country. It was in particular a reflection of their awareness that beyond its potential to occupy a central or hegemonic position among its neighbours, Brazil was large enough to play a relevant role in the international order.⁶⁶ Brazilian diplomats have tended to see their country as an 'intermediate power', potentially capable of articulating a consensus among the great powers and the smaller countries.⁶⁷ This goal of playing a mediating role between north and south, in this case an 'interlocutor' between the United States and South America, was according to Bernal Meza, clear in Brazil's attitude towards the FTAA after 1998.⁶⁸ Although an exceedingly aggressive Brazilian stance in the region could destabilise relations with Argentina, Brazil saw the strengthening of MERCOSUR as a crucial first step towards further South America integration, and thus had strong incentives not only to avoid re-igniting historical

⁶⁵ A. Rodriguez Giavarini, quoted in F. Peña, 'Dos socios en un mundo nuevo,' in *La Nación* 15 September 2001.

⁶⁶ See for example, G. Fonseca Jr., *A legitimidade e outras questões internacionais* (São Paulo, 1998); and J. Grugel and M. de Almeida Medeiros, 'Brazil and MERCOSUR,' in J. Grugel and W. Hout (eds.), *Regionalism across the North-South Divide* (London, 1999), pp. 46–61.

⁶⁷ According to Lafer, Brazil's identity as a middle power, articulated in the post First World War period, would become a constant feature of the country's regional and international orientation. See C. Lafer, *A identidade internacional do Brasil e a política externa brasileira: passado, presente e futuro* (São Paulo, 2001). For another example of Brazil's self perception as a 'potência média', see R. Ubiraci Sennes, *As mudanças da política externa brasileira na década de 1980: uma potência média recém-industrializada* (Porto Alegre, 2003).

⁶⁸ Bernal Meza, 'Os dez anos do Mercosul e a crise argentina'.

bilateral rivalries but also to overcome the recurrent commercial and diplomatic disputes during the 1999–2001 phase.

While Brazil's strategic commitment to MERCOSUR remained stable during the bloc's first decade, Argentina's was more ambiguous and internally divided. Despite the economic importance of the process of regional integration, Argentina's foreign policy strategy during the 1990s made the development of preferential relations with the United States its first priority. Although integration with Brazil had initially been seen as a complementary objective, expectations that the Clinton administration might invite Argentina to join NAFTA created a strategic dilemma within the Argentine government in 1993–94.⁶⁹ While a group within the government (including the influential Finance Minister Cavallo) favoured early entry to NAFTA and saw MERCOSUR's upgrade into a customs union as an obstacle to intensifying bilateral co-operation with the US, another group (mainly within the Foreign Ministry) viewed integration with the US more sceptically and advocated a more gradual regional-level strategy of insertion into the international economy.⁷⁰ Although eventually, the debate was cut short by the failure of the Clinton administration to obtain fast-track authority from the US Congress – which ruled out a bilateral negotiation with the United States or NAFTA clearly unfeasible – the debate about Argentina's best mode of international integration continued throughout the decade. As the FTAA process moved forward, the more liberal group within the government continued to advocate early access by Argentina independently of its neighbours, while the pro-MERCOSUR group supported Brazil's strategy of a joint MERCOSUR position in hemispheric negotiations.⁷¹

This debate intensified during the 1999–2001 period. However, an overall deepening of strategic commitment to MERCOSUR took shape within the Argentine government, and a shift towards a less ambivalent official position towards the regional bloc. According to Tokatlian, at the end of his mandate Menem effected a moderate shift in Argentine foreign policy, gradually taking distance from the US and coming closer to Latin America, and particularly to MERCOSUR partners.⁷² In 1999, this changing attitude could be observed in the President's and the Foreign Affairs Ministry's stance during the crisis with Brazil, and in particular in their opposition to the protectionist

⁶⁹ J. Campbell, R. Rozemberg and G. Svarzman, 'El Mercosur en los años 90: de la apertura a la globalización,' in J. Campbell (ed.), *MERCOSUR, entre la realidad y la utopía* (Buenos Aires, 1999), pp. 123–226.

⁷⁰ See for example, R. Russell, *La política exterior argentina en el nuevo orden mundial* (Buenos Aires, 1992), and Campbell, Rozemberg and Svarzman, 'Quince años de integración'.

⁷¹ For a good summary see R. Bouzas, 'MERCOSUR o ALCA,' in *Clarín*, 26 March 2001.

⁷² J. Tokatlian, 'Política exterior argentina de Menem a de la Rúa: diplomacia del ajuste,' *Política Externa*, vol. 9, no. 2 (2000).

measures proposed by the Ministry of Economy.⁷³ Despite the economic imbalance brought about by the Brazilian devaluation, MERCOSUR was still seen as a 'fundamental' element in Argentina's foreign policy and the 'strategic idea' behind it was not to be questioned.⁷⁴ At the end of the Menem administration, as Peña put it: 'the original idea of MERCOSUR (...) is not matched by rational alternatives for any of the partners. No one seems to question the need to face the challenges and opportunities of a globalised world together.'⁷⁵

Without altering the fundamental lines of his predecessor's foreign policy, De la Rúa would introduce a further moderation in both its objectives and its style – much in line with his personality and political fragility. His Foreign Affairs Minister, Adalberto Rodríguez Giavarini, talked of 'mature relations' with Washington, and of Argentina belonging to the 'second world'.⁷⁶ Although the new *Alianza* government had underscored during the electoral campaign the strategic sense it saw in relations with Brazil and its willingness to rebuild them, its foreign policy discourse once in power placed strong emphasis on its 'political, strategic, military, defensive, cultural, (and *then* economic and commercial) importance',⁷⁷ reflecting the obvious deterioration of the project's commercial implications. In 2001, despite the differences between the Finance and Foreign Affairs Ministers, and Cavallo's public calls to forget the customs union and sign a bilateral agreement with the US,⁷⁸ the official position was that MERCOSUR would be a step towards the FTAA. This did not constrain Cavallo's anti-Brazil measures and statements (given that they were allegedly justified on economic grounds), but he eventually had to accede to the President's foreign policy position.

Argentina's decision in 1994 to prioritise MERCOSUR over bilateral integration with the US or early entry to NAFTA, could in part be understood as resulting from the collapse of this second option. It can also be explained in terms of the economic incentives faced by the Menem administration to deepen integration with its larger neighbour. How then do we explain the deepening of commitment observed within the Argentine

⁷³ Jorge Campbell (Argentine Secretary of International Economic Relations, 1991–99), author interview, April 2003, Buenos Aires; Felix Peña (Argentine Under-Secretary of Foreign Trade, 1998–99), author interview, October 2003, Buenos Aires.

⁷⁴ At that time Secretary of International Economic Relations Jorge Campbell stated that the customs union versus FTA debate regarding the future of MERCOSUR was absurd (in colloquial Spanish, '*un disparate*'): J. Campbell, 'El MERCOSUR después de la crisis,' Presentation at the Annual Meeting of the Argentine Banking Association (ABA), Buenos Aires (July 5, 1999).

⁷⁵ F. Peña, 'Mercosul: análise de uma década e tendências para o futuro,' *Política Externa*, vol. 10, no. 1 (2001), pp. 5–23.

⁷⁶ Tokatlian, 'Política exterior argentina de Menem a de la Rúa'. ⁷⁷ *Ibid.* Emphasis mine.

⁷⁸ See for example 'Dos ministros en puja permanente,' *La Nación* 8 May 2001.

government during the 1999–2001 phase and the seemingly less ambivalent position towards the regional project? The shift in Argentina's position towards an unqualified prioritisation of MERCOSUR reflected a rational strategic adaptation to shifting external and internal conditions. First, as in 1994, there was a perceived lack of feasible alternatives, given the obvious fact that, by the end of the Menem administration, attempts to establish a preferential partnership with the United States or to become its 'point of reference' in the region had simply failed. Brazil commanded greater attention from the United States, and despite Argentina's efforts, it had become the focal point in the region. The apparently limited success of the strategy of bandwagoning with the United States during the 1990s created incentives to move towards a policy of balancing such as that proposed by Brazil.⁷⁹

Secondly, and in part as a result of this, towards the end of the Menem administration the process of hemispheric integration had come to be regarded with significantly more pessimism and caution than in the past. On the one hand, as the negotiation process gained momentum, there had been a strong realisation of the risks involved in the FTAA for a country like Argentina, with a small market and 'little to offer' in term of tactical concessions.⁸⁰ On the other hand, the weakening of Argentina's economic situation after 2000, and particularly during 2001, inevitably affected Argentina's self perception, leading to a significant reassessment of the country's power position in the regional, hemispheric and multilateral systems. When combined with the deterioration of external conditions – the world-wide recession and financial instability, the limited availability of foreign capital and the uncertainty brought about by the September 11 attacks – this downward revision of Argentina's power potential served to underline incentives for bandwagoning with its stronger neighbour in order to increase its leverage in external negotiations.⁸¹

⁷⁹ As Rapoport has put it: 'this policy (of automatic alignment with the US) has not translated into any significant advantage for Argentina, as the scant or even null international negotiating power we have had in the past few years has shown ... Abandoning *Realismo Periférico* and strengthening relations with Brazil is key for re-establishing a national project ... Both negotiations with the US regarding the FTAA and with the EU require a previous strengthening of rapprochement with Brazil ...' O. Rapoport, 'Un nuevo rumbo en la política exterior argentina,' in *Clarín* 27 June 2003.

⁸⁰ See for example J. Carrera, H. Lacunza and M. Redrado, 'Amenazas y oportunidades de la integración Argentina Estados Unidos: efectos comerciales y sectoriales para nuestro país,' *Boletín Techint*, no. 309 (2002), pp. 21–45.

⁸¹ A. Rodríguez Giavarini, 'La política exterior argentina,' *Archivos del Presente*, no. 20 (2000), pp. 13–25.

Positive incentives: the emergence of a common MERCOSUR identity?

Power-based explanations, in particular external balancing arguments, can take us a long way towards explaining the persistence of the MERCOSUR regime. The deepening of commitment towards MERCOSUR observed in Argentine and Brazilian foreign policy during this phase constituted a rational adaptive response to shifting material internal and external incentives. And as last section has argued, these external power considerations played a larger role in sustaining co-operation than the bloc's institutions. The latter were clearly unable to moderate internal power asymmetries, or to prevent cheating and defection. However, MERCOSUR's 'thin' or minimalist institutions have contributed to the survival of the project in a significant way, not clearly accounted for by the rationalist accounts examined above.

By providing a stable and predictable framework of rules, norms, principles and procedures and establishing regularised patterns of interaction, regional institutions have promoted increased enmeshment, internalisation and socialisation among bureaucratic actors in each country. These processes of repeated institutionalised interaction over an extended period of time seem to have had a positive impact on the partners' perceptions of their interests and attitudes towards integration, contributing to deepening their commitment to the project towards the end of the 1990s and in the early 2000s. As a result, the strategic interest convergence (resulting from shared defensive and offensive considerations) which has sustained the regime to date, seems to have been strengthened by the internalisation by crucial state actors in each country of the notion that regional co-operation and the maintenance of cordial relations are not only means to broader strategic and economic objectives, but also important ends in themselves.

In this sense, it would seem the growing tendency in Buenos Aires and Brasilia to make reference to the irreversibility of the process, or the joint destiny underpinning it, might not constitute mere rhetoric. In fact, there is reason to believe that some of the processes highlighted by the constructivist and the sociological institutionalist literatures have been acquiring greater relevance within MERCOSUR, and could potentially become crucial elements in sustaining co-operation in the future. A number of features of MERCOSUR's institutional structure, and of the particular ways in which integration has proceeded – even the fits and starts in the process – have been particularly conducive to the emergence of identity or interest-shaping dynamics of socialisation and social learning, which have worked to reinforce and sustain the instrumental calculus at the heart of the project's endurance.

First, MERCOSUR was created as a multi-dimensional, gradual and progressive process of integration, establishing an expanding and increasingly complex web of negotiations over significantly lengthy periods of time. This

has fostered growing enmeshment among state actors with similar technical expertise (and in significant isolation from societal pressure),⁸² with a positive impact on their perceptions and their attitudes towards co-operation. In the first five years after the Treaty of Asuncion in 1991, meetings and negotiations revolved around the definition of a CET and the harmonisation of incentives and other domestic-level policies. As the process of integration moved forward, the complexity and the number of issues and actors involved increased. In addition, towards the end of the decade, and particularly after the launching of the FTAA negotiating phase in 1998, partners began trying to co-ordinate joint positions for hemispheric negotiations. Similarly, in 2000 a Macroeconomic Monitoring Group began work, bringing members of the Ministries of Finance and central banks of each partner together. As several state actors interviewed confirmed, these regularised and structured dynamics of interaction over extended periods led to the development of mutual trust and transparency. The ‘excellent’ relations and ‘personal’ contact among negotiators, as stressed by several interviewees, played a significant role in the process of negotiations and in the resolution of crises.⁸³ For example, according to former Argentine Under-Secretary of International Economic Relations, Marcelo Avogadro: ‘Negotiators knew each other very well and they had significant trust in each other. Therefore they were able to solve conflicts rapidly.’⁸⁴ Constructivists help us make analytical sense of this ‘personal contact’ effect: close and co-operative relations among negotiators and technical state actors reflect the gradual emergence, during the process of institutionalised interaction, of a joint interest in achieving co-operative outcomes.⁸⁵

This process of ‘social learning’ or redefinition of state actors’ preferences resulting from increasingly dense bureaucratic enmeshment has facilitated the resolution of disputes and instances of tension emerging between the two countries. In addition, the emergence of joint interests has itself been accelerated and reinforced by the recurrent crises and ups and downs in Argentine-Brazilian relations. As constructivist approaches have highlighted, the uncertainty prevailing in situations of crisis, and the perceived failure of co-operation, tend to trigger ‘cognitive information searches’ and rethinking

⁸² According to Checkel, social learning is more likely when actors have common professional backgrounds, and when the process of interaction takes place in isolation from political pressure. See Checkel, ‘Social Construction and Integration’.

⁸³ According to Mario Marconini: ‘My relationship with everyone was always very good ... On that issue, with Felix Peña, there was a lot of personal contact ... that happens all the time,’ M. Marconini, author interview.

⁸⁴ Marcelo Avogadro (Under-Secretary of International Commercial Relations, 1991–99), author interview, November 2002, Buenos Aires.

⁸⁵ See J. Beyers, ‘Embeddedness and Socialisation in Europe: The Case of Council Officials,’ ARENA Working Papers WP 02/33 (2002).

in participating actors, during which their strategies and even their preferences might be redefined.⁸⁶ The best example is the rethinking which took place in Brazil (and more informally in Argentina as well) after the 1999 crisis, serving to clarify Brazilian interests and strategic priorities. According to an Argentine negotiator, after the negotiation of the waiver in 2001, representatives of the two governments met several times in an attempt to 'think between us how we could put together and re-create MERCOSUR after the crisis.'⁸⁷ In fact, MERCOSUR has since its inception presented members with various opportunities for common puzzling, mutual persuasion and hence redefinition of their positions: the conflictive negotiations of the CET, the protracted attempts to incorporate sensitive sectors to the process of integration, and the failed efforts to move forward with the co-ordination of macroeconomic policies. There is evidence suggesting these processes have allowed actors' preferences and perceptions of each other to be critically modified, in such a way that co-operation was facilitated. For example, according to a top official at the Brazilian Ministry of Finance at the time: 'I learnt a lot with MERCOSUR. One thing I learnt with all these crises is that we have to have the will to move forward in the process of integration, because in the long-run we will all win.'⁸⁸ Similarly, the Argentine Under-Secretary for Latin American Integration in 2000–01, Norberto Ianelli, stated that: 'I believe after all the crises we have gone through, there is today a new awareness regarding the need for co-ordinating macroeconomic policies.'⁸⁹

Incorporating constructivist insights is thus very useful in trying to account for MERCOSUR's survival. In particular, it sheds light on the way in which the process of integration itself can over time have, in the words of a key Argentine negotiator, a 'positive feedback' on partners' perceptions and interests, and hence on the endurance of co-operation. And yet, acknowledging the importance of these constitutive effects of regional institutions does not imply that MERCOSUR has been sustained by the emergence of a genuine sense of 'community' or 'regional identity', such as constructivist scholars might expect. As argued above, a strong rationalist case can still be made: the survival of MERCOSUR is easily understood in reference to the instrumental calculations of Brazil and Argentina. Even the progressive deepening of Argentina's commitment to the regional project, observed towards the end of the 1990s (even before the change of governments) can be understood as a strategic adaptation to shifting material internal and external incentives.

⁸⁶ See Wendt, 'Collective Identity Formation and the International State'; and Checkel, 'Social Construction and Integration'.

⁸⁷ Norberto Ianelli (Under-Secretary of Inter-American Economic Integration and MERCOSUR, 1999–2001), author interview, October 2002, Buenos Aires.

⁸⁸ M. Caramuru de Paiva, author interview.

⁸⁹ N. Ianelli, author interview.

Most significantly, the recurring instances of individualistic behaviour and unilateral measures taken by partners' governments underscore that it is impossible not to think in terms of the cost-benefit analysis engaged in by the MERCOSUR partners. As Russell and Tokatlian have put it, although there has been an emerging 'social structure of friendship', including signs of positive mutual identification among partners, this new culture remains fragile because 'friendship is more of an interested strategy aiming to obtain individualistic benefits, than a legitimate identification with the interests and needs of the other partner'.⁹⁰ Dynamics of socialisation and social learning among state actors may have worked to reinforce each partner's interest in MERCOSUR, and thus contributed to the strategic convergence ultimately underlying the survival of the project. But, as the analysis above has emphasised, for the time being they are less relevant than the instrumentally-driven choices of states.⁹¹

Summary and conclusions

In the light of the tumultuous evolution of relations between Argentina and Brazil after 1999 and of the decreasing relevance of commercial links between them, the persistence of the MERCOSUR regime constitutes a significant puzzle. This article has argued that the regional project's survival can be understood in terms of the convergent *strategic* or foreign policy interests of its two major partners, Argentina and Brazil. Consistent with what a realist or power-politics approach would predict, the enduring support – unqualified in the case of Brazil, and qualified for Argentina – has reflected above all an intensification of defensive incentives triggered by the consolidation of the FTAA negotiations and a series of other threatening international trends. Both countries consider MERCOSUR an essential instrument for increasing bargaining power in multilateral, hemispheric and inter-regional negotiations. As the commercial relevance of the bloc weakened in importance, negotiating access to developed countries' (and particularly European) markets became essential. Apart from the need to preserve a joint front against the US in the FTAA negotiation, frustration with multilateralism has also served to underline this dimension of MERCOSUR, as an instrument of leverage for achieving better market access conditions. A second type of power consideration, also consistent with realist approaches, reflects not the region's relatively fragile power

⁹⁰ R. Russell and J. G. Tokatlian, *El lugar de Brasil en la política exterior argentina* (Buenos Aires, 2003).

⁹¹ For a theoretical discussion on the potential complementarity between rationalist and 'weak cognitivist' approaches, on which the argument here draws, see A. Hasenclaver, P. Mayer, and V. Rittberger, *Theories of International Regimes* (Cambridge, 1997), pp. 216–24.

Table 2. *Different motivations underlying strategic convergence during the 1999–2001 period*

	Strategic Motivations
<i>1-Defensive (Extra-regional Power Asymmetries)</i>	Both countries consider MERCOSUR an essential instrument for increasing bargaining power in multilateral, hemispheric and inter-regional negotiations. As the commercial component of the bloc has weakened in importance, negotiating access to developed countries' (and particularly European) markets has become essential. Frustration with multilateralism has also served to underline this dimension of MERCOSUR as an instrument of leverage for achieving better market access conditions, as has the need to preserve a joint front against the US in FTAA negotiations.
<i>2-Offensive (Intra-regional Power Asymmetries)</i>	For Brazil, MERCOSUR was a key stepping stone towards SAFTA, aiming at consolidating Brazil's regional leadership (in turn, envisaged as contributing to broader goal of becoming an intermediate power at the global level. In this phase, reassertion of this role, attempting to become 'interlocutor' between the United States and Latin America in FTAA negotiations.
<i>3-Positive (Institutionalised interaction and limited socialisation)</i>	The maintenance of regional stability and friendly relations has become a top priority in the foreign policy strategies of both countries, reflecting a shared perception of both governments (and broadly, societies) that MERCOSUR has been a success in irreversibly transforming the region from one of persisting rivalry, mistrust and competition, to a co-operative, democratic, peace zone.

position within the hemispheric and global level, but rather pervasive intra-regional power asymmetries. Given its undisputed prominence within the region, Brazil has seen MERCOSUR as an instrument for consolidating its leadership position.

Although such a rationalist approach focusing on power considerations can take us a long way in explaining MERCOSUR's ability to overcome its darkest period, this article argues that constructivist insights can also contribute significantly. As discussed in the last section, the strategic interest convergence referred to above was reinforced by the 'positive' or unintended effects of the process of institutionalised interaction itself on bureaucratic actors' preferences and interests. Increased bureaucratic enmeshment between officials from the four member countries has given rise to processes of socialisation and social learning, leading key state actors to view the process of regional co-operation no longer solely in instrumental terms – as a means to broader domestic and foreign policy objectives – but also as an end in itself. In this sense, strategic adaptation to changing material incentives and a limited process of socialisation within MERCOSUR

institutions have led to the joint perception that despite its economic flaws, the strategic idea and political project of MERCOSUR should not be questioned and is very much worth keeping alive. Rhetorical examples abound, but the strongest proof has been the efforts made to overcome crises and re-construct the political will to move forward with the project.