

**Mercosur, The Global Economic Crisis, And The New Architecture  
Of Regionalism In The Americas**

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## INTRODUCTION

The demise of the Southern Cone Common Market (Mercosur) has been announced several times. Yet the bloc has shown a remarkable resilience, even in the face of regional economic crises such as the Brazilian financial crisis provoked by the surge of currency devaluations in Southeast Asia in 1997-98.

The 2008-2009 global economic and financial crisis questions the ability of global capitalism to survive without profound changes in the governance of global and regional trade and finance regimes. This crisis has been much more profound and global than the Asian financial crisis of 1997-98, or other regional or subregional crises, because it affects not just Asia, or Russia, or Argentina, Mexico, or Brazil, but the whole capitalist system. In the words of Walden Bello, "We have to see that this is not just a crisis of neoliberalism, which now even establishment critics like Paul Krugman or Joseph Stiglitz agree caused the crisis...The roots of the crisis are deeper. They are just seeing the surface of things. This is really a crisis of capitalism."<sup>1</sup>

The 2008/09 global economic crisis generated an enormous sense of insecurity in the Latin American countries, after several years of steady economic growth, spurred by record high prices for the commodities they export. Argentine-Brazilian bilateral trade dropped 40 percent in January/February 2009, and the global crisis provoked a renewed round of bilateral trade disputes.

Can Mercosur survive the present *truly global* economic crisis? This paper evaluates the impact of this crisis on Mercosur's external and internal agendas. Can the Mercosur partners overcome their still unsettled internal divisions, manage their structural asymmetries, and solve their collective action problems in order to articulate a meaningful response to the global economic crisis? How will Mercosur look like after the crisis? Will it reconfigure itself along neoliberal lines? Alternatively, will it adopt a post-neoliberal development model? How will the incorporation of Chavez's Venezuela affect the future of Mercosur?

The way in which the global economic crisis affects Mercosur is partly determined by the history of the bloc; especially its external agenda and its interplay with the internal agenda. Since the early 2000s Mercosur has been trying to overcome a persistent internal crisis. At the presidential summit of June 2003 in Asunción, the Mercosur partners reaffirmed their countries's commitment to strengthen the bloc, while moving toward a full-scale customs union and common market in 2006. However, Mercosur has been unable to overcome its persistent impasse, and the "structural

cracks” in its institutional architecture are threatening, once again, to unravel the bloc, in the middle of a global economic and financial crisis. In the words of José Mujica, president-elect of Uruguay, “Mercosur walks lamely and looks miserable.” Can the bloc’s cracks and structural flaws be repaired before it becomes completely irrelevant? What are the prospects for Mercosur in the post-Washington Consensus era? In 2001 Helio Jaguaribe argued that “the consolidation of Mercosur constitutes...an indispensable task for the national survival of its member countries.” However, in the last eight years the bloc has suffered an erosion of legitimacy that threatens its very existence. Important centrifugal forces are at work, including the anarchic behavior of member states. As Felix Peña notes, according to article 2 of the Treaty of Asunción, “The common market shall be based on reciprocity of rights and obligations between the State Parties. If each member country can unilaterally decide whether to fulfill an obligation or not, it is extremely difficult to determine whether the principle of reciprocity is being respected.”<sup>2</sup> The Argentine-Brazilian trade disputes triggered by the global economic crisis have significantly eroded the construction of Mercosur; making many analysts wonder whether it is still viable. Brazil, the most important member of the bloc—and presumably its undisputed leader given the enormous structural asymmetries between itself and its junior partners—has taken distance from Mercosur; as shown by its independent bilateral agreement with the European Union. If member states find ways of surviving without Mercosur, they may abandon the bloc before its cracks make it completely irrelevant for their development strategies. From this perspective, a Brazilian de facto defection from the bloc (even if it continues paying lip service to it) would be much more serious than the often-mentioned Uruguayan defection, because if Brazil abandons the bloc it will certainly collapse.

## **MERCOSUR AND PAST REGIONAL AND GLOBAL FINANCIAL CRISES**

Mercosur has a long experience of dealing with regional and global financial crises. The auto parts trade dispute in 1995 was the first serious Mercosur crisis, triggered by the combination of the Argentine trade deficit, caused by the adoption of the Real Plan in Brazil, and the recessionary impact of the 1994 Mexican peso crash. Argentina had reimposed the “statistics” tax (an additional tariff of 3 percent) to offset the “tequila effect.” In June 1995, because of its persistent trade deficit, Brazil established a

temporary quota for automobile imports, without exempting Argentina from the new regime. In addition, it reduced from 18 percent to 2 percent the tariff on imports of capital goods, components, and raw materials for the sector, matching the benefits of the regime granted by Argentina to car manufacturers operating in Argentina, which interpreted these measures as a violation of the customs union agreement. The crisis was settled through presidential diplomacy.

After the 1999 Brazilian devaluation, Mercosur was on the brink of collapse. Brazil was the victim of the global financial crisis that had broken out in Southeast Asia in July 1997 and had spread to Russia in the summer of 1998. The Brazilian financial crisis occurred in spite of a \$41.5 billion economic support package announced by the International Monetary Fund (IMF) and the Clinton administration in November 1998 to prevent “the Asian flu” from spreading to Latin America. During the crisis, Argentina seriously considered adopting the US dollar as its national currency while Brazil simply ignored the complaints of its three smaller partners. In July 1999 the Brazilian government announced that all negotiations with Argentina had been suspended, and even threatened to dissolve Mercosur. This crisis was—again—settled through presidential diplomacy, but it uncovered the structural problems of the bloc, especially the question of the treatment of asymmetries.<sup>3</sup>

The Argentine economic crisis of 2001-2002 spurred a new round of Argentine-Brazilian trade disputes, aggravated by the steady devaluation of Brazil’s currency. During the crisis, the disjunction between Argentina’s fixed exchange rate and Brazil’s periodic currency devaluations threatened Mercosur’s viability as a customs union—and its very survival, if Argentina decided to abandon the agreement and strike a separate deal with the United States. The crisis was solved in October 2001, after Brazil agreed to make concessions, including the establishment of a temporary bilateral mechanism of safeguards inspired by the rules of the World Trade Organization, allowing Argentina to compensate Argentine industries by imposing temporary tariffs on any products that it could show to have been affected by a surge in imports caused by the Brazilian currency’s fall. Once again, presidential diplomacy saved the bloc, although the financial crises showed the limits of Mercosur as an imperfect customs union and the institutional obstacles to move forward toward the creation of the common market envisaged by the Treaty of Asunción in March 1991.

As Nicola Phillips notes, the global financial crises of 1997-99 questioned the soundness of market fundamentalism as a strategy of economic development: “The ‘no

alternative' rhetoric of globalization appears to have given way to a more nuanced understanding of processes of global change and, moreover, of the sociopolitical consequences of the 'commodification' of economic and social relations. Most importantly, the financial crises propelled a renewed emphasis on the agency of state and non-state actors in directing, managing, perhaps mitigating the impact of the specific types of global economic activity that dominated the 1990s."<sup>4</sup>

The market fundamentalism of the first wave of neoliberal globalization in the early 1990s was fully challenged by the rise of the "pink tide" of radical populist regimes in Venezuela, Bolivia, Argentina, Ecuador, and Brazil. After the failure of the neoliberal model to deliver economic growth with social justice the new conventional wisdom in the region is that regional markets alone are not sufficient to meet the socio-economic needs of the Latin American people. There is now a search for alternatives to the neoliberal model, including the new model of "socialism for the 21<sup>st</sup> century" epitomized by Chavez's Bolivarian Revolution in Venezuela. The crisis of the neoliberal projects of "open regionalism" in the 1990s has given rise to "post-liberal" regionalism in South America, coupled with a revival of economic nationalism and post-Washington Consensus 'heterodox' economic policies aimed at reducing poverty and domestic inequalities.<sup>5</sup>

The global economic crisis has had a contradictory impact on Mercosur. On the one hand, it has strengthened the role of member states in their domestic economies, which could have a positive impact in reviving the bloc in the post-crisis global and regional environment. The global crisis has shown the failure of the fundamentalist view of globalization confirming the soundness of Mercosur's decision—at the Fourth Summit of the Americas in Mar del Plata, Argentina, in April 2005—not to conclude the Free Trade Area of the Americas (FTAA) negotiations on US terms; thus "burying" the prospects for a NAFTA-like FTAA and reaffirming the need for an autonomous model for regional integration in the Southern Cone. Similarly to the Asian crisis of 1997-98, the global economic and financial crisis of 2008/2009 should be seen not only as an "economic" crisis, but also as a battle of "ideas" or ideologies.<sup>6</sup>

On the other hand, however, the global economic downturn has generated more caution than excess in trade and monetary policy. As Jason Tockman notes, "behind the veneer of words, even the more radical pink tide presidents understand that the success of their regimes depends upon maintaining macroeconomic stability."<sup>7</sup> The global crisis has forced Argentina to seek an agreement with the International Monetary

Fund (IMF), after having abandoned that institution during Nestor Kirchner's presidency (2003-2007). Argentina had paid off its debt to the IMF by borrowing money from Venezuela; but the global crisis has forced Argentina to return to the global credit markets. This can only be done after the country reaches an agreement with the Argentine defaulted bonds holdouts (20 billion US dollars) and the "Paris Club. The IMF is expected to play a crucial role in those negotiations.<sup>8</sup>

Moreover, the global economic crisis has weakened Mercosur in a number of ways: it has "unglued" the bloc, by exacerbating Brazil's tendency to "go alone," and it has provoked deeper (more difficult to settle) intra-bloc trade disputes; especially between Argentina and Brazil. The global economic crisis generated a wave of protectionism in the region, but whether those protectionist impulses will last depends on the length of the crisis in the advanced capitalist economies. Protectionism in Argentina and Brazil was caused by not only intra-bloc asymmetries and the need to protect domestic industries from intra-bloc competition; but also by fears that the drop in demand in Northern countries (Western Europe, the United States) could lead Asian countries to search for new markets for their products (e.g., in Latin America).

## THE TWO MODELS OF MERCOSUR

Mercosur was originally conceived as a neoliberal trading bloc, but there has always been a tension within the bloc between two alternative models of development and regional integration:

- a. The **first model** follows neo-classic orthodoxy and the fundamentalist approach to globalization. From this perspective, Mercosur is a transitory area of trade preferences, in which the markets reflect, without state interference, the centripetal forces of geography and the globalization of world order. Trade liberalization is more an end in itself than an industrial policy instrument. Mercosur is just a temporary stage toward the full insertion of member states in the globalized economy and the full acceptance of the "sovereignty of the market." Proponents of this model do not favor the establishment of supranational institutions, a common currency, and a common foreign trade policy.
- b. For the **second model** Mercosur is an area of trade preferences in which governments and social and economic agents agree on active policies and strategies. As Aldo Ferrer points out, the purpose of this model is to accomplish development goals

and an “intra-regional equilibrium” which are “unachievable when left to the free operation of the market.”<sup>9</sup> For this model, Mercosur is “here to stay” as an instrument through which member states agree on active policies to promote economic development, autonomous industrialization, and sustainable integration. From this perspective, Mercosur has always been about more than free trade, despite the apparently purely “economic” nature of the Treaty of Asunción. Proponents of this model favor the establishment of supranational institutions, a common currency, and a common external trade policy.

The **second model** inspired the Foz de Iguazu Declaration of 30 November 1985 and the Bilateral Integration Treaty between Argentina and Brazil signed in 1988. This treaty and its forerunner, the 1986 Program for Economic Integration and Cooperation, were aimed at promoting active industrial and technological policies at the regional level, with the Argentine and Brazilian states playing an active role in orienting markets and promoting bilateral integration. This approach inspired the establishment of a binational center for biotechnology, and was reflected in 24 sector-by-sector protocols on capital goods, agribusiness, and the automotive sector.

The **first model** became dominant when the Buenos Aires Act of July 1990 replaced an integration strategy based on intra-sectoral specialization with a program of across the board, progressive, linear, and automatic tariff reductions for most of the bilateral trade. Eight months later this principle would be incorporated to the Treaty of Asunción. However, Mercosur’s repeated failure to achieve its economic objectives despite several “relaunchings” has resulted in a state of permanent crisis that has led to the slow transformation of Mercosur into a *political project* in which the economic and commercial aspects are subordinated to broader objectives, such as achieving a South American identity that could even allow some member states, such as Venezuela, to reaffirm their national interests as opposed to those of the United States.<sup>10</sup> President Hugo Chavez of Venezuela has been pushing Mercosur in that direction, placing the achievement of a *Mercosur Social* on top of the bloc’s agenda while converting it into the hard-core of a South American bloc that would challenge US hegemony in the Western Hemisphere and establish South-South alliances in order to achieve a multipolar world.

The tension between the two models of Mercosur underlies the bloc’s internal crisis and was apparent before the onset of the global economic crisis in the Fall of 2008. There are two parallel discourses in Mercosur: the neoliberal and the post-neoliberal. The bloc is arguably “caught in the middle” between the “old” project of US

led economic governance in the Americas which began at the First Summit of the Americas in Miami in 1994 and the “new” regionalist dynamics created by the Chavez factor and geopolitical realignments in South America.

### **BETWEEN OLD AND NEW: VENEZUELA’S ADMISSION AND THE STATUS OF MERCOSUR BEFORE THE GLOBAL CRISIS**

Before the onset of the global economic crisis, Mercosur continued moving forward, especially in the internal agenda. Although the bloc has failed to establish a Mercosur Customs Code and define a mechanism for the distribution of customs revenue, in the first half of 2008 intra-bloc trade saw robust growth, with imports of US\$ 19.8 billion.<sup>11</sup> Moreover, “the proposed objective of defining a Production Integration Program was accomplished, an issue of especial importance in strengthening regional production chains and one that aims to overcome the asymmetries existing within the bloc.”<sup>12</sup>

On the other hand, before the onset of the global economic crisis Mercosur’s external agenda saw scant progress. The negotiations to achieve a Free Trade Area of the Americas (FTAA) chaired by Brazil and the United States had collapsed in 2005-2006. Uruguay continued seeking authorization to move forward in bilateral negotiations for a free trade area with the United States, independently of Mercosur. Argentina was more interested in reviving its manufacturing sector than in signing FTAs with extra-regional countries or blocs and Brazil focused its external trade agenda on the stalled global negotiations of the Doha Round.<sup>13</sup> In short, when the global economic downturn hit the Mercosur partners, they had a rather defensive external agenda and a rather aggressive internal agenda, despite the difficulties to make progress on certain controversial issues, such as the Customs Code.

Before the global crisis, the major threat to Mercosur’s survival was Paraguay and Uruguay’s resentment against their much larger Mercosur partners, complaining that the bloc was run “too much in the interests of Brazil and to a lesser extent, Argentina.”<sup>14</sup>

The global economic crisis has strengthened Mercosur as a political bloc, opening up the possibility of a “new” Mercosur, along the lines proposed by President Hugo Chavez of Venezuela. Venezuela joined Mercosur as a full member at the bloc’s presidential summit in Cordoba, Argentina, in July 2006.<sup>15</sup> Chavez has declared that his

country is interested in becoming a member of a “new Mercosur,” but that in the absence of a clear willingness to change on the part of Mercosur, “[Venezuela] is not interested “in the old Mercosur.”<sup>16</sup> According to Chavez, Venezuela “is not desperate about Mercosur, but rather promotes a strong South American integration based in the interests of the people.”<sup>17</sup> Chavez has strongly criticized the “old” Mercosur. Referring to the bloc’s chronic internal crisis (exacerbated by Uruguay’s threat to defect from Mercosur, while flirting with the United States) Chavez has said that Mercosur “does not exist.”<sup>18</sup> Moreover, at the South American Summit in Cochabamba, Bolivia, in December 2006, he claimed that a “political Viagra” was needed to revive Mercosur.<sup>19</sup> According to Chavez, “We need a Mercosur that prioritizes social concerns. We need a Mercosur that every day moves farther away from the old elitist corporate model of integration that looks for...financial profits, but forgets about workers, children, life, and human dignity.”<sup>20</sup> At the Mercosur Presidential summit in Rio de Janeiro, in January 2007, Chavez said that the purpose of reforming Mercosur was to “decontaminate neo-liberalism” from the bloc, and at the 34<sup>th</sup> Mercosur Presidential summit in Montevideo, in December 2007, he argued that “the destiny of South American depends on the destiny of Mercosur.”<sup>21</sup>

There are two alternative interpretations of Venezuela’s admission to Mercosur. The first is that the Mercosur partners invited Venezuela to join the bloc to neutralize the socialist aspects of Chavez’s Bolivarian revolution,<sup>22</sup> while converting Venezuela into a responsible member of the Southern Cone model of capitalist development: autonomous, but capitalist, accepting the inevitability of economic globalization but negotiating its place under the sun in a world of independent regional trading blocs.

An alternative interpretation is that Venezuela’s admission to the bloc was driven by Mercosur’s metamorphosis into a new bloc, provoked by the backlash against neoliberal globalization and the emergence of the new center-left regimes. From this perspective, Mercosur would be ready to address—along the lines of Chavez’s “socialism for the 21<sup>st</sup> century”—the democratic deficit and the tremendous social inequalities provoked by unrestricted free trade. In a sense, the Bush administration’s policies toward the region have pushed Mercosur to become a *political* project, which helps explain the close ties between Kirchner’s Argentina and Chavez’s Venezuela and the “strategic alliance” between Brazil and Venezuela.<sup>23</sup>

Mercosur’s transition from a predominantly economic bloc to a predominantly political bloc began at the Presidential summit of July 2006 in Cordoba, Argentina, that

was attended by Cuban President Fidel Castro. The politicization of the bloc was partly provoked by the Bush administration's disastrous policy toward Latin America, which—with the possible exception of Chile—alienated the Southern Cone countries, leading them to adopt strongly independent foreign policies, while establishing a new, more distant relationship with the “colossus of the North.” US-Latin American relations significantly changed in the second half of the 2000s, not only because of the Bush administration's “poverty of imagination” in dealing with the region; but also because the Clinton administration's vision of a “new partnership for prosperity” (embodied in the project to create a Free Trade Area of the Americas) was never realized. As LeoGrande notes, “The economic model of open markets and free trade disappointed Latin Americans by failing to ‘change the lives of real people for the better’ as Clinton promised. Instead, the track record of neoliberal economics was dismal. By the time President George W. Bush traveled to Argentina for the fourth Summit of the Americas in 2005, the FTAA was all but dead.”<sup>24</sup> The radical ideological discourse at the 30<sup>th</sup> Mercosur presidential summit in Cordoba, Argentina, must be interpreted within the broader context of the backlash against neoliberal globalization and the “Washington Consensus” in Latin America; it was not only the product of Chavez's push for extending his “Bolivarian Revolution” to the rest of the region.

### **MERCOSUR'S RESPONSE TO THE GLOBAL ECONOMIC AND FINANCIAL CRISIS**

The global economic crisis took the Latin American countries by surprise. As Ricardo Hausmann notes, in 2007 “decoupling was the fashionable concept in analysts' minds, as the region seemed unaffected by the first signs of trouble in the U.S.”<sup>25</sup> In September 2008, when Washington's political elite rushed to stem the growing financial crisis in the United States, Brazil's President, Luis Inacio Lula da Silva downplayed the possible negative impact of the crisis on the Southern Cone countries, claiming that the Brazilian financial system was strong enough to weather the crisis. When asked what repercussions he expected at home he retorted “What crisis?” On December 16, 2008, at the Mercosur Presidential Summit in Costa do Sauipe, Brazil, , Lula said that the bloc's “strength to deal with the global recession lies not only in the strength of our economies but in the vitality of our democracies.”<sup>26</sup>

Yet it soon became clear that the global economic crisis would have a big impact on the Latin American economies, including the Mercosur economies. The global downturn pulled down the prices of raw materials in the international market, shrinking the state revenues of major exporting countries in Latin America. Countries like Brazil and Argentina were troubled by currency devaluation, withdrawal of capital and fluctuations in stock markets. There was a severe contraction in wheat production in Argentina, aggravated by a serious drought and a tax policy on exports imposed by the Kirchner administration. The Latin American countries soon realized that they were still too weak to save themselves, and loans from the Inter-American Development Bank (IDB) and the World Bank became indispensable to help the Central American and Caribbean countries, as well as Ecuador and Bolivia, to deal with the crisis. Several economists recommended economic stimulus policies following the Chilean model.<sup>27</sup> On the other hand, many experts recognized that the Latin American countries were in a much better position to cope with the crisis than a decade ago.<sup>28</sup> Yet as Cardenas noted, although there were good reasons to believe that Brazil's economy was resilient (with foreign reserves at \$205 billion, four times higher than in 2004) it did not mean that Brazil was immune to the crisis.<sup>29</sup> GDP growth for the three largest Mercosur partners was expected to slow in 2009.<sup>30</sup> "Argentina, Venezuela, Bolivia, and Ecuador are expected to face tougher times [than Brazil, Chile, and Peru] both because they are dependent on commodity exports, ....and because of greater needs for external financing."<sup>31</sup>

At the 35<sup>th</sup> Mercosur Presidential summit in Tucumán, Argentina, in July 2008, Chavez proposed that South American state-owned energy companies create "Petrosur" which he described as "a type of South American OPEC." According to Chavez, such an organization could help pool oil profits into an emergency food fund. At the time, oil profits surpassed \$144 per barrel worldwide, and Chavez reiterated Venezuela's previous offer to contribute one dollar per barrel sold above \$100 to increase food production and alleviate shortages in South America. At the same Presidential summit, Brazilian Foreign Minister Celso Amorim blamed the food crisis on agricultural subsidies in rich countries which "for more than 50 years" have "distorted the world markets" and undermined the competitiveness of food exporters like Brazil; while Argentine Foreign Minister Taiana hinted at the need to strengthen the "political" Mercosur: "There has always been a vision that commercial accords are the only energizing variable of

integration, but what is clear today is that this integration process is much broader...[it includes] the social, cultural, and political fields.”<sup>32</sup>

Yet assuming the kinds of commitments proposed by Chavez—by “decontaminating” Mercosur of neoliberalism—would transform the bloc into something similar to the Bolivarian Alternative for the Americas (ALBA) the first attempt at regional integration in the Western Hemisphere that is not based primarily on trade liberalization but on a new vision of social welfare and equity.<sup>33</sup>

The global economic crisis exposed the limits of Mercosur as an economic project, while highlighting the urgency to move beyond purely “economic” solutions to the problems affecting the region. Once the Mercosur countries realized that they could not immunize the Southern Cone from the global crisis they became extremely concerned over the negative impact the crisis would have on social development and the ongoing fight against poverty. The “International Conference on Political Economy: Responses from the South to the World Economic Crisis,” held in Caracas on October 8-11, 2008—attended by researchers from across the world—“called on the regional governments (especially those of South America) to institute measures for the well-being and the rights of their peoples and not to come to the aid of the banks responsible for the crisis—a position diametrically opposite to what [was then] happening in the United States, Europe, Japan, and South Korea.”<sup>34</sup> The Southern Cone countries did not follow the Caracas Forum’s advice to nationalize the banks; but in October 2008 Argentina’s President Cristina Fernandez de Kirchner announced that Argentina would nationalize \$30 billion in private pension funds to protect retirees from the global financial crisis.

In late October 2008, Brazil convened the Mercosur Council 7<sup>th</sup> extraordinary meeting to “exchange ideas about the ongoing global crisis, how to address it and if there is latitude for some regional coordination.”<sup>35</sup> The global crisis had delegitimized neoliberal capitalism while strengthening Mercosur’s regional identity. The bloc had already behaved as a political bloc when it strongly condemned the European Union’s new immigration law at the 35<sup>th</sup> Mercosur summit in Tucumán, in July 2008. At the meeting, Chilean President Michelle Bachelet urged that South America “raise a common voice” against “racism, discrimination, xenophobia, and other forms of intolerance” symbolized by the EU’s new immigration law. The ten countries attending the 35<sup>th</sup> Mercosur summit had signed an agreement allowing citizens to cross national borders without a passport, a system that the bloc’s full members were already applying and was now extended to Bolivia, Chile, Peru, Ecuador, Colombia, and Venezuela.

Perhaps the strongest indicator of how the global crisis had strengthened Mercosur's "we feeling" was Brazilian President Lula's statement in late March 2009 that "this is a crisis that was caused by people with blue eyes; and before the crisis, they looked as if they knew everything about economics."<sup>36</sup>

### **THE "TRADE WAR" BETWEEN ARGENTINA AND BRAZIL**

Argentina was the first Mercosur partner to adopt protectionist measures, to protect domestic industries with the establishment of "filters" and an "alarm" system to avoid saturation of the domestic market: "Among the imports on the watch list [were] mainly Chinese products but also some from Brazil, particularly textiles and footwear, fearing they could be highly pernicious for the Argentine industry, particularly since the Brazilian currency [had] lost 35 percent of its value since the beginning of the financial crisis."<sup>37</sup>

At the beginning of the crisis it was hoped that a bilateral "consensus mechanism" could be reached between Argentina and Brazil to prevent a trade war between the two countries. However, Argentina did adopt unilateral decisions and bilateral trade with Brazil contracted by 30 percent in 2009 because of obstacles and bureaucratic measures imposed by both sides. Argentina established a non-automatic license system for several sensitive Brazilian imports that was initially accepted by Brazil asking that third country competitors not fill its market share. Yet in the end Brazil also imposed non-automatic licenses for imports of toys and other products from Argentina and both countries fought a full-fledged trade war during 2009, as the effects of the global crisis hit hard on the Mercosur countries. By November 2009, Brazil's adoption of non-automatic licensing measures was causing long delays of Argentine trucks at border crossings, especially affecting Argentine perishable exports, such as fruit. At the 38<sup>th</sup> Mercosur Presidential Summit in Montevideo, in December 2009, Brazil and Argentina were discussing the possibility of reducing the number of products subject to non-automatic import licenses and Argentina seemed to have adopted a conciliatory attitude (Brazil is the main destination of Argentine exports).

## THE REGIONAL “MEGA-SUMMIT”

The first Mercosur Presidential summit after the outbreak of the global economic crisis took place in Costa do Sauipe, near Salvador de Bahia, Brazil, in December 2008. It was part of a regional “mega-summit” organized by Brazilian President Lula da Silva. In addition to the 36th Mercosur summit, there was an Extraordinary Meeting of the Union of South American Nations (UNASUR), the Summit of the Rio Group, and the First Latin American and Caribbean Summit on Integration and Development. During the “mega-summit” Cuba was admitted to the Rio Group, and Brazilian President Lula called the forthcoming Obama administration to revise US policy toward Cuba and Venezuela. This “mega-summit” was attended by leaders from 33 Latin American and Caribbean countries. In the final declaration they agreed to remain united in demanding a new international financial architecture that guarantees democracy and transparency. Following a proposal made by ALBA they decided to study the creation of a regional currency; and Venezuela’s President Chavez proposed the creation of a regional fund, suggesting that each country contribute one percent of their reserves, which together totaled US\$ 500 billion.

At the inaugural session of the 36th Mercosur summit—that was part of the “mega-summit”—Brazil’s President Lula said that the bloc’s strength to deal with the global recession “lies not only in the strength of our economies but in the vitality of our democracies.” The Mercosur leaders decided to create a fund for small and medium businesses and discussed social protection measures to face up to the global financial crisis. Brazil’s President Lula denounced the “perversion” of the existing global economic system and pushed for coordinated action from Mercosur members to tackle the crisis. The Joint Communiqué after the summit “reaffirmed the bloc’s commitment to the principles and objectives of the Treaty of Asunción, and to deepen subregional integration, while strengthening political, social, productive, commercial and investment ties; taking into consideration the demands from their societies for sustainable development with inclusion and social justice.”<sup>38</sup>

Yet as their societies suffered the brunt of the global crisis in 2009, the Mercosur countries failed to present a joint position at the G-20 meetings that were attended by Argentina and Brazil; although they did adopt a common position during the stalled negotiations with the European Union.

In February 2009, “Argentine and Brazilian officials held a working day at the Itamaraty Palace, to deepen bilateral dialogue on the measures taken by the two countries in the current context of the international crisis.”<sup>39</sup> In the first two months of 2009 Brazil’s exports to Argentina fell 49 percent, while its imports from Argentina were down 44 percent. “The Brazilian Minister for Foreign Relations stressed the need to find a common MERCOSUR trade defense mechanism under WTO rules that will enable joint responses to protectionism by developed countries, while the Argentine Minister for Foreign Relations called for more production integration with Brazil and more balanced bilateral trade.”<sup>40</sup>

Despite their “strategic alliance” Argentina and Brazil were unable to prevent a trade war in 2009. However, they were able to implement a currency swap agreement aimed at promoting financial stability in response to the global financial crisis. This “de-dollarization” initiative—which began in October 2007, as a “pilot project” on the path toward regional monetary integration—was formally adopted by the four Mercosur partners at the 37<sup>th</sup> Mercosur Presidential Summit in Asuncion, Paraguay, in July 2009. Argentina and Brazil had agreed in September 2008 to use their own currencies in commercial exchanges—the Local Currency Payment System—and beginning in 2010 Paraguay and Uruguay would do the same. A mix of national currencies (*pesos, reales, guaranies*) would be used to carry out intraregional commerce.

Even before the onset of the global financial crisis, the announcement of the creation of a “Bank of the South” was interpreted by some analysts “as a direct challenge to the Northern-based International Financial Institutions (IFIs) (IMF, World Bank) struggling to remain relevant to the region. The advances of Banco del Sur closely aligned with discussions on regional energy policy and the larger project of building a Union of South American Nations has also tested the South American rhetoric of integration proclaimed at the Cochabamba Summit last December 2007.”<sup>41</sup> The implementation of this initiative, aimed at realizing the region’s common dream to take control of its own financial affairs, had been delayed by infighting between Venezuela and Brazil over startup funds, headquarters bases, membership, size, and mission. The Bank of the South promised to raise US\$ 7 billion in paid-in-capital from member countries (Venezuela, Bolivia, Argentina, Ecuador, Brazil, Uruguay, and Paraguay). Yet the global financial crisis forced Venezuela and Brazil to settle their differences, and on September 26, 2009 seven South American countries signed an agreement to definitely create a Bank of the South with startup capital of \$20 billion. In May 2009 the

governments of Brazil and Venezuela had announced a series of joint projects including infrastructure, hydrocarbon and hydroelectric energy production, chemical fertilizer production, literacy training, public finance, and a joint refinery. They also discussed Venezuela's nationalization of several Argentine-owned steel companies, and set a timeline for Venezuela's unambiguous entry into MERCOSUR. At a meeting with Venezuelan President Chavez, in Merida, Venezuela, on May 28, 2009, Brazilian President Lula said that as a result of the global crisis Brazil's relations with Venezuela had advanced "in an extraordinary manner," and at the 38<sup>th</sup> Mercosur Presidential Summit in Montevideo, in December 2009 he announced that the Brazilian Senate would "soon" ratify Venezuela's entry into Mercosur.

### **EXPLAINING MERCOSUR'S RESPONSE TO THE GLOBAL ECONOMIC CRISIS**

IR theory is ill equipped to interpret the response of regional blocs to global economic or financial crises. The Asian financial crisis of 1997-98 showed the need to establish a "new financial architecture" capable of effectively controlling volatile speculative international capital movements. Such architecture was never put in place and the de-regulation of capital markets in Northern countries provoked the sub prime mortgage crisis in the United States as a prelude to the global economic crisis that exploded in the Fall of 2008. The global economic crisis is really a crisis of capitalism, and a neo-Gramscian approach seems appropriate to interpret Mercosur's response to the global crisis.<sup>42</sup> From this perspective, resistance to globalization is on the increase in Latin America, especially in the Southern Cone, and Mercosur's strategic regionalism is confronting US and EU strategic regionalism in a global economy of competing regional trading blocs. "Mercosur can be seen as a 'historical structure' that has the potential to successfully resist US hegemony in Latin America."<sup>43</sup>

On the other hand, Mercosur can be analyzed as a "nation writ large," with its own internal and external agendas. As we have seen, before the onset of the global economic crisis Mercosur "[was] encountering difficulties over the convergence of interests between its partners in relation to the projects of international insertion."<sup>44</sup> Since the mid-1990s there was a growing disjuncture between Mercosur's internal and external agendas. Nicola Phillips argued that an ambitious external agenda was the

“glue” holding the bloc together,<sup>45</sup> but the focus on the external agenda was a “flight forward,” an evasive action without really strengthening Mercosur. The Asian financial crisis of 1997-98 showed the vulnerability of the bloc’s economies to external shocks and it became increasingly difficult to keep on managing Mercosur’s external and internal agendas on separate tracks; one could argue that the stalling of the bloc’s internal agenda (after several failed attempts to “relaunch” Mercosur) had become an obstacle to make further progress in its external negotiations. The global economic crisis has only aggravated Mercosur’s congenital internal problems, as shown by the lingering trade wars between Argentina and Brazil, or the bloc’s inability to establish a common Customs Code. The lack of progress in Mercosur’s external agenda (especially the deadlock in the Doha Round and the negotiations with the EU) is indirectly weakening the internal agenda by creating incentives for individual member states to cut deals with external actors or groupings without waiting for the emergence of a common Mercosur strategy. Arguably, the global economic crisis has forced the Mercosur partners to re-energize the external agenda. This helps to explain the bloc’s decision at the 38<sup>th</sup> Presidential summit in Montevideo in December 2009 to make progress in trade talks with the European Union, even at the cost of making concessions to European demands in the areas of trade in services and government purchases.<sup>46</sup>

A realist explanation of Mercosur’s response to the global economic crisis would focus on the problem of relative gains and how the crisis has forced the Mercosur partners to adopt protectionist measures.<sup>47</sup> This is highlighted not only by Argentina’s and Brazil’s imposition of non-automatic import licenses on bilateral trade, but also by Paraguay and Uruguay’s complaints that Argentina and Brazil have imposed trade barriers because of the global economic crisis.<sup>48</sup> In the words of Uruguayan Economy Minister Alvaro Garcia, “It is unacceptable that, as a direct and immediate result of the trade restrictions applied by other bloc associates [in obvious reference to Argentina and Brazil] and ours being a country with a very small domestic market, we are facing serious problems such as the paralysis of production lines in various sectors and sending employees to collect unemployment insurance.”<sup>49</sup> Similarly, it has been difficult for the Mercosur partners to eliminate the double levying of the Common External Tariff (CET) which applies to out of the subregion imports. Once a product is inside the bloc it should not pay further tariffs even if it crosses more than one border, but reaching a compromise on this issue has been difficult because Paraguay—a landlocked country—

fears the loss of customs revenue.<sup>50</sup> All these relative gains issues have been aggravated by the global economic crisis.

The big limitation of realist interpretations of Mercosur's behavior is that they fail to explain the bloc's survival despite the recurrence of relative gains problems. In the early 1990s Luigi Manzetti argued that relative gains problems arising from "asymmetries in domestic macroeconomic policies" and excessive dependence on strong presidential leadership could undo Mercosur, which would become vulnerable to domestic political agendas.<sup>51</sup> Yet the bloc has survived three severe crises: (1) the crisis triggered by the Brazilian devaluation in January 1999; (2) the strong shock provoked by the Argentine crisis in 2001-02, and (3) the global financial crisis of 2009-09. In order to explain this puzzle it is necessary to go beyond realist explanations.

As Gomez Mera notes, "constructivist approaches stress the importance of process and interaction in shaping states' interests in regional cooperation."<sup>52</sup> "Constructivist approaches emphasize 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 'socialization' into the inter-subjective structures of the international system."<sup>53</sup>

With its emphasis on regional awareness and regional identity, constructivism opens up the possibility of taking regions seriously as units of analysis and explanation. The dramatic shift in Argentine-Brazilian relations, from enduring rivalry to bilateral cooperation, can be explained using a constructivist framework. The "intersubjective understanding" that made MERCOSUR possible was regional democratization. Political affinities among the new democracies in the Southern Cone facilitated the Brazilian-Argentine Treaty for Integration, Cooperation and Development in November 1988 and the Treaty of Asunción in March 1991. The "we-feeling" in Mercosur has a material base: geographic proximity, which made possible the dramatic increase in intra-group trade in the 1990s, and the "democratic clause"—according to which Mercosur does not recognize governments emerging from military coups—is an important element of the bloc's identity. The major limitation of a constructivist explanation of Mercosur is that the bloc has always been a state-led project, in which the national interests of member states, especially Brazil, have tended to prevail over the bloc's interests. However, even in the absence of a strong institutional identity (due to the absence of supranational

institutions à la EU) Mercosur has developed a subregional identity—symbolized by the fact that citizens of the four Mercosur countries carry a passport with the legend “Mercosur” in its cover—that has been reinforced by the impact of the global economic crisis on Mercosur and the rest of Latin America, as well as by US policy toward the region. From this perspective, skeptical scholars have exaggerated the “crisis of Mercosur.” Even if in fits and starts, the bloc has made some progress in the implementation of the internal agenda and it remains strongly committed to democracy promotion in the region. Paradoxically, the denouement of the Honduras crisis (with the establishment of an illegitimate regime after the June 2009 coup that ousted President Manuel Zelaya) has energized the bloc, facing the danger of similar “civilian coups” in the Southern Cone that—like in Honduras—could be legitimized by US recognition of subsequent “elections,” especially considering the US record (that goes back to the 1990s) of trying to weaken Mercosur as an independent bloc.<sup>54</sup> The statement at the end of the 38<sup>th</sup> Mercosur Presidential Summit held in Montevideo on December 8, 2009, condemned the US recognition of the November 29<sup>th</sup> elections in Honduras, considering “unacceptable the grave violations of human rights and fundamental freedoms suffered by the Honduran people”: “In light of the failure to restore President Manuel Zelaya to the position for which he was democratically elected by the Honduran people, we want to express our total lack of recognition for the November 29<sup>th</sup> elections held by the de facto government, which were undertaken in an unconstitutional, illegitimate, and illegal atmosphere.”<sup>55</sup>

Whether the bloc’s post-global crisis “we-feeling” will last is an open question, considering the lingering unresolved issues in Mercosur’s internal agenda and the lack of progress in the external agenda. It is true that Brazil, consistent with its ambition to assert itself as a global player, has somewhat shifted its attention from Mercosur to the global arena. Yet how serious is Brazil’s “distancing” from Mercosur? Lula continues exercising leadership in the bloc and both Chavez’s Venezuela and Cristina Fernandez de Kirchner’s Argentina continue strongly committed to the bloc. Arguably, Mercosur is still very important for Brazil’s grand strategy, for two reasons. First, it has invested a lot of diplomatic and political capital in Mercosur; it cannot afford to revert to rivalry with Argentina and it has invested a lot of diplomatic capital in strengthening economic and political ties with Venezuela, without accepting all the tenets of Chavez’s “Bolivarian Revolution.” Second, a consolidated Mercosur would allow Brazil to deal more effectively with future financial crises.

Yet Brazil's real objective since the early 1990s has been to create a South American trading bloc; Mercosur is a necessary but insufficient mechanism to achieve that goal. For Brazil, "without the participation of the other South American countries the incentives to deepen subregional integration are weak."<sup>56</sup> This helps explain Brazil's enthusiasm with the enlargement of Mercosur by adding new members through associate status and/or free trade pacts, and, since 2006, the shift of focus in Brazil's policy toward the region from Mercosur to UNASUR, the Union of South American Nations, created on May 23, 2008 by the Treaty of Brasilia. The Brazilian private sector has always had an ambivalent attitude toward Mercosur,<sup>57</sup> and the global economic crisis has led important Brazilian business sectors to press the Lula administration to take distance from the bloc, while strengthening commercial ties with China and other extra-regional powers, such as the European Union.

On the other hand, power-based explanations "take us a long way towards explaining the persistence of the MERCOSUR regime."<sup>58</sup> The international and regional environment has significantly changed since the 1999 and 2001 crises that threatened to derail the Mercosur project. At the regional level, the emergence of center-left populist regimes has led to the abandonment of the "Washington Consensus." Brazil and Argentina have regained control of the Mercosur process under Lula and the Kirchners, while the election of Evo Morales as president of Bolivia and the admission of Venezuela to Mercosur have changed the ideological climate in the bloc and in the region, with the emergence of the Bolivarian Alternative for the Americas (ALBA) as an alternative to the US-sponsored FTAA proposal for economic governance in the Americas. Moreover, there has been a geopolitical realignment that has profound implications for Mercosur and the future of regional economic integration. President Hugo Chavez of Venezuela has emerged as a major actor in South American politics, striking economic deals with several countries, and promoting oil and energy integration as the first stepping-stone that would unite South America against US objectives in the hemisphere. Chavez is at the center of the tension between "old" and "new" in Mercosur. The Chavez factor has started a very subtle geopolitical game in South America. There are at least three geopolitical axes in the region:

- (1) United States–Colombia–Peru. The United States has strengthened ties with both countries; signing bilateral free trade agreements (the accord with Peru has already been ratified by the US Congress) and using the "war on drugs,"

(that has been conflated with the “war on terror”) to extend its influence in the Andean region.

- (2) Argentina-Brazil-Uruguay-Chile-Paraguay. This is the “old” Mercosur project; a moderate bloc, with a hard-core of democracies, promoting stability in the region, and prepared to reach an accommodation with the United States during the last stage of the FTAA negotiations, in 2002-05. After the demise of the FTAA, Mercosur is struggling to define a new identity, especially after Venezuela’s formal admission to the bloc.
- (3) A radical bloc that rejects Washington’s preferences and policies and starts from the assumption that the basic interests of the United States and Latin America are in conflict and economic progress for the region depends upon integration *without* the United States. This is the Bolivarian Alternative for the Americas (ALBA). As Russell notes, “Bolivia’s and Venezuela’s ‘swing to the left’ is fundamental in explaining the formation of a political axis reaching from Havana to La Paz to Caracas, and branching out to Quito, Managua and, to a lesser extent, Buenos Aires.”<sup>59</sup> This ideological axis is the hard-core of the ALBA project.

Until 2005 Brazil had an interest in holding Mercosur together to strengthen its negotiating position with the United States in the FTAA negotiations. Moreover, the parallel negotiations for an FTA with the European Union allowed Brazil and Mercosur to play one extra-regional partner against each other. However, after the collapse of the FTAA talks in 2005, Brazil has fewer incentives to hold Mercosur together as a negotiating bloc. In prior Mercosur crises the “unrelenting tension[s]” between Buenos Aires and Brasilia were perceived “as threatening the continuity of the bloc.”<sup>60</sup> However, during the global economic crisis of 2008/09 the replay of those “unrelenting tensions” mattered less because Mercosur was no longer the only game in town. As the global crisis unfolded in 2009, economic and political analysts paid more attention to the Union of South American Nations (UNASUR) than to Mercosur. Brazil has slowly but safely moved toward an independent foreign trade policy, signing an individual free trade agreement with the European Union and an investment accord with the United States. As INTAL notes, “Faced with the international context and the evolution of their internal macroeconomic climate, MERCOSUR countries have been adopting divergent trade policy strategies. Such differences, which had already become apparent in Uruguay’s repeated requests to negotiate separate bilateral trade agreements with countries

outside the bloc, also became clear at the WTO mini-ministerial meeting in Geneva in July 2008, when Brazil and Argentina took opposite stances.”<sup>61</sup>

Before the collapse of the FTAA talks in 2005, Brazil had sought to play one external trading partner (the EU) against the other (the US) “in order to reduce dependence on either one, and in fact to set up something of an auction dynamic between the EU and the United States for a dominant position in the South American market.”<sup>62</sup> Yet the geopolitical situation (both globally and regionally) has significantly changed since 2005. On the one hand, the United States is not eagerly seeking a free trade agreement (FTA) with Mercosur, and it has already signed a number of FTAs with individual Latin American countries (Chile, Peru, Colombia, the Central American countries, and the Dominican Republic). On the other, the collapse of the FTAA talks strengthens the EU’s negotiating position with Mercosur because it no longer fears that the United States will gain a dominant position in the Southern Cone, despite Uruguay and Paraguay’s several failed attempts to gain the right to sign separate FTAs with the United States.

Former Brazilian President Cardoso once claimed that “making Mercosur work is Brazil’s destiny” and the primacy of Mercosur in Brazil’s foreign policy still appears in President Lula’s speeches. However, the above-mentioned geopolitical changes and the global economic crisis have clearly redefined Brazil’s foreign policy, strengthening its resolve to become a global player, even if such an approach weakens Mercosur.

On the other hand, the global crisis has not strengthened neoliberal economic policies in Latin America. There has been no “turn to the right” after the “pink tide”; and the “civilian,” coup in Honduras in June 2009 looks like an aberration, rather than the wave of the future. Truly, “The dominance of Brazil in MERCOSUR, the influence of Brazil’s powerful business interests, and the associated macroeconomic orthodoxy of President Luiz Inacio ‘Lula’ da Silva have thus far prevented significant movement away from Mercosur’s free trade orientation.”<sup>63</sup> However, the global crisis has confirmed the shortcomings of market fundamentalism and the inability of the neoliberal model of economic integration to achieve a *Mercosur Social*, and there is now an alternative model of regional integration (ALBA) together with “a growing politicization of the regional space.”<sup>64</sup>

It is unclear in what direction the Mercosur project will move in the post-global crisis era. Merco-optimists argue that the bloc’s ambitious external agenda increases its leverage vis-à-vis the United States. Yet the global economic crisis has constrained the

bloc's ability to pursue an aggressive external agenda, which is no substitute for facing up to its internal crisis, now aggravated by the global crisis. One could interpret the South American Community of Nations (SACN) created at the Cusco summit of 2004—later on renamed UNASUR with the Treaty of Brasilia in May 2008—as “a direct challenge to the compact created by the 12 US bilateral [FTA] agreements with individual Latin American countries.”<sup>65</sup> According to Diana Tussie, “Regardless of the coming to fruition of the South American Community as an geoeconomic union of sorts on the basis of an institutional bridge building between ANC [Andean Community] and MERCOSUR, the overall balance has moved from trade negotiations to a political project to keep the US at bay.”<sup>66</sup> Yet this project has an important crack: the US alliance with Colombia; and it has been weakened by Mercosur's unresolved contradictions and inconsistencies. It is not only that the United States has managed to insert a wedge in the SACN/UNASUR project; it is also that the metamorphosis of SACN into UNASUR has deprived Mercosur of its privileged status as the leading alternative to the US project for hemispheric economic governance.<sup>67</sup>

The good news is that the rise of the “pink tide” of center-left regimes in Latin America has created momentum for progressive regionalist strategies, showing that there are alternatives to neoliberal globalization. As Diana Tussie notes, the US push to impose its model of regional economic governance in Latin America has been challenged by “new political coalitions [that] came to power in the early 21<sup>st</sup> century and changed the dynamic of the regional associations.”<sup>68</sup>

The primacy of internal/domestic factors is critically important to understand the behavior of Mercosur and its prospects for survival that will be ultimately determined “by whether domestic political actors in member countries can articulate meaningful alternatives to neoliberal globalization that must necessarily have a subregional/regional South American dimension to be geopolitically effective.”<sup>69</sup> As Diana Tussie notes, “The emerging alliances forged between Lula in Brazil, Evo Morales in Bolivia, Rafael Correa in Ecuador, Hugo Chavez in Venezuela, Nestor Kirchner in Argentina, the *Frente Amplio* in Uruguay and Lugo in Paraguay suggest an interesting configuration in which agendas advanced by groups resisting neoliberalism are accepted and to some extent articulated by governments.”<sup>70</sup> The bad news is that there is a right-wing backlash against this configuration that may lead to a reconfiguration of regional arrangements more in tune with the US project of global and regional economic governance, despite the disjuncture between the structural and “agential” power of the United States in the global and

regional political economies.<sup>71</sup> Diana Tussie optimistically argues that new political leaders “have stood up in representation of the highly mobilized masses and battle for the hearts and minds of Latin Americans pushing for a new social contract.”<sup>72</sup> However, the global economic crisis has weakened the center-left regimes. Although a *military* coup in Brazil or Argentina is nowadays virtually unthinkable, the Honduras crisis has set a very bad precedent that in the medium term may lead conservative sectors of civil societies in these countries to try to replicate the Honduran *civilian* coup in order to get rid of elected left-leaning governments.

### **CONCLUSION: IS THERE LIFE FOR MERCOSUR AFTER THE GLOBAL ECONOMIC CRISIS?**

There is no agreement among scholars on the impact of global or regional economic crises on regional trading blocs such as Mercosur. As Tockman notes, the global economic crisis has had a contradictory impact on regionalism in Latin America: “Today’s difficult economic climate will reinforce Latin America’s growing tendency toward regionalist and socialist agendas, while simultaneously making it more difficult for states to advance post-neoliberal political programs.”<sup>73</sup> At first sight, “Mercosur, a mere free trade bloc between South American countries, hardly represents a viable break with the neo-liberal model.”<sup>74</sup> Yet the tension between an “economic” Mercosur and a “political” Mercosur reflects the tension between the “old” neoliberal model of Mercosur and the emergence of a “new” Mercosur as a geostrategic project after the crisis of the “Washington Consensus” in the late 1990s and early 2000s. The global economic crisis has accentuated this tension. When civil society gets into the picture the whole approach to Mercosur changes. Merco-pessimists insist that Mercosur is only about trade and market-oriented economic integration, and that emphasizing its potential as a political bloc is “more wishful thinking than an accurate reflection of reality.”<sup>75</sup> This is to ignore the fact that the Mercosur governments are under pressure from a mobilized civil society to establish a new “social contract” that would combine the achievement of public goals—that go beyond the neoliberal model and resemble Chavez’s “socialist” revolution—with “market-friendly” choices.<sup>76</sup> At present, there are at least two paths to a new social contract: the Brazilian model and the Venezuelan model.<sup>77</sup> If wrapping up such a social contract was already difficult before the global crisis, it became even more

difficult after the crisis hit the bloc's economies (in 2009 the Brazilian economy will not grow for the first time since 1992); with a weakened Mercosur and individual member states seeking their own ways out of the crisis.

Yet despite the lack of strong institutions, Mercosur has survived the global economic crisis and in April 2009 Mercosur representatives reached a political agreement which opens the way for the creation of a supranational Justice Tribunal. They also reached an accord on the difficult issue of proportional representation in the Mercosur parliament (Parlasur). On the other hand, there has been some progress in the process of admitting Venezuela to the bloc, which will be completed after ratification by the Paraguayan Congress. Moreover, despite the global economic crisis, there has been some progress in the implementation of the internal agenda, including the easing of asymmetries, the creation of the Structural Convergence Fund (FOCEM) (that had 23 projects approved as of June 30, 2008) and the Production Integration Program (PIPM) that seeks to embrace a variety of pre-existing initiatives for "production chains" under one umbrella program.<sup>78</sup>

The "life and death" Mercosur crises of 1999-2001 after the Brazilian devaluations and the collapse of the Argentine economy provoked a backlash against neoliberal globalization that "contributed to significant shifts in the articulated interests of states and the policy agendas through which these interests were pursued in the first decade of the twenty-first century."<sup>79</sup> This backlash had already occurred when the 2008-09 crisis hit Mercosur; there was already a reconfiguration of regionalism "towards the formulation and execution of subregional policy strategies independently of the traditionally dominant foreign policies of the US";<sup>80</sup> and the Bolivarian Alternative for the Americas (ALBA) was already an alternative project for regional economic governance. Moreover, Mercosur was already in crisis; the global crisis only exacerbated the conflict between "old" and "new" in Mercosur.

At the height of the global crisis, Mercosur did not seem very useful as a *defensive* instrument. Although Argentina and Brazil became members of the G-20 in November 2008 they could not agree on a joint position and had their own policy agendas at the meetings. On the other hand, Brazil was recognized by US President Obama as the leading country in South America and the Brazilian President, Luis Inacio Lula da Silva, as the "most popular politician on earth."

The Chinese represent the word *crisis* with two characters: one symbolizes "danger"; the other symbolizes "opportunity." The global crisis of 2008-09 has created an

opportunity to revamp/relaunch (once again!) Mercosur; but the short-term measures required to deal with the crisis have inevitably led to the adoption of nationalist economic responses which have strained relations within the bloc. The need to “adjust” to the crisis has also led to a weakening of business support for Mercosur, especially in Brazil. On the other hand, the global economic crisis has forced Brazil and Mercosur to “cling together” with its South American neighbors. The historic regional “mega-summit” in Brazil in December 2008 that included four meetings of regional organizations reinforced a “we feeling” (which began with the First South American Summit promoted by Brazil in September 2000) and reinforced the trend toward the politicization of the South American regional space. On the other hand, the Honduran crisis has reinforced Mercosur’s commitment to democracy promotion in the region while strengthening Mercosur’s regional identity. An important component of Mercosur’s identity as a political bloc is the “democratic clause.” The democratic norm has an enormous weight in the Southern Cone as a symbol of unity while establishing who is and who is not allowed to participate in the bloc.

The global crisis revived the idea of creating a regional currency in South America, a proposal made by the Bolivarian Alternative for the Americas bloc (ALBA). As we have seen, the global crisis sped up the definite establishment of the Bank of the South on September 26, 2009. The strengthening of ties between Venezuela and Brazil was also a consequence of the global crisis. Moreover, the crisis has given renewed legitimacy to the state model represented by Venezuela, the ALBA countries—and, to a lesser extent, by Argentina and Brazil—depriving of legitimacy the market model represented by Chile, Peru and Colombia. The state model has been reinforced by increasing Venezuelan-Brazilian and Venezuelan-Argentine cooperation in the energy sector. Chavez’s South American diplomacy has been based on the idea that oil is a geopolitical weapon and energy cooperation with Brazil lies at the heart of the “strategic alliance” established in February 2005 when Lula and Chavez signed a number of joint energy agreements.

On the other hand, because of the global crisis there has been a subtle but important change in Brazil’s foreign policy. In the early 2000s, before the collapse of the FTAA negotiations, Brazil had an unbending preference for Mercosur, as opposed to the FTAA project; to the point that “each new move by the USA [pushed] Brazil closer to the subregional commitments.”<sup>81</sup> Yet after the collapse of the FTAA negotiations in 2005, the absence of a common “enemy” weakened Mercosur as Brazil began to rethink its

commitment to the bloc under strong domestic pressures; despite President Lula's rhetorical support for the bloc. Coupled with US neglect of the region during the Bush administration and the stalemate in the Mercosur-European Union free trade negotiations, the external agenda was no longer the "glue" holding the bloc together while the cracks in the internal agenda became more pronounced and difficult to deal with.

Global financial crises provoke battles of ideas or ideologies. There are currently two regionalist projects in South America: (1) the ALBA project, which openly reject neoliberalism; and (2) the "historical" Mercosur project (Argentina, Brazil, Paraguay, and Uruguay) which still supports a core component of the neoliberal development strategy: the appeal of regionalism as a mechanism to attract long-term flows of Foreign Direct Investment (FDI).

It will be interesting to see whether post-crisis regionalism in South America will attempt to insulate the region from the effects of global capital market instability by strengthening the Bank of the South. This bank will provide balance of payment financing and catalyze regional development projects while allowing the region to take control of its own financial affairs, without waiting for the emergence of a new global financial architecture. Some of the proposals made by Chavez and accepted in a modified way by Brazil point in that direction; as well as the initial Mercosur reaction to the crisis (blaming international financial capitalism). Yet by joining the G-20 Argentina and Brazil were co-opted by the North and—as we have seen—due to their intra-bloc disputes were unable to take advantage of the crisis to strengthen the bloc along post-neoliberal lines.

## **LOOKING AHEAD: FOUR SCENARIOS**

There are four alternative scenarios for Mercosur after the global economic crisis:

### *1. Recommitment to a neoliberal Mercosur.*

This is an unlikely scenario. The neoliberal model is discredited, to a greater or lesser extent, in Argentina, Venezuela, Uruguay, and Paraguay. Even in Brazil, where the neoliberal model still enjoys legitimacy in domestic economic policy, the developmentalist ideology that underpinned the early bilateral accords with Argentina in the mid-1980s (PICE and the bilateral treaty of integration in 1988) is still alive and well

and Lula's claim that Mercosur is a priority item in Brazil's foreign policy is not purely rhetorical. Lula has always supported the idea of strengthening Mercosur and the strategic alliance with Argentina. On the other hand, in 2008-09 Brazil has paid less attention to Mercosur and more attention to its new role in the global stage. Like India, Brazil wants to be "a member of the board of the world" and is actively seeking a permanent seat in the United Nations Security Council.

## *2. Mercosur Collapses*

In this scenario, the Mercosur partners abandon regionalism while pursuing separate foreign trade strategies that may include FTAs with the United States. If the global financial crisis drags on, and the bloc's external agenda becomes more defensive and diluted, the dilution of the external agenda would indirectly weaken the already fragile internal agenda, creating incentives for member states to cut individual deals with external actors or groupings without waiting for the emergence of a common Mercosur strategy. The potential for this scenario is indicated by Brazilian Foreign Minister Celso Amorim's claim that "Brazil cannot be a hostage of Argentina" in the deadlocked Doha Round of global trade negotiations.<sup>82</sup>

If the Mercosur partners find ways of surviving without Mercosur, they may abandon the bloc before its cracks make it completely irrelevant for their development strategies. Political wrangling *within* member states could lead to this scenario. If the domestic coalition supporting Mercosur in Brazil loses ground, the future of Mercosur may well depend on who wins the 2010 presidential election. A Jose Serra administration emerging from the 2010 presidential election could abandon the bloc; a Mercosur without Brazil would quickly disintegrate as Uruguay and Paraguay follow suit and Argentina strengthens ties with Venezuela or even joins ALBA. Yet the major disincentive for Brazil to abandon Mercosur is that it still intends to be the regional hegemon. From this perspective, the future of Mercosur significantly depends on the future of Brazil-Venezuela relations and whether both countries move in the same direction as far as regional integration in South America and bilateral relations with the United States are concerned.

## *3. UNASUR Replaces Mercosur as the New Meaningful South American IGO*

The Union of South American Nation (UNASUR) established by the Treaty of Brasilia, signed on May 23, 2008, has the purpose of "building, in a participatory and

consensual manner, a space for the integration and cultural, social, economic, and political union among the peoples of South America, giving priority to political dialogue, and social, educational, energy, infrastructure, financial, and environmental policies, seeking to eliminate socio-economic inequalities, and achieving citizens' participation and social inclusion, strengthening democracy, and reducing asymmetries, while strengthening the sovereignty and independence of member states."<sup>83</sup>

UNASUR has a strong political profile. If it fully comes into existence, as a political entity it may dilute Mercosur if the latter does not solve its perennial internal crisis, and becomes irrelevant. If Mercosur is relegated by member states to the back burner while UNASUR becomes "the only game in town," the Mercosur partners are less likely to transform the currently imperfect free trade area and customs union into a common market. This is because as Felix Peña notes, "Mercosur-...- is based, above all, on agreed trade preferences which are a fundamental pillar for productive integration. UNASUR lacks anything of a similar nature."<sup>84</sup> Moreover, "Mercosur is a reality based on juridical commitments already adopted by member states...UNASUR, instead, must still overcome the process of [congressional] ratification of at least 9 signatory states."<sup>85</sup>

UNASUR is largely a Brazilian creation. Some scholars argue that despite the strong support for Mercosur during the Lula da Silva administrations (since 2002) Mercosur has become increasingly irrelevant for influential members of the Brazilian elite, for whom Brazilian foreign policy should focus on the role of Brazil as a "global trader" and its relationship with the developed, Northern countries, rather than on Mercosur. According to Marcos S. Jank, for certain sectors of the Brazilian elite, such as the Sao Paulo State Federation of Industry (FIESP) Mercosur was no longer viable as an economic union, and was becoming "a suitcase without a handle"—an expression that Brazilians like to use to describe people, things, or events that become a nuisance, or cause more trouble than they're worth.<sup>86</sup> For these sectors of the Brazilian elite, prioritizing UNASUR over Mercosur would facilitate the expansion of the big Brazilian corporations and state-owned commercial and financial industries, such as Petrobras and BNDES to the rest of Latin America, and other extra-regional markets, without the constraints imposed by membership in Mercosur.<sup>87</sup> These sectors favor the transformation of Mercosur into a free trade area, "abolishing the ever more problematic customs union regime."<sup>88</sup>

*a. Benign sub-scenario*

In the most benign variation of this scenario, Mercosur and UNASUR would complement and empower each other, thus reinforcing the logic of autonomous economic and political integration in South America. According to Felix Peña, “This would imply a Mercosur endowed with flexible instruments that reflect variable geometry and ‘multi-speed’ methods in a manner that it can become the hard core of a larger structure of South American extent.” In this sub-scenario, Mercosur—without leaving behind the goals of its members—would forward the political objectives of South American scope to UNASUR.”<sup>89</sup>

*b. Worst-case sub-scenario*

In the worst-case sub-scenario, UNASUR relegates Mercosur to irrelevance, while failing to become a strong South American political bloc capable of reinforcing South American integration and representing the region in the global arena.

*4. A political Mercosur*

In an alternative scenario, Venezuela’s full admission to Mercosur alters the intra-bloc geometry by ending the domination of the axis Brasilia-Buenos Aires. As Monica Hirst notes, although Venezuela’s incorporation will increase Mercosur’s GDP by only 7.7%, the “energy card” gives Venezuela an agenda-setting power that is guaranteed by a network of energy agreements with Argentina and Brazil.<sup>90</sup> Some critics of Venezuela’s admission to Mercosur have argued that it has excessively politicized the bloc, to the detriment of its economic nature as a customs union and prospective common market.<sup>91</sup> Yet one may argue that “ultimately, the logic behind subregional integration [has always been] essentially political,”<sup>92</sup> and that in the early 1990s, “regional integration represented Brazil’s first reaction to the new challenges posed by globalization and the emergence of regional economic blocs,”<sup>93</sup> such as NAFTA and the European Union. Arguably, Mercosur was politicized by Brazil long before Venezuela’s admission to the bloc. As Phillips notes, “The Brazilian indifference to regionalism of the mid-1990s has been progressively replaced by an activism orientated towards strengthening the Mercosur as a strategic and political platform.”<sup>94</sup>

The rise of center-left governments in the five Mercosur countries helps to explain the further politicization of the bloc, and the increasing legitimacy of post-neoliberal policies. In the words of Argentina’s President Kirchner, “We are not

interested only in economic integration. We are not interested in a region of the world where integration is full of poverty, exclusion, and unemployment.”<sup>95</sup> This kind of statement brings Mercosur closer to the ALBA model of regional integration, based on equity, social welfare, and mutual economic aid rather than on profit and trade liberalization. The emergence of anti-neoliberal regimes in Venezuela (Chavez) and Bolivia (Morales) and the establishment of the Bolivarian Alternative for the Americas (ALBA) have created a new regional dynamics that forces Mercosur to choose between the “old” neoliberal economic model and the “new” political model of regional integration.

Yet the biggest obstacle to the consolidation of Mercosur as a political bloc is the emergence of UNASUR (the Union of South American Nations) in May 2008 and its ambiguous relationship with Mercosur (see scenario 3). As Nicola Phillips notes, global financial crises such as the Asian financial crisis of 1997-98, may contribute to “significant shifts in the articulated interests of states and the policy agendas through which these interests are pursued.”<sup>96</sup> Writing in 2000, Paul Bowles noted that “if further [global financial] crises occur the developing countries of the semi-periphery which embraced regionalism as a policy choice in the wake of the international debt crisis of the early 1980s, *may yet turn away from regionalism*, at least in its current neoliberal form as a result of the global financial crises of the late 1990s.”<sup>97</sup> Yet when the global financial crisis of 2008 occurred ALBA was already an alternative project for regional governance that did not exist in the 1980s or 1990s, when the “no alternative” rhetoric of neoliberal globalization appeared unbeatable. Truly, UNASUR dilutes Mercosur as *the* South American alternative to a US-controlled hemispheric system of regional economic governance. Whether UNASUR and Mercosur can complement each other is an open question. However, as Felix Peña notes, UNASUR is still pretty much an incipient organization: “Even when the Treaty of Brasilia is formally in force, it will have to demonstrate that it can attain its ambitious goals,”<sup>98</sup> whereas Mercosur—despite its incompleteness and other limitations—is a reality to be reckoned with by others, including the United States. Unlike UNASUR, that is still a work in progress, Mercosur has an institutional identity, “demonstrated by the addition of its acronym to the identification documents of the citizens of its four partners.”<sup>99</sup>

Since Brazil actively participates in both groupings, whether Mercosur and UNASUR complement each other will depend on the future orientation of Brazil’s foreign policy. Despite the creation of UNASUR, a political Mercosur could consolidate itself if

Venezuela's formal admission becomes a reality and Venezuela and Brazil can consolidate their alliance instead of fighting for regional hegemony in South America.

Mercosur's demise has been foretold many times, but the bloc has managed to overcome several crises, among other reasons because the Mercosur partners are tied up by geography, and lack a credible "Plan B," meaning that they have to continue working together trying to overcome the bloc's internal asymmetries and contradictions.

## FINAL REMARKS

Mercosur has certainly many problems, including the implementation gap, the fact that "rules rarely get out from paper," and the absence of a "bureaucracy able to monitor and enforce regional norms. It is up to the national bureaucracies to do so, but they do not have incentives to perform such a role."<sup>100</sup> However, Mercosur has survived the global economic crisis of 2008/09 and it is taking modest steps to implement its internal agenda, while overcoming its institutional deficit with the decision to create a supra-national Justice Tribunal and the decision to reduce the number of benches representing Brazil and Argentina in the bloc's parliament to make it more attractive for Paraguay and Uruguay. Malamud argues that to conceive Mercosur as a political project with supranational institutions helping member states to survive in a globalizing world is wishful thinking, because Mercosur was never intended to become a political entity, similar to the European Union.<sup>101</sup> Yet analyzing Mercosur as a purely neoliberal economic project misses the point, because despite its purely inter-governmental nature Mercosur has always been about more than free trade and has always looked at the European Union as a model of economic *and* political integration.

As we have seen, the de-dollarization project, despite implementation problems, is a timid step to foster integration, and can be seen as a first step toward a subregional currency, especially after the global financial crisis of 2008-09. The establishment of the Bank of the South is also an important accomplishment that can be seen as a response to the global economic crisis. The bloc's incipient common identity (the "we feeling," that has been reinforced by the global crisis and the blunted US response to the Honduran crisis) can help the bloc after the global crisis to solve its internal problems, complete the customs union, and move forward toward a common market. To survive, Mercosur needs to undertake two urgent tasks. First, it must deal with its institutional and

democratic deficits while implementing its internal agenda, including the establishment of a mechanism for the distribution of customs revenue. The external agenda cannot indefinitely serve as the “glue” holding the bloc together. Second, it must reconnect the bloc’s economic dimension to its increasingly important *political* dimension. After the global economic crisis, despite its internal problems, Mercosur is in a good position to emerge as a strong political bloc with a post-neoliberal agenda that would combine Venezuela’s and Brazil’s economic and social models, allowing it to face up to the challenging “brave new world” of the twenty-first century.

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## NOTES

- <sup>1</sup> “The G-20 after the Crash: Interview with Walden Bello,” *International Socialist Review* (November/December 2009), p. 21.
- <sup>2</sup> Felix Peña, “Structural Cracks in Mercosur: Is It Possible to Adapt Some of its Ground Rules to the Current Realities?” (trans. by Isabel Romero Carranza), November 2009, <<http://www.felizpena.com.ar/index.php?contenido=negotiations&neagno=report/2009-11>>.
- <sup>3</sup> The serious problem of intra-bloc asymmetries would only be addressed during Brazil’s Pro Tempore Presidency in the second half of 2006, and during Paraguay’s Pro Tempore Presidency in the first half of 2007.
- <sup>4</sup> Nicola Phillips, “Governance after Financial Crisis: South American Perspectives on the Reformulation of Regionalism,” *New Political Economy*, Vol. 5, No. 3 (2000), p. 383.
- <sup>5</sup> See Pedro da Motta Veiga and Sandra Polonia Rios, “O Regionalismo Pos-liberal na America do Sul: Origens, Iniciativas e Dilemas,” *Revista Brasileira de Comércio Exterior*, No. 93 (October/December 2007), pp. 34-60.
- <sup>6</sup> See Richard Higgott and Nicola Phillips, “Challenging Triumphalism and Convergence: The Limits of Global Liberalization in Asia and Latin America,” *Review of International Studies*, Vol. 26 (2000), p. 366.
- <sup>7</sup> Jason Tockman, “The Rise of the ‘Pink Tide’: Trade, Integration, and Economic Crisis in Latin America,” *Georgetown Journal of International Affairs*, Vol. 10, No. 2 (Summer/Fall 2009), p. 37.
- <sup>8</sup> See “Argentina after an Agreement with the IMF at the G-20 Scotland Meeting,” *Mercopress*, November 5, 2009.
- <sup>9</sup> *Ibid.*
- <sup>10</sup> Felix Peña, “Dilemas del Mercosur de Cinco,” *Revista Mundo en Portugués*, Vol. 7, No. 63 (October-November 2006), p. 2, available at <http://www.felixpena.com.ar/index.php?cotnenido=wpapers&wpagno=documentos/2006-08-mercosur-de-c>.
- <sup>11</sup> See INTAL, *Mercosur Report No. 13* (Buenos Aires: IDB-INTAL, May 2009), p. ii.
- <sup>12</sup> *Ibid.*
- <sup>13</sup> *Ibid.*
- <sup>14</sup> See “Brazil Finds a Role for the Mercosur,” *Latin American Regional Report* (August 2009), p. 1.
- <sup>15</sup> In December 2009 the Brazilian Senate ratified Venezuela’s full membership in Mercosur. The Argentine and Uruguayan parliaments have already ratified Venezuela’s admission to the bloc, but the issue is still pending for consideration in the Paraguayan Congress.
- <sup>16</sup> See “Venezuela Interested in a ‘New Mercosur’, if Not Forget It,” *Mercopress*, June 20, 2007, available at <http://www.mercopress.com/vernoticia.do?id=10768&formato=HTML>.
- <sup>17</sup> *Ibid.*
- <sup>18</sup> President Hugo Chavez’s speech at the South American Summit in Cochabamba, Bolivia, 8-9 October 2006, available at <http://www.mre.gov.ve>. Quoted in Felix Peña, “Tras su Reunion en Brasilia, el Mercosur Parece Moverse en Tres Direcciones: Permitiran Generar Ganancias de Identidad, Eficacia y Credibilidad?,” December 2006, available at <http://www.felixpena.com.ar/index.php?contenido= negovciaciones&neagno= informes/2006-12>.
- <sup>19</sup> *Ibid.*
- <sup>20</sup> Quoted in Joanna Klonsky and Stephanie Hanson, “Mercosur: South America’s Fractious Trade Bloc,” Council on Foreign Relations, 25 October 2007, p. 3, available at <http://www.cfr.org/publication/12762/mercosur.html>.
- <sup>21</sup> Quoted in “More Polite Rhetoric in the Mercosur,” *Latinnews Daily*, 19 December 2007.
- <sup>22</sup> “Venezuela has been incorporated to Mercosur in order to obstruct the road of social transformations inaugurated in Latin America by the Cuban Revolution [assuming that Chavez’s Bolivarian revolution has revived the spirit of the Cuban revolution by implementing structural

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changes along the lines of those implemented in Cuba in the 1960s and 1970s, M.C.]. The Southern Cone governments seek to straightjacket the Bolivarian process while limiting its anti-imperialist regional potential. This policy involves annulling the ALBA perspective, while encouraging the revival of Mercosur. Both projects are incompatible; if Mercosur succeeds it will be at ALBA's expense." Katz, *El Rediseño de America Latina*, p. 98.

<sup>23</sup> In 2003-2005 Lula's Brazil established close ties with Chavez's Venezuela. Brazil offered Petrobras specialists to help operate several Venezuelan refineries during the oil lockout against Chavez and the two countries established a close partnership aimed at implementing common energy projects, including the construction of a new refinery in Pernambuco, to be jointly owned by Venezuela and Brazil, a gas pipeline connecting both countries, and a 5,000-mile pipeline that will transport Venezuelan natural gas through Brazil to Argentina. Until 2005, Chavez managed to skillfully move Lula into his corner. On 14 February 2005, speaking in Caracas, where the two leaders signed joint energy accords, Lula commented that the "two countries are establishing a true strategic alliance." See "Chavez, Lula Da Silva Sign Trade Pacts," Associated Press, 14 February 2005, available at <http://www.msnbc.msn.com/id/6968837>.

<sup>24</sup> William M. LeoGrande, "A Poverty of Imagination: George W. Bush's Policy in Latin America," *Journal of Latin American Studies*, Vol. 39 (May 2007), p. 356.

<sup>25</sup> Ricardo Hausmann, "Here We Go Again," *Americas Quarterly: The Policy Journal for Our Hemisphere* (Spring 2009), p. 43.

<sup>26</sup> See "Brazil's Lula Says Mercosur Strong Enough to Handle Worldwide Recession," *Latin American Herald Tribune*, December 16, 2008  
<<http://www.laht.com/article.asp?CategoryId=12394&ArticleId=323484>>.

<sup>27</sup> Chile adopted an ambitious economic stimulus program in January 2009.

<sup>28</sup> See e.g., Mauricio Cardenas, "Latin America and the Economic Crisis: Designing and Implementing Stimulus Policies," The Brookings Institution, June 25, 2009  
<[http://www.brookings.edu/opinions/2009/0625\\_latin\\_america\\_cardenas.aspx?p=1](http://www.brookings.edu/opinions/2009/0625_latin_america_cardenas.aspx?p=1)>.

<sup>29</sup> See Mauricio Cardenas, "Global Financial Crisis: Is Brazil a Bystander?" The Brookings Institution, October 15, 2008  
<[http://www.brookings.edu/opinions/2008/1015\\_financial\\_crisis\\_cardenas.aspx?p=1](http://www.brookings.edu/opinions/2008/1015_financial_crisis_cardenas.aspx?p=1)>.

<sup>30</sup> Venezuela's GDP growth was expected to decline from 6 percent in 2008 to 2 percent in 2009; Brazil's from 5.2 percent in 2008 to 3.5 percent in 2009; and Argentina's from 6.5 percent in 2008 to 3.6 percent in 2009. See Sara Miller Llana and Andrew Downie, "Latin America Better Girded for Financial Crisis: The Region is affected by Global Downturn, but more prepared this Time Thanks to Greater Foreign Reserves and Less External Debt," *Christian Science Monitor*, October 24, 2008 <<http://www.csmonitor.com/2008/1024/p06s01-woam.html>>.

<sup>31</sup> Miller Llana and Downie, "Latin America Better Girded for Financial Crisis," p. 3. :

<sup>32</sup> See "Venezuela Urges United Response to Food and Energy Crises at MERCOSUR Summit," *Venezuelanalysis*, July 2, 2008, available at  
<http://www.globalexchange.org/countries/americas/Venezuela/5808.html.pf>.

<sup>33</sup> ALBA was originally designed as an alternative to the Free Trade Area of the Americas (FTAA). Current members include Cuba, Venezuela, Bolivia, Nicaragua, Honduras, Dominican Republic, Saint Vincent and the Grenadines and Ecuador.

<sup>34</sup> See Odean Ishmael, "The Global Economic Crisis: A View from the South," *Caribbean World News*, October 2008, available at  
[http://www.caribbeanworldnews.com/business\\_one.php?sid=1357](http://www.caribbeanworldnews.com/business_one.php?sid=1357).

<sup>35</sup> "Mercosur Special Meeting with Challenging Agenda," *Mercopress*, October 27, 2008, available at <http://en.mercopress.com/2008/10/27/mercocur-special-meeting-with-challenging-agenda>.

<sup>36</sup> Quoted in Tyler Bridges, "Why Brazil is Weathering the Global Financial Crisis this Time: President Luiz Inacio Lula da Silva met with French President Nicolas Sarkozy in Paris Wednesday before Heading to the G-20 Summit in Britain," *Christian Science Monitor*, April 1, 2009, available at <http://www.csmonitor.com/2009/0401/p06s03-woam.html>.

<sup>37</sup> "Mercosur Special Meeting with Challenging Agenda," p. 1. Brazil's Central Bank was forced to inject the equivalent of 50 billion US dollars into currency markets to stem a two-month decline in the value of the Real. See "A 50 billion USD Package to Support Brazilian Currency," *Mercopress*, October 23, 2008.

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- <sup>38</sup> “Comunicado Conjunto dos Presidentes dos Estados Partes do Mercosul,” available at Mercosur’s website, my translation.
- <sup>39</sup> “Argentina-Brazil Working Meeting to Deepen Bilateral Dialogue,” *INTAL Monthly Newsletter*, No. 151, February 2009, p. 3.
- <sup>40</sup> Ibid.
- <sup>41</sup> See e.g., Vince McElhinny, “Banco del Sur: A Reflection of Declining IFI Relevance in Latin America,” Bank Information Center, April 2007, available at <http://www.bicusa.org/EN/Article.3299.aspx>.
- <sup>42</sup> See Mario E. Carranza, “Clinging Together: Mercosur’s Ambitious External Agenda, its Internal Crisis, and the Future of Regional Economic Integration in South America,” *Review of International Political Economy*, Vol. 13, No. 5 (December 2006), p. 819.
- <sup>43</sup> Ibid.
- <sup>44</sup> See INTAL, *Mercosur Report No. 13* (Buenos Aires: IDB-INTAL, May 2009), p. ii.
- <sup>45</sup> See Nicola Phillips, *The Southern Cone Model: The Political Economy of Regional Capitalist Development in Latin America* (London: Routledge, 2004), p. 127.
- <sup>46</sup> At the 38<sup>th</sup> Presidential summit in Montevideo, Argentine President Cristina Fernandez de Kirchner said that Mercosur would draft a “viable position” for the meeting with the European Union in Madrid in May 2010. She noted that the focus will be “to advance and consolidate those areas where we can agree and address the others gradually, instead of starting to talks on what we disagree.” See “Mercosur Summit Committed to Advance Trade Negotiations with Europe,” *Mercopress*, December 9, 2009, available at <http://en.mercopress.com/2009/12/09/mercursosummit-committed-to-advance-trade-negot...>
- <sup>47</sup> The problem of relative gains has bedeviled Mercosur since December 1994, when the bloc struggled to survive the regional financial crisis triggered by the bungled devaluation of Mexico’s currency (the “tequila effect”). See Mario E. Carranza, “Can Mercosur Survive? Domestic and International Constraints on Mercosur,” *Latin American Politics and Society*, Vol. 45, No. 2 (Summer 2003), p. 69.
- <sup>48</sup> Paraguay and Uruguay made those complaints at the 37<sup>th</sup> Mercosur Presidential Summit in Asunción, Paraguay, in July 2009.
- <sup>49</sup> Quoted in Andres Gaudin, “Region: Mercosur Summit Exposes Bloc’s Limitations,” *NotiSur: South American Political and Economic Affairs*, available at [http://www.thefreelibrary.com/\\_/print/PrintArticle.aspx?id=205115163](http://www.thefreelibrary.com/_/print/PrintArticle.aspx?id=205115163).
- <sup>50</sup> See “Mercosur Summit Fails to Advance in Internal Trade Issues,” *Mercopress*, December 9, 2009, <<http://en.mercopress.com/2009/12/09/mercursosummit-fails-to-advance-in-internal-trade-issues>>. “Imported extrazone products should be able to circulate freely in MERCOSUR, once payment of the CET has been made at the entry point to the Customs Union. But this does not occur, as many extraozne products are subject to double CET levying when exported from one MERCOSUR country to another.” INTAL, *Mercosur Report No. 13*, p. 75, note 55.
- <sup>51</sup> See Luigi Manzetti, “The Political Economy of MERCOSUR,” *Journal of Interamerican Studies and World Affairs*, Vol. 35, No. 4 9Winter 1993-94), p. 127, 131.
- <sup>52</sup> Laura Gomez Mera, “Explaining Mercosur’s Survival: Strategic Sources of Argentine-Brazilian Convergence,” *Journal of Latin American Studies*, Vol. 37, No. 1 (2005), p. 111.
- <sup>53</sup> Ibid., p. 118.
- <sup>54</sup> “The attacks on Mercosur originated in the US State Department and were subsequently taken up by the US Trade representative Charlene Barshefsky and the office of Secretary of State Madeleine Albright. Implicit to the US offensive was the belief that progress by Mercosur was harmful to the Free Trade Area of the Americas (FTAA).” Ivan Bernier and Martin Roy, “NAFTA and Mercosur: Two Competing Models?” in Gordon Mace et al., *The Americas in Transition: The Contours of Regionalism* (Boulder, CO: Lynne Rienner, 1999), p. 89, note 1.
- <sup>55</sup> “Mercosur Presidents Strongly Reject Honduras November Elections,” *Mercopress*, December 9, 2009, <<http://en.mercopress.com/2009/12/09/mercursos-presidents-strongly-reject-honduras-novemebr-elections>>.
- <sup>56</sup> See J. Taccone and U. Nogueira (eds.), *Mercosur Report No. 7* (Buenos Aires, IADB/INTAL, 2001), p. i.

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<sup>57</sup> This ambivalence appears in the domestic controversy in Brazil over the incorporation of Venezuela to Mercosur, that has been supported by the Venezuela-Brazil Chamber of Commerce Federation, but has been opposed by the Brazilian Confederation of Industries, “which argues that the weight of Venezuela in Brazil’s foreign trade is ‘minimal’ and there is also ‘an evident lack of certainty’ for the Brazilian exporter working with the oil rich country.” See “Brazilian Private Sector Divided Over Venezuela and Mercosur,” *Mercopress*, April 27, 2009 <<http://en.mercopress.com/2009/04/27/brazilian-private-sector-divided-over-venezuela-and-mercosur>>.

<sup>58</sup> Gomez Mera, “Explaining Mercosur’s Survival: Strategic Sources of Argentine-Brazilian Convergence,” p. 135.

<sup>59</sup> Roberto Russell, “Foreign Policy,” in Cynthia J. Arnson et al., *The “New Left” and Democratic Governance in Latin America* (Washington, DC: Woodrow Wilson International Center for Scholars, August 2007), pp. 44-45.

<sup>60</sup> Gomez Mera, “Explaining Mercosur’s Survival,” p. 111.

<sup>61</sup> INTAL, *Mercosur Report No. 13*, p. 120.

<sup>62</sup> Christopher Bruner, “Hemispheric Integration and the Politics of Regionalism: The Free Trade Area of the Americas (FTAA),” *Inter-American Law Review*, Vol. 33, No. 1 (Spring 2002), p. 35.

<sup>63</sup> Tockman, “The Rise of the ‘Pink Tide’: Trade, Integration, and Economic Crisis in Latin America,” p. 33.

<sup>64</sup> Diana Tussie, “Latin America: Contrasting Motivations for Regional Projects,” *Review of International Studies* (2009), p. 188.

<sup>65</sup> *Ibid.*, p. 185.

<sup>66</sup> *Ibid.*

<sup>67</sup> On this project, see the excellent account by Nicola Phillips, “US Power and the Politics of Economic Governance in the Americas,” *Latin American Politics and Society*, Vol. 47, No. 4 (Winter 2005), pp. 1-25.

<sup>68</sup> Tussie, “Latin America: Contrasting Motivations for Regional Projects,” p. 187.

<sup>69</sup> Carranza, “Clinging Together: Mercosur’s Ambitious External Agenda, its Internal Crisis, and the Future of Regional Economic Integration in South America,” p. 822.

<sup>70</sup> Tussie, “Latin America: Contrasting Motivations for Regional Projects,” p. 186.

<sup>71</sup> See Nicola Phillips, “The Politics of Trade and the Limits to US Power in the Americas,” in Diego Sanchez Ancochea and Kenneth C. Shadlen (eds.), *The Political Economy of Hemispheric Integration: Responding to Globalization in the Americas* (New York: Palgrave/Macmillan, 2008), pp. 148-49 and *passim*.

<sup>72</sup> Tussie, “Latin America: Contrasting Motivations for Regional Projects,” p. 186.

<sup>73</sup> Tockman, “The Rose of the ‘Pink Tide,’” p. 31.

<sup>74</sup> See Nikolas Kozloff, *Revolution!: South America and the Rise of the New Left* (New York: Palgrave/Macmillan, 2008), p. 55.

<sup>75</sup> See Andres Malamud, “Mercosur Turns 15: Between Rising Rhetoric and Declining Achievement,” *Cambridge Review of International Affairs*, Vol. 18, No. 3 (October 2005), p. 425.

<sup>76</sup> See Tussie, “Latin America: Contrasting Motivations for Regional Projects,” p. 187.

<sup>77</sup> See Sean M. Burges, “Building a Global Southern Coalition: The Competing Approaches of Brazil’s Lula and Venezuela’s Chavez,” *Third World Quarterly*, Vol. 28, No. 7 (2007), pp. 1343-58.

<sup>78</sup> On the modest progress in implementing the bloc’s internal agenda see INTAL, *Mercosur Report No. 13*, chapter 3, pp. 65-102.

<sup>79</sup> See Nicola Phillips, “Governance and Financial Crisis: South American Perspectives on the Reformulation of Regionalism,” *New Political Economy*, Vol. 5, No. 3 (2000), p. 384.

<sup>80</sup> Nicola Phillips, “Hemispheric Integration and Subregionalism in the Americas,” *International Affairs*, Vol. 79, No. 2 (2003), p. 348.

<sup>81</sup> Phillips, “Governance after Financial Crisis,” p. 394.

<sup>82</sup> Brazilian Foreign Minister Amorim made this claim when he explained why Brazil had supported the so-called “Lamy Package” at the mini-ministerial meeting of the WTO Trade Negotiations Committee in Geneva, in July 2008, while the Argentine government submitted objections, before the collapse of the Doha Round. At this meeting, Brazil and Argentina took

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opposite stances, reigniting the debate in Mercosur “about the viability of maintaining the bloc’s common trade policy or the advisability of introducing flexibilities to allow member countries to accommodate their different interests.” See INTAL, *Mercosur Report No. 13* (Buenos Aires, IDB/INTAL, 2009), p. 121.

<sup>83</sup> Art 2 of the Treaty of Brasilia, quoted in Felix Peña, “La UNASUR y el Mercosur en el Desarrollo Futuro de las Relaciones Bi-regionales con la Union Europea: Interrogantes y Posibilidades,”

<<http://www.felixpena.com.ar/index.php?contenido=wpapers&wpagno=documentos/2009>>, p. 12, my translation.

<sup>84</sup> Felix Pena, “South American Integration: Can Unasur and Mercosur complement each other?,” April 2009,

<<http://www.felixpena.com.ar/index.php?contenido=wpapers&wpagno=documentos/2009>>, p. 9.

<sup>85</sup> Peña, “La UNASUR y el Mercosur en el Desarrollo Futuro de las Relaciones Bi-regionales con la Union Europea,” p. 14.

<sup>86</sup> Marcos Sawaya Jank, “Suitcase Without a Handle: Brazil’s Expression, Mercosur’s Fate?” available at

<http://www.iconebrasil.org.br/imprimir.asp?idCategoria=11&idSubcategoria=&idDocumento=520>

<sup>87</sup> See Monica Hirst, “La Política Sudamericana de Brasil: Entre el Peso de las Asimetrías y la Incidencia de Nuevas Coyunturas,” in Fernando Calderon (ed.), *Escenarios Políticos en América Latina: Conceptos, Metodos y Observatorio Regional* (Buenos Aires, Siglo Veintiuno, 2008), p. 257.

<sup>88</sup> See Roberto Giannetti da Fonseca and Mario Marconini, “Desempenho e Política Comercial: Insercao Internacional e O Comercio Exterior Brasileiro,” *Revista Brasileira de Comercio Exterior*, Rio de Janeiro, No. 87 (2006), p. 87.

<sup>89</sup> Peña, “South American Integration: Can Unasur and Mercosur Complement Each Other?,” p. 9.

<sup>90</sup> See Hirst, “La Política Sudamericana de Brasil: Entre el Peso de las Asimetrías y la Incidencia de Nuevas Coyunturas,” p. 256.

<sup>91</sup> “Mercosur is no longer about trade,” Roett told the Council on Hemispheric Affairs. ‘The new joiners don’t have much to trade, they are opposed to free trade it seems. The organization is more and more political and to some degree anti-American’.” Riordan Roett, quoted in Klonsky and Hanson, “Mercosur: South America’s Fractious Trade Bloc,” p. 3.

<sup>92</sup> Pedro da Motta Veiga, “Regional and Transregional Dimensions of Brazilian Trade Policy,” in Vinod K. Agarwal, Ralph Espach, and Joseph S. Tulchin (eds.), *The Strategic Dynamics of Latin American Trade* (Stanford, CA: Stanford University Press, 2004), p. 180.

<sup>93</sup> Ibid.

<sup>94</sup> Nicola Phillips, “The Rise and Fall of Open Regionalism?: Comparative Reflections on Regional Governance in the Southern Cone of Latin America,” *Third World Quarterly*, Vol. 24, No. 2 (2003), p. 221.

<sup>95</sup> Quoted in Kozloff, *Revolution!: South America and the Rise of the New Left*, p. 211.

<sup>96</sup> Phillips, “Governance after Financial Crisis,” p. 384. :

<sup>97</sup> Paul Bowles, “Regionalism and Development after (?) the Global Financial Crises,” *New Political Economy*, Vol. 5, No. 3 (2000), p. 452 (italics added).

<sup>98</sup> Peña, “South American Integration: Can Unasur and Mercosur complement each other?,” p. 8.

<sup>99</sup> Ibid.

<sup>100</sup> Andres Malamud, “The Internal Agenda of Mercosur: Interdependence, Leadership, and Institutionalization,” in Grace Jaramillo (ed.), *Los Nuevos Enfoques de la Integración: Mas Alla del Regionalismo* (Quito: FLACSO, 2007), p. 131.

<sup>101</sup> See Malamud, “Mercosur Turns 15,” p. 425.