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WORLD BANK

MERCOSUR and the new circumstances for its integration

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This article analyses the evolution since the middle of the past decade in the integration process between Argentina and Brazil which subsequently gave rise to MERCOSUR.

Studies on economic integration usually concentrate on the analysis of structural factors of an economic and political nature in each of the countries participating in the process. This article naturally fully recognizes the importance of these kinds of factors, such as imbalances between the economies of the respective countries, low volume of mutual trade, the conflictive nature of certain trade issues, and even possible military conflicts. However, it also highlights and analyses the importance of another type of factor, termed processual factors, which together with the structural factors determine the progress of the integration process.

The common feature of this second type of factors is that they impart greater dynamism to the integration process by modifying in various ways restrictions of a more structural nature. Among these factors, mention is made of the convergence of external policy views and shared political will in favour of integration; the review of bilateral trade policies and the favourable conditions for subregional economic projections; the existence of technical cadres trained for and sensitive to cooperation and integration, as well as the presence of sectoral interests favourable to the process; and the loss of importance of the hypothesis of military conflict.

The article concludes that, despite the current degree of progress made in the integration process, it may still be affected by macroeconomic divergences between its member countries. At the same time, however, the new horizon of economic and political interaction which has already been opened up has laid the foundations for the emergence of a whole network of varied and increasingly close linkages.

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Introduction

In Latin America, the integration option has always been associated with an economic development recipe advocating the expansion of the regional market and the formulation of a common industrialization strategy. For almost three decades, however, the normative aspects present in Latin American regional integration projects have not been accompanied by the real conditions needed to give them success, either because of the difficulties encountered in reconciling the different economic policies laid down in developmentalist models, or because of the nationalist sentiments accompanying these policies, or else because of the recurrent situation of institutional instability prevailing in the region.

Today, in a post-authoritarian era, this recipe is associated with the conditions for interaction provided by pluralistic and democratic political systems. The trend towards the reduction of political rivalries and the solution of territorial disputes in the region is the result of the processes of internal and external pacification carried out in recent years in a number of Latin American countries. Noteworthy changes are also to be observed in the economic field, including the exhaustion of substitution models based on a linkage between closed market strategies and an active role of the State in production activities, and all this has led to structural reforms. These changes, in turn, have been furthered by the new horizons glimpsed in the international economic system, where tendencies towards regionalization and others favouring multilateralism are superimposed on each other.

In the subregional area made up of Brazil and the Southern Cone countries (excluding Chile), this set of changes begun in the mid-1980s has been accompanied by a strong drive towards economic cooperation and integration. Under the leadership of the Argentina-Brazil axis, a process has been set afoot which combines institutional stability, the review of international economic insertion strategies, and the establishment of a common space for production activities.

Although slow and tortuous, this process has displayed over the last six years important vital signs which incentivate the use of a neoliberal and neofunctional approach in its analysis. After a battery of well-intentioned declarations put out by the

governments of the two countries late in 1985, today –six years later– intensive negotiations are underway among four countries (Argentina, Brazil, Paraguay and Uruguay) with a view to the formation of a common market in 1995.¹

In addition to the analytical horizons opened up by these approaches, their use also makes it possible to link the MERCOSUR process with the expansionary tendencies being displayed by other integration initiatives at the present time.

I

Structural and processal factors

In the mid-1980s, the conditions for embarking on an Argentine-Brazilian integration process were particularly unfavourable. From a neo-realist point of view, the conception and application of the Argentine-Brazilian Integration and Economic Cooperation Programme (PICE) simply had no point, in view of the imbalances between the two countries and their increasingly conflictive effects on bilateral relations. However, if an analysis of the negotiations which set the Programme in motion takes account of the activation of its processal factors, it clearly reveals the existence of dynamics favouring the identification of common interests rather than the maintenance of a “defensive positionalism”.²

However, the possibility of changing the structure of this relationship has not meant the immediate entry into operation of a smooth and rapid process. On the contrary, the incidence of structural factors has made it necessary –at least so far– for this process to coexist with a set of adverse aspects which hinder its expansion and consolidation. The structural factors condition the scope and depth of the processal factors, which are the ones that lend dynamism to cooperative interaction. In accordance with this distinction, we must try to identify the aspects which, over the last six years, have complicated the efforts at integration and cooperation which began at the bilateral level and are now taking on a subregional aspect.

This analytical purpose, although designed to aid in the study of MERCOSUR as a whole, concentrates on the Argentine-Brazilian relationship. The structural and processal factors which have made themselves felt in the recent cooperation and integration efforts between the two countries are the following:

a) *Structural factors*

- i) Economic imbalances.
- ii) Low level of mutual trade.
- iii) Conflictive list of trade issues.
- iv) Hypothesis of military conflict.

b) *Processal factors*

- i) Convergent lists of external policy concerns.
- ii) Political will in favour of integration.
- iii) Review and modification of bilateral trade patterns.
- iv) Technical cadres prepared for and sensitive to the need for cooperation and integration.

¹ Between 1986 and 1988, 24 protocols were negotiated which laid down guidelines and goals for the following areas: capital goods, trade, binational enterprises, financial matters, investment funds, energy, economic studies, aeronautical cooperation, iron and steel industry, land and sea transport, communications, cooperation in nuclear matters, cultural cooperation, public administration, monetary instruments, border industries, and economic and social planning. In 1989, Argentina and Brazil signed the Treaty on Integration and Cooperation, providing for the establishment of a common space within 10 years. In July 1990 the two countries signed the Buenos Aires Act, providing for the establishment of a common market between them as of 31 December 1994. Soon after, the Economic Complementation Agreement within the framework of ALADI (ACE 14) was negotiated, which condensed all the sectoral negotiations already carried out and at the same time established a gradual programme of trade liberalization with a view to the complete elimination of tariffs and non-tariff restrictions on mutual trade between the two countries. In March 1991, a programme was established for the formation of a common market in the Southern Cone, with the participation of Paraguay and Uruguay.

² This expression was used by Grieco (1987) to describe the resistance of the LAFTA countries to the further fulfilment of their commitments with regard to tariff reductions.

- v) Sectoral interests in favour of integration.
- vi) Favourable conditions for subregional projection.
- vii) Formulation of measures raising confidence in respect of strategic issues.

The first group contains the factors which negatively affected cooperation between the two countries. It may be of interest here to recall what was stated by Axelrod (1984, chapter 9) on the dynamics set up in a cooperation effort between the forces of the past and the potential of the future. According to this author, the emergence, growth and maintenance of cooperation call for some prerequisites regarding individuals and the social context. They require that an individual should be capable of recognizing the other player who was a previous opponent, and that the previous history of interaction with that player should be recalled, so that the right answer can be arrived at (*Ibid.*, p. 174). However, Axelrod concludes that it is the future which will play the decisive role in cooperation, provided that the potential it projects (its "shadow") is sufficiently broad. As this same author suggests, this potential is only in a position to assert itself when the actors have confidence in respect of the most recent acts of their counterparts.

If these requisites are fulfilled, it is assumed that a turning point has been reached which can

give rise to a process of cooperation. In the Argentine-Brazilian integration process, this point was reached in November 1985, with the announcement of the Iguazú Declaration. From that time on, the processal factors projecting a new "shadow" over the future of relations between the two countries were gradually activated.

There is no question of trying to establish here a simplistic link between factors considered to be structural and the past, since some of these factors are permanent aspects of the Argentine-Brazilian relationship. However, the capacity of these factors to act as obstacles may vary as the "shadow" over the future of the cooperation process broadens. This brief digression permits a differentiation to be made, this time within a given universe, between reversible structural factors and permanent structural factors. Of the four structural factors listed earlier, only one of them is permanent: that regarding economic imbalances. The others are partly or totally reversible.

Among the processal factors, only that regarding the convergence of external policies has varied substantially in recent years. At the present time, it is not a particularly active element in the MERCOSUR process, if we look at its specifically political dimension. However, both countries have an interest in preparing a convergent agenda in the area of their external economic policies.

II

The process underway

When Argentina and Brazil took the first steps towards a programme of cooperation and integration, their points of convergence on international policies played a crucial role. This was the item with the biggest scope and significance in the first document announced by the Argentine and Brazilian governments in November 1985, and it formed the origin of the political will which has impelled the process. For this reason, the bases of operations in the two countries were their respective foreign ministries, which, starting from different levels of political dynamism, saw long-term bilateral association as an option

which would further the projects they had for improving their international insertion.³

³ See the Iguazú Declaration of 30 November 1985. The convergent external policy positions of the two countries were to be seen with regard to the Cartagena Consensus, the Contadora Support Group, the establishment of an area of peace and cooperation in the South Atlantic, and the Argentine position claiming sovereign rights over the Falkland Islands (Malvinas) in the United Nations. In turn, these points formed part of projects aimed at expanding the leeway for action by the two countries with regard to the international system. At this point, it is necessary to take up again the set of assumptions forming the basis for the functional approach which gives priority to political affinities and loyalties between States (Mitrany, 1968).

In the case of Argentina, this association was to serve as an instrument to break the country's political and economic marginalization at the international level, while at the same time seeking to develop a new model of external insertion on an autonomous basis, similar to that formulated by its neighbour. The idea of creating a common universe of economic interests at the subregional level was present in Argentina ever since its first approaches to Brazil.⁴ Subsequently, and once again through Argentina's own efforts, the agenda of points of convergence in external policy was transformed into an economic integration programme.

The immediate adherence by the Brazilian government was connected fundamentally with that country's political interests. For Brazil, the establishment of stable and permanent closer relations with Argentina, as well as eliminating a point of tension on its southern border, increased its possibilities of increasing its economic and political projection inside and outside the region. In the eyes of the Brazilian diplomatic project, the definitive deactivation of the hypothesis of conflict with Argentina was an essential step in the consolidation of a peace giving greater autonomy and prestige in the international system. A specific concern of Brazil in this case was to "defuse" the international pressure regarding its advances in the field of nuclear technology, by developing a relationship of confidence and reciprocity with Argentina in this field.

The preliminary phase of the Argentine-Brazilian talks was fully in line with the idea of a *prenegotiation* stage, which is initiated when one or more parties consider negotiation to be a political option and communicate this decision to other parties.⁵ The first contacts between the two countries with a view to the establishment of a cooperation and integration programme coincided with a moment at which their trade relations were going through a critical stage, both as regards the amount of the

⁴ The first idea of the Alfonsín government was to reach agreement with Brazil on common action for the renegotiation of their respective external debts. It was in this context that the two governments negotiated their participation in the Cartagena Consensus in early 1985.

⁵ Gross Stein, 1989, p. 4. In the case of the talks between Argentina and Brazil, this stage took place in the months preceding the Alfonsín-Sarney meeting in December 1985, at which it was decided to set up a joint commission for bilateral cooperation and integration. Three working groups were set up at that time: one on economic issues, another on transport and communications, and another on science and technology.

transactions and as regards the bureaucratic and administrative problems involved.⁶

There were three reasons for these divergences. Firstly, as from the mid- 1970s the differences between the two countries with regard to their macro-economic policies, especially those concerning external trade and industrial policy, became increasingly marked. Whereas Brazil was pressing forward with a new stage in its substitution strategy, this time in the area of capital goods, Argentina decided on greater trade openness and adopted a set of measures of a typically liberal nature. Secondly, the external debt crisis of the early 1980s led Brazil to adopt an external trade policy which, in addition to closing its economy still more, gave priority to trade links with the industrialized countries, while as from the 1980s Argentina's import capacity was affected by the very rapid increase in its external financial commitments. Thirdly, the complementary nature of the two economies was gradually becoming less and less pronounced after the modifications made in Brazilian agricultural policy in the 1980s. All this increased the imbalances in the trade between the two countries, which were not only unfavourable to Argentina but also fostered conflictive perceptions and rivalries on both sides.⁷

The fact that the Argentine-Brazilian negotiations were preceded by a highly conflictive period is not unusual in the recent experience of economic association. Making allowance for the differences in the cases, the negotiation of a free trade agreement between Canada and the United States took place in a similar context. What is noteworthy in the Argentine-Brazilian case is the low level of bilateral trade which existed when the process of rapprochement was initiated.

⁶ After having reached US\$1.8 billion in 1980, this trade fell to US\$1.4 billion in 1981, US\$1.2 billion in 1982 and US\$1 billion in 1983. In 1984 it rose to US\$1.3 billion, but in 1985 it dropped again to US\$1.1 billion. There were many reasons for the trade conflicts between Argentina and Brazil, outstanding among them being the heavily restrictive policy of Brazil over imports; the application of safeguard clauses to products traditionally exported by Argentina to the Brazilian market; the suspension of imports from Brazil by the Argentine Government, and the reluctance of the Brazilian Government to renegotiate Partial Scope Agreement No. 1. For a detailed analysis of Argentine-Brazilian trade relations in this period, see Hirst and Leungel, 1986.

⁷ These imbalances refer to the relative weight of bilateral trade for each of the countries on both the import and export side; to the composition of this trade, and especially the unequal proportions of primary commodities; and finally, to the deficit position occupied by Argentina during the period 1980-1985.

The naturally unequal position of Argentina in its negotiations with Brazil meant that the question of balance was of special concern to that country. Ever since the prenegotiations on the Argentina-Brazil Economic Integration and Cooperation Programme (PICE), the Argentine authorities resisted the idea that such a programme should merely serve to strengthen the trends observed since the mid-1970s: i.e., a form of complementarity between the two economies in which Argentina supplied primary

commodities and Brazil further consolidated its position as an exporter of manufactures. Argentina's main concern was to reverse that trend through diversification of its exports. Without balance, there would be no reciprocity. The strategy adopted in order to achieve these objectives was to propose a privileged space for intra-sectoral integration. At the same time, mechanisms were instituted to guarantee balanced positions for both countries in their bilateral trade through gradual selective removal of tariffs.

III

The technical component

The rapid mobilization of technical cadres in the two countries, motivated by the idea of creating a common economic space, speeded up the bilateral negotiations. This processual factor undoubtedly stimulated the adoption of a neo-functional approach in analysing Argentine-Brazilian integration. In spite of the differing origins and the changes in composition over the last six years, the incidence of this factor in the PICE - MERCOSUR process is one of the reasons for the latter's continuity and continued expansion. Ever since the period of initial formulation and implementation of the PICE, inter-bureaucratic networks were set up in both countries which were coordinated from the respective Ministries of Foreign Affairs. In Argentina, because of the way the Foreign Ministry operated, there was a greater mixture of political and technical cadres. Although at times this led to power vacuums, it eventually generated a more solid political base for integration than in Brazil.

The efforts of the technical cadres to set in motion an expansionary process which would ensure achievement of the common goals led to the preparation of a broad arsenal of operational rules and instruments, as well as the definition of mutual expectations and commitments. A curious type of dynamics was thus set up, whereby failure to fulfil previously established goals led to the preparation of new goals which were even more ambitious in terms of time limits and objectives.

The fact that the area of operation of the technical cadres was intergovernmental and not

supranational was no obstacle to the application of a neofunctional approach. Bearing in mind the natural imbalances, first of all between two and subsequently between the four countries of MERCOSUR, the persistent instability of their economies, and the small scale of their economic interactions (in the field of trade, financial or investment operations) and their political contacts (at the party or parliamentary level), supranationality will be a result rather than a cause of the process, as occurred in the European Economic Community.

There is technical resistance –greater on the Brazilian than on the Argentine side– to the creation of a supranational structure. In addition to the reasons already mentioned, a factor which weighs against supranationality is the “burden” of the past generated by the frustration of integration projects. It is also quite true that in a first stage, avoiding this option facilitates the political management of the process at the Latin American level, thus making it less costly to exclude other participants. Even so, the increase in the number of members of the project and the extension of its objectives will mean that the inter-governmental efforts will give decreasing returns. As the agenda for the negotiations and the State and non-State interaction networks become more complex, including such issues as the settlement of disputes or the coordination of macroeconomic policies, it will become increasingly pressing to yield sovereignty on specific matters. As is well

known, intergovernmental actions always offer fewer guarantees of reciprocity, especially for the smaller countries.

Having formalized their participation, first of all through the constant preparation of protocols and their respective annexes and afterwards through the negotiation of treaties, the bureaucrats involved in the process (the future "Mercocrats") are working in two directions. On the one hand, they are trying to keep the flame of political will alight by creating a direct commitment between the governments and the integration process; this commitment has made up on

occasions, at least in political terms, for the difficulties encountered in gaining the support of government economic bodies which had never given high priority to subregional integration. On the other hand, at the private level, they are trying to "sell" the integration project to business sectors by incorporating them in the process, not as co-formulators of it, but as its first beneficiaries. This political option, while ensuring a "freer" field for managing the PICE, has reversed the technical expectations regarding a positive response by some sectors of industry to the Programme.

IV

The question of politicization

Since both countries have presidential systems and recently consolidated democratic regimes, the commitment of the Heads of State of Argentina and Brazil was a factor which was favourable to the integration process from the very beginning.⁸ This was one of the reasons behind the "change" of profile and of the operational time limits for this project as from 1991, when the PICE was turned into MERCOSUR. However, this was a piece of makeshift political engineering which, although it does keep alive the political will to support integration, does not take care of the political needs of an integration process. Consequently, it is essential that the political will should be spread more widely, making use of the resources available in pluralistic political systems. The possibility of achieving this depends on the identification of specific functions for the political classes of the countries involved, and this has begun to be envisaged through the establishment of a parliamentary structure for MERCOSUR.⁹

This item is also connected with a considerably more complex aspect of integration processes: that

⁸ In the case of both Argentina and Brazil, the integration programme was the only point on the external policy agenda of the governments ending in 1989 and 1990, respectively, which was recognized by the new Heads of State as a permanent objective of those countries.

⁹ The first step in this direction was the establishment of a Joint Parliamentary Commission, proposed in article 24 of the Treaty of Asunción. With its entry into operation, debates were begun on the structure and terms of reference of a MERCOSUR Parliament.

of their *politicization*. The greater this politicization is, the more room there is for controversy, causing the sought-for solutions to escape from technical control. In the neofunctionalist analyses of integration experiences in Latin America, the politicization aspect has been underrated because of the region's limited possibilities for adapting itself to the model of modern pluralistic industrial democracies. In the Latin American case, politicization took on a negative connotation, since it was related with the exaggerated nationalist feelings and perceptions of the operators of these processes. Bearing in mind the new democratic environment in which MERCOSUR is emerging, however, this might be a suitable time to adopt the notion of politicization as originally conceived in the neofunctional literature.

Referring to this aspect, Nye (1971, pp. 219-220) gives various reasons why an integration process is politicized: for example, a larger number of groups becomes involved due to the expansion of transactions, prior links, or the formation of deliberate coalitions. The greater the number, the greater is the possibility of divergent interpretations with regard to the common interests involved in an integration process. The broadening of the powers of the central institutions not only becomes more visible to public opinion, but also stimulates the action of groups opposed to integration, including national bureaucrats who are jealous of any infringement of their powers.

The continuity of an integration process must therefore lead to a growing adjustment between the political will behind this process and the politicization in which it may become entangled. This outlook is not necessarily adverse, if the political class has a clear idea of its functions.

In the case of MERCOSUR, unlike what happened in the BEC, the national parliamentarians and their party organizations had only a passive role in the period of prenegotiations and negotiations.

The only country which displayed politicization before its participation in the process was Uruguay. This passivity may have been due to the absence of solid regional intra-party networks and the fact that the political class was taken up with strictly domestic problems. Nevertheless, this will not prevent the rise of politicization deriving from the concrete effects of the process, when, for example, it becomes essential to negotiate Community legislation.

V

Societal interests

Another field of action which is of fundamental importance for those operating the integration process is that of private interests, which are essential for the expansion of that process. It is undoubtedly in this field that the distributive problem arises most intensively. The Argentine and Brazilian economies have only limited scope for developing competitive strategies which stimulate specialization in production and intra-sectoral trade, so that there are particular misgivings on the Argentine side that the structural imbalances between the two countries may be further increased. These fears also stem from the uncertainty caused by the recurrent situations of instability and economic stagnation in the productive sectors of these countries, especially in Argentina.

During the period of operation of PICE, the strategy for expanding economic interaction was carried out selectively and gradually by means of protocols, which established an initial level of trade to be liberalized between the two countries on a sector-by-sector basis. In this stage, some entrepreneurial sectors exercised a reasonable power of veto, so that certain negotiations lasted longer than the operators of the programme had expected. Although it was less effective than had been foreseen, the sectoral method displayed several advantages: i) it generated an appreciable increase in bilateral trade on an orderly and managed basis, without aggravating the imbalances which had affected that trade; ii) it created a minimum winning coalition in entrepreneurial circles,

and iii) it enabled the various productive sectors of the two countries to gain a greater awareness of their respective comparative advantages.

These three aspects were particularly important for generating what is usually known as the "down payment" of economic integration processes. The political and techno-sectoral work was more systematic on the Argentine than on the Brazilian side during the PICE phase. Argentina mobilized itself economically, markedly increasing and diversifying its sales to the Brazilian market. Brazil, however, made little change in the composition of its exports to Argentina, which continued to account for almost the same percentage share of its total exports between 1985 and 1989.¹⁰ During the PICE phase, the main efforts of the Brazilian technicians were of an internal bureaucratic nature, aimed at softening the protectionist bias of the sectors responsible for control of external trade.

As from the second stage of the process, anticipated by the 1988 Integration Act and finally defined through the Treaty of Asunción in 1991, the sectoral strategy was replaced by a policy of generalized trade liberalization, carried out through automatic removal of tariffs. The aim of the integration process ceased to be the balanced expansion of sectoral interactions and instead became the formation of a free trade area, a customs union, and finally a common

¹⁰ Between 1985 and 1989, Argentina's exports to Brazil increased from 5.9% to 11.8% of its total exports. Over the same period, the Argentine market registered only a marginal change in its imports from Brazil, which represented between 2.1% and 2.3% of the latter country's total exports.

market, within the space of five years and with the participation of Uruguay and Paraguay.

The change in course begun in 1985 had different repercussions in the productive sectors of the four member countries of MERCOSUR, and immediately increased the problems of distribution of the costs and benefits of the process.¹¹ The differences between the sectors benefited or prejudiced by the process were further increased by the new strategy, which primarily favoured the principle of comparative advantages. Perceptions based on a zero-sum logic became generalized, leading in some cases to reactions of resistance to the integration plan. At the same time, there was an active "learning" movement and multilateral activities among the productive sectors of the four countries involved, especially in Argentina and Brazil.¹² The pursuit of cooperation came to be clearly associated with the need to reduce the disadvantages, and a strategy was put into effect whereby the common interest in expanding the market nevertheless left room for the application of solutions which made it possible to spread out the losses.

The agricultural sectors of Brazil, especially in the south, were the most sensitive area for that country. In Argentina, except in a few industrial sectors, conditions of competition with Brazilian industry were seen as unfavourable. In Paraguay and Uruguay, the industrial sectors considered that the short and medium-term economic benefits offered by

MERCOSUR were only limited. From the point of view of the economic interests of these two small countries, participation in this project was inevitable rather than desirable. In view of the size of both countries' trade with Argentina and Brazil, the creation of a common market between the latter would naturally cause a serious impact on their external sector. Adjusting to the process from within by developing an active policy to deal with its results became a more desirable course than merely passively suffering the consequences.

With regard to societal interests, it should be noted that the working class is an actor which is still absent from the MERCOSUR process. Its participation is entirely subject to the destiny of the productive sectors, and it suffers the effects of the redistributive shocks registered by the latter. The Argentine, Brazilian, Paraguayan and Uruguayan trade union organizations, increasingly conscious of the social costs of the process, see their activities prejudiced by the political and social limitations caused by the economic reforms underway in their respective countries. At the same time, if this sector is to have an expansionary role in the process this will depend on the *de facto* creation of a common market involving free circulation of all factors of production. In that case, the need to bring the social policies of the four countries into line with each other would make a process of politicization in the trade union field inevitable.

VI

The catalysts

In the academic debate on the pros and cons of the neofunctional approach, an item which was particularly questioned was the automatic nature attributed to regional integration processes, which it was claimed were favoured by continual trickledown dynamics. It was argued, in opposition to this notion, that these processes lacked catalytic elements which would automatically stimulate them. In the attitudes

¹¹ Preliminary studies are being initiated on the perceptions held in entrepreneurial circles in the four countries regarding the costs and benefits of MERCOSUR, in the light of the comparative advantages of different sectors.

¹² There was a notable increase in meetings, fairs and joint exhibitions, seminars of producers' associations, sectoral organizations, business chambers, etc.

and expectations observed among the Argentine and Brazilian productive sectors, as well as among those in Uruguay and Paraguay, the identification of those catalysts is of fundamental importance in explaining their recent gradual abandonment of "defensive positionalisms".

In the case of Argentina and Brazil, two types of catalysts have been in action, one of them internal and the other international. At the internal level, it is considered that a catalytic effect has been exerted by the economic reform processes begun in the last two years in these countries, which have led to a profound redefinition of the rules governing the productive sectors, with regard to their relations with both

the State and the international market. The new external trade regimes have taken away the justification for the defensive attitude of the entrepreneurial sectors which impeded the implementation of tariff reductions in these countries in the past. At the international level, the pressure has come from the process of regionalization observed in the world economy, from the division of the latter into three great dynamic blocs, and finally from the expectations created by the United States that an expanded free trade area will be established at the hemispheric level.

This latter element was a catalyst which undoubtedly influenced the Argentine-Brazilian decision to turn their bilateral integration project into a subregional venture, and it intervenes in a sensitive field of MERCOSUR: its externality, that is to say, the external projection of collective interests which presuppose a minimally constructed identity. Although in principle an external identity can fulfil an important function, excessive exposure may end up by having ill-effects. Thus, the emergence of an unnecessary crisis could stimulate anti-integration coalitions which would ultimately be prejudicial to the continuity of the process.¹³ In the case of MERCOSUR, this type of risk is clearly to be seen in the problems the member countries have run into in trying to maintain coordinated and harmonious practices in their external economic relations, especially in the area of trade.¹⁴ Jointly facing up to the growing international tensions caused by the difficulty of maintaining a multilateral trade system, which are particularly marked in the area of agricultural products, is a

thorny problem for the countries in this case. So far, the depth and scope of the common interests generated by the subregional integration process have been sufficient to ensure solid collective positions free of contradictions.¹⁵

The main challenge that MERCOSUR will have to face in its future external economic relations will be that of its negotiations with the United States in connection with the Enterprise for the Americas. A good result in these negotiations would undoubtedly be an important indication of successful action at the external level. However, the linking up of various bilateral trade agendas which already exist in respect of the United States, in a context of shaky collective identity, could have an adverse effect on the achievements already made by the subregional integration process.

Just as catalytic elements which give a boost to the integration process can be identified, it is also possible to identify elements which lead to a process of disintegration. This is the case of factors external to the process which can cause a backward movement. In the case of MERCOSUR, elements which act as "negative" catalysts are the recurring situations of economic instability of the member countries: in addition to causing crises of imbalance in their trade relations, these make the whole development of the process less predictable, thereby making the addition of new actors more difficult and preventing progress in such a vital field as the harmonization of macroeconomic policies.

VII

The military and strategic aspect

With regard to the political and strategic dimension of the MERCOSUR process, this article subscribes to the thesis of the neoliberal school, which questions the classification of issues into those of *high* and *low*

politics when analysing the interaction of States in an interdependent context (Keohane and Nye, 1977, p. 24). In a regional integration process such as that under analysis, even though there is no *a priori*

¹³ See, in this respect, Nye (1968).

¹⁴ In spite of the harmony observed among the policies of trade openness applied by the MERCOSUR countries, there are still substantial differences in their tariff policies. Thus, the average nominal tariff in Argentina is 9.8%, while that of Brazil is 35%, scheduled to be reduced to 20% in 1994.

¹⁵ Concrete examples which bear out this assertion are the purchases by both Argentina and Brazil of subsidized products from the United States and the EEC, in spite of the formal and explicit undertaking that such a policy would not be followed.

relation of interdependence, this can be expected to be established in the course of the process, so that the universe of the so-called *high* politics will have decreasing importance on the agenda of the countries concerned.

This decline has indeed been observed as from 1979, when the main geopolitical controversy between Argentina and Brazil (over the hydroelectric resources of the River Paraná) was settled. These negotiations marked a turning-point in the dispute between the two countries for hegemony over the River Plate Basin which had underlain their respective military doctrines since the early decades of the nineteenth century. As well as opening up new prospects for joint achievements by the two countries, these negotiations permitted greater intervention by diplomacy in their conduct. The possibility of making the demilitarization of relations between Argentina and Brazil coincide with the processes of transition to democracy in the two countries favoured still further the preparation of a bilateral political agenda which relegated old conflictive perceptions to the background.

As from the end of 1985, when the process of rapprochement between the two countries began, explicit mention began to be made of the possibility of creating a space for cooperation in a key strategic area: that of nuclear energy. Indeed, within the framework of PICE a field of interaction was set up which was specially devoted to nuclear cooperation, and over the last six years this has shown notable capacity for expansion.¹⁶ Since it was originally conceived, the main function of this cooperation has been to maximize the capacity of both countries to maintain their nuclear activities in the face of international control and verification systems. The pressures for greater subordination of these activities to international monitoring were most clearly expressed after the announcements by Argentina (1983) and Brazil (1987) that they possessed the technology

for enriching uranium. They therefore started off from the classical assumption that cooperation in areas of security would give benefits in the area of security itself.¹⁷

In the Argentine-Brazilian nuclear negotiations, the perception of these benefits was shared on both sides by the technical sectors of the respective Atomic Energy Commissions and diplomatic circles. In both countries, an effort was made to educate military circles in this respect in order to reduce their resistance to such cooperation. This concern was particularly marked in Brazil, in view of the association in that country between nuclear activities and programmes to develop military technology.

From the point of view of international policy, the most appropriate way of defending the "legitimate" continuation of the nuclear programmes in Argentina and Brazil was to give assurances that they were committed solely to peaceful uses. It became generally accepted among those engaged in nuclear cooperation that in order to prove the peaceful nature of the programmes they should be capable of being verified and controlled through a system of safeguards. After meeting more resistance on the Brazilian side than in Argentina, this solution gained currency as from 1990, when a Common Accounting and Control System was negotiated to cover all the material used in the nuclear activities of both countries. The next step was the decision of the two countries, through this System, to sign a safeguards agreement with the International Atomic Energy Agency (IAEA), similar to that signed between that agency and EURATOM.

The confidence-building measures taken in the field of nuclear cooperation and their institutionalization through bilateral and international agreements were well received abroad and became a precedent for similar measures in the military and strategic field. Mention may be made in this respect of the agreement outlawing chemical weapons signed by Argentina, Brazil and Chile, and the growing interest on the part of those three countries in the entry into force of the Treaty of Tlatelolco outlawing nuclear weapons in Latin America.

In the area of Argentine-Brazilian relations, the deactivation of conflictive perceptions in the respective military circles was also furthered by the efforts

¹⁶ With regard to nuclear issues, the Presidents of Argentina and Brazil have signed several joint declarations: the Declaration of Iguazú in 1985, the Declaration of Brasilia in 1986, the Declaration of Viedma in 1987, and the Declaration of Iperó and the Declaration of Ezeiza in 1988. Within PICE, two protocols (Nos. 11 and 17) were devoted specifically to the question of nuclear cooperation. In 1990, the two countries approved a Common Accounting and Control System for all material within their respective programmes, and in 1991 they signed a safeguard agreement with the International Atomic Energy Agency (IAEA) guaranteeing that the nuclear programmes of the two countries would be used purely for peaceful purposes.

¹⁷ For an analysis of the motives for cooperation in the area of security, see Jervis, 1988.

to establish a common agenda of understanding and debate on security matters of interest to the armed forces of the two countries (drug trafficking, the environment, military technology, the Inter-American defence system, etc.).¹⁸ The organization of periodic "learning" exercises on the respective perceptions has stimulated, even in some military circles, the idea of creating a "security system" in the MERCOSUR

area which would give greater stability to this process. There can be no doubt that a space in which military sectors could play a positive part in the integration process could increase the conditions for its institutional stability, provided this space was fully in keeping with the consolidation of democratic and pluralistic regimes which has taken place in the subregion.

VIII

Final considerations

There is still, to be sure, a marked imbalance between the levels of scope and depth reached in the integration process, and this makes it particularly vulnerable to macroeconomic "squalls". In this respect, the "transitional" period, which is formally due to end in 1995, should fulfil its role of filling out the skeleton plan. It may well be that the ambitions projected by the Treaty of Asunción themselves hinder the achievement within this space of time of a

minimum programme such as the creation of a free trade area. The reversal, and even the mere adjustment, of initial expectations could give rise to a process of politicization among the social and State actors which could unnecessarily complicate the integration process.

In spite of its difficulties, however, MERCOSUR has opened up new horizons for the interaction of its members. The foundations have been laid for the establishment of a system of economic, political, social and cultural links which, it would appear, is encountering more acceptance than resistance. The institutional stability provided by the consolidation of pluralistic democracies is obviously an essential asset in this context.

¹⁸ Annual meetings between the Joint Chiefs of Staff of the two countries are held for this purpose, at which aspects and possibilities of cooperation in the field of security are discussed. Uruguayan and Paraguayan military representatives also recently began to participate in these meetings.

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