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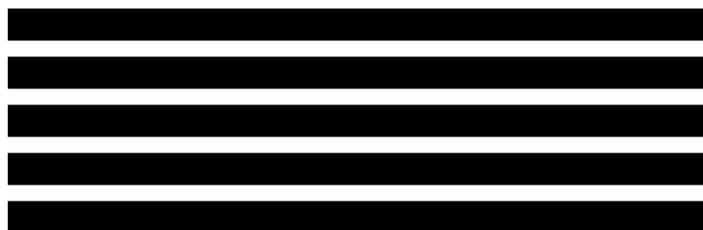
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# POWER AND REGIONALISM IN LATIN AMERICA

The Politics of MERCOSUR



LAURA GÓMEZ-MERA

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*To my parents, Isabel and Juan*



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## ABBREVIATIONS

ABICALÇADOS	Associação Brasileira das Indústrias de Calçados
ABIMAQ	Associação Brasileira da Indústria de Máquinas e Equipamentos
ABINEE	Associação Brasileira da Indústria Elétrica e Eletrônica
ABIT	Associação Brasileira da Indústria Têxtil e de Confecção
ACARA	Asociación de Concesionarios de la República Argentina
ADEBIM	Associação de Empresas Brasileiras para a Integração de Mercados
ADEFA	Asociación de Fábricas de Automotores
AFTA	ASEAN Free Trade Area (see ASEAN below)
ALADI	Asociación Latinoamericana de Integración
ALBA	Alternativa Bolivariana para América Latina
ANFAVEA	Associação Nacional dos Fabricantes de Veículos Automotores
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum (see ASEAN below)
ASEAN	Association of Southeast Asian Nations
ASSINTECAL	Associação Brasileira de Empresas de Componentes para Couro, Calçados e Artefatos

*xiv Abbreviations*

CAFAEMEH	Cámara de Fabricantes de Aparatos Eléctricos y Mecánicos para el Hogar
CAFAGAS	Cámara de Fabricantes de Artefactos de Gas
CAIA	Cámara Argentina de la Industria Autopartista
CAIRAA	Cámara Argentina de Industrias de Refrigeración y Aire Acondicionado
CAM	Competitive Adaptation Mechanism
CAMEX	Câmara de Comércio Exterior
CAPCICA	Cámara de Producción y Comercio Internacional de Calzado
CEAL	Consejo Empresarial de América Latina
CEI	Centro de Economía Internacional
CEP	Centro de Estudios para la Producción
CET	common external tariff
CGT	Confederación General del Trabajo
CIC	Cámara de la Industria del Calzado
CICB	Centro das Industrias de Curtumes de Brasil
CIESP	Centro das Indústrias do Estado de São Paulo
CIFARA	Cámara Industrial de Fabricantes de Automotores, Repuestos y Afines
CMC	Consejo del Mercado Común
GMC	Grupo del Mercado Común
CNCE	Comisión Nacional de Comercio Exterior
CNI	Confederação Nacional da Indústria
ELETROS	Associação Nacional de Fabricantes de Produtos Eletroeletrônicos
EU	European Union
FEDEHOGAR	Federación de Cámaras Industriales de Artefactos para el Hogar
FIESP	Federação das Indústrias do Estado de São Paulo
FIRJAN	Federação das Indústrias do Estado de Rio de Janeiro

*Abbreviations xv*

FITA	Federación Argentina de Industrias Textiles
FTAA	Free Trade Area of the Americas
G-20	Group of 20
GCC	Gulf Cooperation Council
IBRAVIN	Instituto Brasileiro do Vinho
IEDI	Instituto de Estudos para o Desenvolvimento Industrial
IDB	Inter-American Development Bank
IIRSA	Iniciativa para la Integración de la Infraestructura Regional Sudamericana
INTAL	Instituto para la Integración de América Latina y el Caribe
MERCOSUR	Mercado Común del Sur (Southern Common Market)
NAFTA	North American Free Trade Agreement
PICE	Programa de Integración y Cooperación Económica
SAARC	South Asian Association for Regional Cooperation
SACN	South American Community of Nations
SACU	South African Customs Union
SADC	Southern Africa Development Community
SADCC	Southern Africa Development Coordinating Conference
SECEX	Secretaria de Comércio Exterior
SINDIPEÇAS	Sindicato Nacional da Indústria de Componentes para Veículos Automotores
SMATA	Sindicato de Mecánicos y Afines del Transporte Automotor
TRIMS	trade-related investment measures
UIA	Unión Industrial Argentina
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNASUR	Unión de Naciones Suramericanas (Union of South American Nations)
UOM	Unión de Obreros Metalúrgicos
USTR	United States Trade Representative

*xvi Abbreviations*

UVA	Unión Vitivinícola Argentina
UVIBRA	União Brasileira de Vitivinicultura
VER	voluntary export restraint
WTO	World Trade Organization

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## CHAPTER ONE



# Introduction

*How should we think about world politics after the end of the cold war, after the breakup of the Soviet Union, after the September 11 attacks, with the onset of the War on terror? My answer is simple: ours is a world of regions. —Katzenstein 2005*

Regions have gained centrality in the post–September 11 international system. As a result, students of international and comparative politics have turned to the growing role of emerging regional powers, such as Russia, China, India, and Brazil, in the face of the alleged decline in American hegemony. But what exactly is the role of these regional powers and emerging global players in the construction and maintenance of international and regional orders? To what extent and in what ways does the still preponderant role of the United States affect the prospects for cooperation at the regional level? And how relevant are domestic

political factors in shaping regional dynamics in a context of pervasive power asymmetries? This book addresses these theoretical questions by focusing on the dilemmas of conflict and cooperation facing Brazil and Argentina in the Southern Common Market (MERCOSUR), the fourth largest trade bloc in the world.

MERCOSUR presents a fascinating case to probe the links between regional orders and global and rising regional powers, like the United States and Brazil. In contrast to other regional cooperation schemes, such as the European Union or the North American Free Trade Agreement (NAFTA), stable collaboration in the Southern Cone has been elusive. After a promising start in the early 1990s, MERCOSUR's economic and institutional relevance has been eroding. Toward the end of the decade, the recurrence of commercial and diplomatic conflict within the bloc led many to predict its demise. Contrary to these pessimistic forecasts, however, partners intervened repeatedly to ensure the bloc's survival. In the early 2000s, MERCOSUR was "relaunched" several times, as member states reaffirmed their strategic and political commitment to the regional project. In addition, in the past few years intrabloc conflict has noticeably declined in frequency and intensity and intraregional trade has recovered considerably.

And yet a closer look at recent developments in the Southern Cone suggests that the problems that undermined the quality and stability of cooperation in the 1990s persist. As trade friction has continued in the last decade, diplomatic tension among MERCOSUR partners has deepened, and strategic dissonance has grown. Even though a regional parliament was created and the dispute settlement mechanism was strengthened, the effectiveness and relevance of these regional bodies remains dubious. For some, MERCOSUR is currently little more than a "fractious" and "unsteady" political alliance.<sup>1</sup> These perceptions were reinforced by the recent and controversial admission of Venezuela into the bloc as a full member, made possible by the suspension of Paraguay.<sup>2</sup> Nevertheless, the twenty-year-old bloc continues to feature prominently in the foreign policy agendas and discourse of governments in the region, particularly of Brazil and Argentina.<sup>3</sup>

The erratic nature of regional dynamics in South America holds considerable interest for International Relations (IR) scholars focusing on

regionalism and interstate cooperation. Indeed, MERCOSUR's ongoing problems have generated a lively debate on the prospects for its survival.<sup>4</sup> So-called Merco-pessimists emphasize the cyclical nature of the crisis within the bloc and its declining economic and strategic rationale, questioning its long-term sustainability.<sup>5</sup> "Merco-optimists," in contrast, point to the significant progress partners have made in liberalizing trade and coordinating positions in international negotiations. From this perspective, despite periodic commercial friction, MERCOSUR's endurance is guaranteed by a convergence of strategic and economic interests among member states.<sup>6</sup>

Both positions shed light on different aspects of MERCOSUR's evolution. However, by conceptualizing outcomes in such narrow terms—failure and collapse versus success and resilience—this literature provides an oversimplified account of the dynamics of cooperation in the Southern Cone. This book, therefore, adopts a broader perspective to argue that the main puzzle lies in the contradictory mix of conflict *and* cooperation that can be observed in MERCOSUR almost since its inception. What explains these unstable patterns of conflict and cooperation? What are the main constraints on the stability and depth of South American economic and political integration? And what explains the survival of the bloc, despite its decreasing economic and institutional relevance?

Conventional accounts of the disappointing evolution of South American regionalism typically focus on the pervasiveness of economic asymmetries among countries in the region, the weakness of regional institutions, and/or Brazil's unwillingness to act as an underwriter of regional cooperation. In this book, I offer an alternative explanation that, in line with neoclassical realist approaches in IR, emphasizes the tension and interplay between interstate power asymmetries, on the one hand, and domestic politics, on the other. I argue that while external vulnerability and overlapping power asymmetries have provided strong and consistent incentives for regional cooperation in the Southern Cone, the impact of these systemic forces on regional outcomes has been crucially mediated by domestic political dynamics. In the short and medium term, domestic political forces intervene to weaken systemic incentives for cooperation. In the longer term, however, these domestic-level constraints have been

offset by systemic incentives for cooperation, thus ensuring the survival of MERCOSUR.

My argument is illustrated with case studies of four instances of “crisis” or heightened tension in commercial and political relations between the bloc’s two main partners, Argentina and Brazil: the 1995 automobile crisis; the 1999 footwear industry dispute; the 2001 conflict over the external tariff on capital goods; and the post-2003 attempts to deal with trade in three of the so-called sensitive sectors, namely, textiles, home appliances, and wine. The first three conflicts were triggered by unilateral restrictions, imposed by either Brazil or Argentina. In contrast, more recent friction over the sensitive sectors led to the negotiation of “voluntary” restrictions. The structured analytical narrative comparing bilateral tensions in these sectors is particularly useful for understanding the complex ways in which international and domestic political dynamics have interacted to shape patterns of conflict and cooperation in the Southern Cone over the last two decades.

#### REGIONS AND REGIONALISM IN WORLD POLITICS

This book draws on and contributes to a rich body of literature that focuses on the politics of economic regionalism.<sup>7</sup> The revival of regional economic cooperation in the aftermath of the Second World War generated considerable scholarly interest in the causes and consequences of this cooperation. Much of the early research, however, concentrated solely on the economic aspects of this phenomenon, neglecting its crucial political implications. Although the emerging literature on European integration did acknowledge the centrality of political and security considerations driving this process, it paid little attention to the various cases of regional economic integration in the developing world.

In contrast, in the last two decades there has emerged an extensive body of work on the political economy of regionalism in Europe and beyond (e.g., Fawcett and Hurrell 1995; Mansfield and Milner 1997; Solingen 1998; Acharya and Johnston 2007; Duina 2006). Fueled by the impressive proliferation of regional trade agreements since end of the Cold War, this more recent literature implicitly and explicitly

acknowledges that “economic factors alone are insufficient to explain regionalism’s causes and consequences and that political factors are centrally important” (Mansfield and Solingen 2010, 145). Indeed, recent research by scholars of IR and comparative politics has shed considerable light on the complex ways in which international and domestic political dynamics shape patterns of regional economic cooperation in the post–Cold War international system. Two specific literatures within this broader research program are particularly relevant for the present study of MERCOSUR: IR work on powers and regions and political economy analyses of regional trade agreements.

Realist IR scholars have emphasized the multifaceted links between interstate power dynamics and the construction and evolution of regional economic and security institutions. One argument focuses on the role of regional powers. Some view the existence of a preponderant state that is willing and able to act as an underwriter of regional norms and institutions as a necessary condition for successful cooperation (Mattli 1999; Pedersen 2002; Kupchan 1998). A second group of scholars have challenged these claims, arguing that a highly asymmetric distribution of intraregional power could result in weak regional institutions that fail to restrain opportunistic behavior by the strongest players. Another group of scholars have pointed to the importance of considering the role of both regional and *extra*-regional powers. Katzenstein (2005), for example, argues that the power and preferences of the United States critically influenced the timing and nature of regionalism in Europe and East Asia.<sup>8</sup> The core powers in each region, namely Germany and Japan, played an important role in reflecting and translating American power and purpose at the regional level. Alternatively, powerful actors outside a region may also create incentives for weaker states to create “defensive” regional groupings aimed at counterbalancing the preponderance and influence of more powerful states (Acharya 2007).

A third, alternative line of research has paid greater attention to the role of domestic political and economic factors in regional cooperation, focusing primarily on preferential trading arrangements. Drawing on more general arguments on the domestic sources of foreign economic policy, this literature has examined the ways in which domestic interests and institutions influence the decision by states to join regional

trade agreements. This work typically highlights the domestic distributional implications of regional trade liberalization strategies, explaining national preferences and choices for commercial integration in reference to the demands of domestic interest groups (Grossman and Helpman 1995; Milner 1997b; Moravcsik 1998; etc.). This literature has also examined the role of state preferences and institutions in mediating and aggregating societal interests into policy outcomes (Haggard 1997; Mansfield, Milner, and Pevehouse 2007). Solingen (1998; 1999), for example, emphasizes the role of political leaders in brokering state-society coalitions that support or oppose internationalization and regional cooperation.

Though the IR and political economy literatures have offered important theoretical insights into the politics of regionalism, they have been quite limited in their empirical focus. Indeed, much of this work has concentrated on the European integration process and, to a lesser extent, on the North American and East Asian cases. Other regional cooperation initiatives in the developing world have received surprisingly limited attention. There is also a conspicuous dearth of research on comparative regionalism, with much of the empirical work seeking to explain why states choose to follow regional trade strategies and to create regional institutions, with little attention paid to the uneven performance of many of these initiatives.<sup>9</sup> This book contributes to filling this lacuna in the extant literature. By focusing on the unstable and underexamined case of MERCOSUR, it not only broadens the empirical focus of the existing literature on comparative regionalism, but also adds to our understanding of the factors conditioning the evolution and durability of regional cooperation. Concomitantly, this study of the political economy of South American regionalism is meant to help fill a void in the predominantly economic literature on MERCOSUR.

#### CENTRAL ARGUMENTS

To account for the unstable evolution of regional cooperation in the Southern Cone, this book advances an explanation that emphasizes the tension between systemic imperatives and domestic political constraints

faced by the bloc's two largest partners, Argentina and Brazil. The central argument is twofold. First, the overlapping dynamics of asymmetric power at the regional, hemispheric, and global levels have fundamentally shaped patterns of regional cooperation among Southern Cone countries. The creation and maintenance of MERCOSUR has been to a great extent a defensive strategic response by South American countries confronted by the highly asymmetric distribution of power in the international system. A shared sense of external vulnerability among countries in the region has facilitated the converging of their interests in preserving MERCOSUR as a vehicle for increasing leverage in the international system. Indeed, the book illuminates the important role that extraregional threats have played in directly and indirectly fostering regional cooperation in the Southern Cone.

The evolution of South American regionalism has simultaneously been conditioned by the large disparities of power within the region, and particularly, by Brazil's preponderance. Brazil's posture toward MERCOSUR has been marked by an ongoing tension between offensive incentives for cooperation and ambivalence about assuming a leadership role. On the one hand, Brazil has consistently viewed MERCOSUR as a key instrument for consolidating its position as a regional power and as a relevant global player. These power-related interests have underpinned Brazilian foreign policy elites' concern with defusing diplomatic tension and ensuring the maintenance of regional integration. On the other hand, Brazil has been reluctant to play a more active role in the construction and maintenance of regional institutions, thus breeding mistrust and distributional conflict within the bloc. Brazil's strategic ambivalence about its role as regional power has had a complex effect on MERCOSUR, ultimately contributing to its inertial survival.

External vulnerability and power considerations are thus central factors in the analysis of South American regionalism. However, an exclusive focus on systemic imperatives is insufficient to account for the contradictory patterns of conflict and cooperation observed since the 1990s. My second central contention is that the impact of these external pressures on regional dynamics has been crucially mediated by domestic political factors. In the short and medium terms, domestic interests and institutions have constrained and undermined cooperation in MERCOSUR

in different ways. The somewhat unexpected survival of MERCOSUR suggests that, so far, enduring systemic incentives for cooperation have prevailed over these domestic-level constraints. Yet a careful examination of the process of domestic decision making through which these international pressures are filtered and transmitted into regional policy choices and outcomes is crucial to understand the erratic nature of regional cooperation in the Southern Cone.

Beyond merely claiming that both international and domestic political factors matter in MERCOSUR, I investigate the specific mechanisms through which these forces interact to shape regional outcomes. In line with neoclassical realist approaches in IR, the book's analytical framework illuminates the various processes through which domestic politics block, deflect, or attenuate systemic incentives for cooperation. Specifically, my neoclassical realist explanation emphasizes three principal domestic constraints on collaboration. Societal pressures and the economic and political calculations of national policy makers, the first two constraints, explain the recurrence of unilateral defection and conflict within the bloc. The third constraint, stemming from the lack of coordination among different actors within the state sharing power over regional cooperation issues, further undermines the coherence of member states' regional commitments. Contrary to prevailing interpretations of the origins of conflict and opportunistic behavior, my argument gives pride of place to the preferences and coalition-building efforts of state actors and to the role that domestic political institutions play in conditioning decisions over regional trade cooperation.

The balance among these systemic and domestic-level influences has fluctuated significantly over time and across member states. Indeed, in the last half-decade international and regional distributions of power have change in important ways, with a significant increase in the regional and global salience of Brazil, and a relative decline in US influence in South America. Venezuela's decision to join the bloc as a full member, while not yet fully implemented, has also affected interbloc dynamics of power. In addition, constellations of institutions and domestic interests within each country have evolved in consequential ways. The book explores how these shifts in systemic and domestic-level factors have influenced patterns of conflict and cooperation in MERCOSUR.

The focus on Argentine-Brazilian relations in explaining patterns of conflict and cooperation in the four- (and soon to be five-) member MERCOSUR project needs justification. It is in no way intended to suggest that the smaller partners, Uruguay and Paraguay, are irrelevant in the dynamics of conflict and cooperation within the Southern Cone. Clearly, an erosion of their support and commitment to the bloc would endanger its sustainability and seriously modify the trade-offs faced by the largest members. Consequently, the argument here is not that Argentine and Brazilian preferences and choices have completely determined the nature of regionalism in the Southern Cone, but that they constitute a central element. The two larger countries not only have played the fundamental role in the establishment of MERCOSUR, but also were the main protagonists of the most salient instances of commercial and diplomatic conflict in the history of the bloc. Indeed, despite the increasing relevance of tension between smaller and larger partners, the recurring spats between Argentina and Brazil have undoubtedly constituted the main source of uncertainty regarding the bloc's sustainability. Similarly, the two largest partners led initiatives to "relaunch" the regional project in 2000, 2001, and 2003. In this sense, focusing on their bilateral strategic and commercial relation illuminates central aspects of the functioning and survival of institutionalized cooperation in the Southern Cone.

#### ANALYTICAL FRAMEWORK

The analytical framework developed in this book to explain specific instances of conflict and cooperation in the Southern Cone combines insights from power-centric (or realist) IR theories and domestic political economy approaches to trade policy making. In emphasizing the articulation of systemic incentives and domestic political factors, this approach is consistent with recent "neoclassical realist" approaches to foreign policy (Sterling-Folker 1997; Rose 1998; Schweller 2006; Lobell, Ripsman, and Taliaferro 2009). Neoclassical realism shares the neorealist emphasis on the centrality of the distribution of international power in explaining the foreign policy behavior of states. For neoclassical realists, however, the impact of relative power capabilities on foreign policy choices is not as

direct and straightforward as structural realists tend to assume. Instead, the effect of power asymmetries is “complex and indirect because systemic pressures must be translated through intervening variables at the unit level” (Rose 1998, 146). Thus, understanding the ways in which states respond to the constraints and opportunities of the international system requires looking at how these are mediated by domestic politics. The diplomatic, military, and international economic policies that leaders pursue result from a process of bargaining and contestation among domestic state and nonstate actors (Lobell, Ripsman, and Taliaferro 2009).

While all neoclassical realists agree that domestic factors filter and refract systemic pressures in shaping policy outcomes, they diverge with regard to the specific internal factors that they emphasize. Some scholars, such as Wohlforth (1993), focus on policy makers’ perceptions and interpretations of the relative power position of their countries. Others, such as Zakaria (1998), Schweller (1998; 2006), and Lobell (2009), examine the impact of domestic political institutions and state-society relations on the capacity of states to respond to systemic incentives. Schweller (2006), for example, argues that three domestic-level intervening variables—degree of elite consensus, social cohesion, and regime vulnerability—condition the extent to which states act in accordance with balance-of-power theory predictions. More specifically, he contends that seemingly incoherent states “often cannot balance against threats . . . because they are constrained by domestic political considerations” (Schweller 2006, 68).<sup>10</sup>

The book’s analytical framework incorporates some of the fundamental insights of this literature and applies them to the study of international economic cooperation. Consistent with neoclassical realist explanations, I argue that external vulnerability and relative power considerations have played a central role in driving cooperation among MERCOSUR partners. However, in the short term, domestic political factors frequently intervene to block or weaken external incentives for cooperation, causing recurring conflict. To identify and illuminate which domestic political dynamics have been more relevant in MERCOSUR countries, I draw on the political economy literature on trade policy making. Borrowing from some of this work (e.g., Moravcsik 1998; Lake 1988; Krasner 1978), I propose a framework that disaggregates the state

and explains national preferences and choices for regional integration as the result of the interaction and balance of power in the executive branch of the state, focusing specifically on the foreign policy executive, the economic team, and the relevant sectoral agencies. I assume that systemic pressures and power considerations critically shape the preferences of the foreign policy executive for cooperation. These state actors thus act as crucial links between the international and domestic levels of analysis. By contrast, the positions of other state actors regarding cooperation are shaped primarily by domestic political and economic considerations.

Applying this framework to the study of four moments of conflict in a number of different sectors in MERCOSUR, I demonstrate that the recurrent instances of conflict in the bloc have reflected not only societal pressure but also the macroeconomic and political calculations of national policy makers. Tension among different state agencies sharing power over regional policy making has further undermined the coherence of member states' behavior toward their regional commitments. Nevertheless, the ability of the pro-cooperation foreign policy elite to prevail in intrabureaucratic discussions, as well as strong presidential commitment to the regional cooperation project, has consistently resulted in the successful management of political and diplomatic, if not commercial, tension between partners. Thus, in the longer run systemic imperatives prevail over domestic political considerations, thus ensuring the maintenance of political—if not economic—cooperation.

#### PLAN OF THE BOOK

The book is organized as follows. Chapter 2 provides an overview of the evolution of regional cooperation in the Southern Cone since the early 1990s, showing that there has been considerable instability in trade and diplomatic relations among MERCOSUR partners. This chapter then discusses the usefulness of existing theoretical approaches to the study of international cooperation and argues that none is by itself sufficient to account for the erratic patterns observed in MERCOSUR. Chapter 3 elaborates an analytical framework based on neoclassical realism. This model combines insights from neorealism and domestic political

economy explanations. It disaggregates the process of regional cooperation into two sequential stages: (1) the formation of national preferences for/against cooperation, and (2) the distributional outcome of the negotiations among member states.

Chapters 4 to 7 deploy this framework in the analysis of the origins, management, and resolution of trade disputes between Argentina and Brazil between 1995 and 2011. Chapters 4, 5, and 6 examine bilateral disputes over automobiles, footwear products, and the common external tariff. Chapter 7 focuses on the more recent and ongoing attempts by Argentina and Brazil to deal with three “sensitive sectors”—textiles, home appliances, and wine—that have been a primary source of bilateral frictions since the late 1990s. Each case study provides a brief overview of the conflict and analyzes the process through which international and domestic political factors interact to shape national preferences and positions during the dispute, as well as the distributional outcome of the conflict. Finally, chapter 8 summarizes the book’s main empirical findings and discusses their broader implications for ongoing debates on the prospects for the survival of MERCOSUR, and on Brazil’s role as a regional and global power.