ECONOMICS, POLITICS, AND THE SOCIAL STRUCTURE;

An analysis of their interplay in the realm of Mercosur

‘Why has [Mercosur] not advanced beyond a certain point? It was not failure, it was not a success. It was a mediocrity, a typical Latin American mediocrity.’

–Raúl Prebisch, Argentine economist.

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Preface

‘Factors affecting effective regional cooperation are mindsets and perceptions emanating from the past.’ - *Khaleda Zia, first female president of Bangladesh.*

‘Here we encounter two conflicting concepts with which we must come to grips in our time: the idea of national solidarity and the idea of international cooperation.’ - **Gustav Stresemann, German politician, Nobel Peace Prize 1926.**

Thinking about integration among political entities can be done within different strand of theory and with differing set of tools. However, elaborations on the subject should always lead to an understanding sensitive of the region and the period of time. Moreover, integration, the creation of international organizations (in any form, albeit intergovernmental or supranational) by countries, involves matters of politics, economics, and ethics. The preceding tutorial research paper and this thesis do not only concern the dynamic process of international cooperation, they will also concern quite a dynamic region: the Southern Cone region.

‘A region that has exhibited a remarkable capacity for fundamental and profound political and economic change that range from authoritarianism, to competing multi-party systems, single party structures, and aristocratic governance.¹ With this, several models of development have emerged.’²

The Mercosur case study represents a theoretical challenge for academics in the field of political science. After all, how can one make sense of the regional project that is characterized by institutional and implementational looseness? How do national solidarity and regional commitment interact in the Mercosur region? Elaborations on this distinct regional project will benefit studies in the field of theorizing regional integration. A field of study that should not rely for a great part on the European experience.

This Research Master Thesis follows the research done during a research stay at Instituto de Iberoamérica, Salamanca, Spain. The accomplishments of the preceding tutorial research

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paper are threefold. First of all, it demonstrated the usefulness and dynamic of Haas’s theorizing integration. On the one hand, his work represents the rational process of spillover. On other hand, Haas’s points out that several background variables, a certain context, should be taken into account as well. As the paper discussed, the variables mentioned by Haas do not belong to positivist’ traditions, but rather moved Haas’s work towards the constructivist’ tradition. Second of all, the tutorial research paper presented a meta discussion on the compatibility and interplay of rationalism and constructivist’ thinking. The discussion of these first two accomplishments will be extended in this thesis.

The third accomplishment involves an overview of the development of the Mercosur integration project. It demonstrated indeed that one who approaches this project with only the tools of rationalism seems to be unable to explain and understand the nature and development of Mercosur. Consequently, this also means that one is not equipped to understand or predict the future concerning the project and even concerning politics in the Southern Cone region. Haas’s move towards constructivism seems indeed an interesting, and necessary, step.

Before this thesis will take up the analysis where the tutorial research paper left off, it is appropriate to present a short overview of the organization of Mercosur and its historical development.
Appendix one, Rationalism and Constructivism Meet in the Context of Mercosur, pp 12-20.
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Introduction

‘Integration theorists tend to assume that any process of regional cooperation, coordination, or centralization of effort among […] member states should be conceptualized as leading to some definable outcome, some new order for the region [...]’.4

The preface presented elaborations stemming from a preceding tutorial research paper. A closer look at the development of the Mercosur project with the analytical tools of spillover theory revealed that the development of Mercosur is indeed peculiar. It lacks an effective dispute settlement system, it lacks supranational institutions, it exhibits a key role for consensus in decisionmaking, and it exhibits an asymmetrical implementation of norms, across member states and sectors.5 As far as the development of the regional project is concerned, the institutional design seems to have reached a point of diminishing returns with its growing gap between commitments, implementation, and therefore credibility. And instead of deepening ties with existing members and address the institutional framework, Mercosur is expanding its reach to include new members. However, the question remains as to why did Mercosur develop the way it did? Because, in spite of its ‘shortcomings’, in case they are indeed ‘shortcomings’, the member states seem to not give up on the project.

The choice of Haas’s work becomes apparent. Even though spillover is considered a rational mechanism in search of efficiency, Haas’s work paves the way for a more dynamic consideration of regional integration projects. With help of the very same concept of spillover, that is. The tutorial research paper already considered the interplay and tension fields between rationalist’ theories and the constructivist’ tradition. It analyzed the background variables formulated by Haas that, according to him, should be included when considering regional cooperation. This thesis will continue the analysis and move beyond these theoretical considerations. An interesting question, in terms of theory, has arisen. How to incorporate both political-and economic interests and ideological patters, culture, and social structure in a

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single theoretical framework on regional integration? How do they interact on different levels of analysis in the realm of the Mercosur project? And obviously, will such an analysis provide us some more insight about the regional project?

The Southern Cone region seems an appropriate region to use as a case study for this theoretical exercise since it seems to hold both political-and economic interests and a strong presence of history, culture, and ideas. And, as established, the Mercosur project cannot be properly be characterized relying solely on rationalist’ analysis. The analysis will be presented in several parts. First of all, several theoretical considerations will be discussed. These theoretical considerations, combined with the theory already discussed in the tutorial research paper, will lead us towards a formulation of several hypotheses concerning theorizing regional integration in the realm of Mercosur. Second of all, the theory and its hypotheses will be tested on the case study of Mercosur. This case study analysis will be done on two levels of analysis: the regional level (intra-project) and the domestic level. Lastly, the hypotheses derived from theoretical considerations and the findings of the integration project on different levels of analysis will be examined in relation to each other and its implications for a general theory of regional integration. Even though it should be kept in mind that the goal of this thesis is to examine the nature of regional integration in the Southern Cone, at the same time one should be aware that this is an exercise conducted within theorizing regional integration in general.

1. On the Material and the Beliefs: a theoretical framework

‘I was in pain to consider the miserable condition of the old man; and now my alms, giving him some relief, doth also ease me.’

Why did the European regional project develop the way it did? And why do other regional projects develop differently? Should the European model serve as a blueprint for other regional projects? Or should the European Union merely be seen as a member belonging to a considerably large family? This thesis will take the preceding research paper as a starting point and elaborate further on a theoretical framework concerning regional integration.

Before taking on this task, one has to first be introduced to the preceding tutorial research paper since this thesis will continue the analysis. This short recap will be presented in the

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6 Thomas Hobbes (1588-1679), *Leviathan.*
form of a graph and the entire paper is added to this thesis as appendix one. Secondly, with help of several authors, among them Lovering, Mecham, and Keohane, several useful additions will be presented and fundamental issues will be addressed. An elaboration on the issues concerning the need of theorizing regional integration, concerning the problems surrounding theorizing regional integration, and concerning the point of focus will result in the formulation of several hypotheses for a theoretical framework on regionalism. All in all, this chapter is seeking to develop a framework that enables one to deductively reason regional integration projects that do not fit the positivist’ theoretical models. The line of reasoning will be compared with, and therefore tested by, the Mercosur case study presented in the second chapter of this thesis.

§1.1 Ernst Haas: balancing rationalism and constructivism

As this thesis takes a preceding research paper concerning regional integration as a starting point, as added as appendix one to this thesis, it seems appropriate to first present its findings. This will be done in a graph, joined by several short comments. After a short look back\(^7\), this section will continue the analysis by searching for useful additions to this theoretical framework. The next section of this chapter will combine the preceding two sections and propose several hypotheses to be tested by the Mercosur case study.

*Figure two: Presenting the Tutorial Research Paper*

\[ \text{Regional Integration Project - Development} \]

\[ \text{Background Variables}^{a,b} \]
- Social Structure
- Economic and Industrial Development
- Ideological Patterns

\(^7\) Due to limited space, and a desire to move forward, references to the preceding tutorial research paper in various parts of this thesis will be done briefly and compact. In order to get acquainted with the complete discussion, please read appendix one first.
Firstly, it is important to note that this theoretical framework takes the birth and development of a regional integration project into account. Secondly, a central assumption of the theoretical framework is that the development of a regional integration project is dependent on the degree of spillover (deepening, widening, and broadening) that occurs.

This degree of spillover is dependent on a variety of factors. As elaborated on in the preceding research paper, these variables involve variables that should be considered with help of rationalist' theories and the constructivist' tradition. Economic and industrial development obviously involves an analysis of the patterns of trade, levels of trade, levels of production, and investments. From these data, patterns of interests can be distinguished that determine the relative position of the member states and thus the pace of the regional integration project. Social structure and ideological patterns seem to pave the way for a more dynamic consideration of interests and preferences. The social structure involves the understanding of the level of pluralism in the region, the role of interest groups, and the role of politics and politicians. Ideological patterns could include elaborations on culture and history and to what extent they can account for variations in preferences as far as regionalization projects are concerned. The presence of these background variables seem plausible. As appendix one demonstrates, only taking into account rationalism, sec looking at the levels of widening, deepening, and broadening, does not provide one with a complete analysis of the cooperation project. But differently, it does not provide one with the reasoning behind the characteristics of the project. It seems important to search for these characteristics for several reasons. Among them, the most important are the fact that when one is analyzing a phenomenon, be it a political one or not, one cannot merely stating and abstain from explaining. Second of all, it seems important to refrain from merely labeling when it comes to analyzing integrational projects in order to shed some light on the economic, political, and social dynamics prevailing in the region, among the individual states, who act in a globalizing world.

The influence of, and interplay among these background variables will be put to the test in this thesis by further analyzing the Mercosur-case study.
Appendix one elaborates more extensively on a discussion of spillover effects, the role of constructivist elaborations in this theoretical tradition, and of the variables mentioned.

The findings, based for a great part on the work of Haas, pave the way for this thesis. First of all, it opens the discussion on the compatibility of rationalism and constructivism, since the background variables formulated represent both categories. Second of all, it opens the discussion on how these variables should be operationalized and they manifest themselves in practice. This chapter will take on the task of addressing these two matters.

In search for a comprehensive theoretical framework on regional integration, suitable for projects that are not rooted exclusively in rationalism\(^8\), let us first return to Haas, before turning to other theorists. In an article published in 1964, Haas, co-writing with Schmitter, elaborates further on the background variables that should be present for spillover to occur.\(^9\) Haas and Schmitter formulate several variables and patterns that should be obtained before the launch of the project, variables and patterns that should exists at the time of the birth of the project, and variables which manifest during the process.\(^10\) The variables that are influential before the project is launched, include an high rate of previous transaction, a similarity in relative size and power, a high degree of pluralism\(^11\), and complementarity in values among the members. Each union, according to Haas and Schmitter, can be evaluated as ‘high’, ‘low’, or ‘mixed’ with respect to these background variables and patterns. Haas and Schmitter hold that governmental purposes and the powers attributed to the project are of relevance at the birth of the project.\(^12\) The ‘governmental purposes’ refer to consensus among the regional partners on the economic and political direction of the project. Lastly, the process variables include decision-making style (the practice that develops when faced with actual matters), the rate of transaction (has it grown since the launch of the process), and the adaptability of governments.\(^13\) Obviously, this last variable refers to the concepts of learning and preference change. Also, these detailed variables can still be placed under the heading of...
the variables mentioned in the tutorial research paper and earlier in this thesis: either social structure, economic and industrial development, or ideological patterns.

Haas and Schmitter provide us with adequate tools to assess a regional project. However, the variables they formulated were part of an exercise in identifying favorable circumstances for regional projects. So, in order to become useful for a theoretic framework on regionalism, one should ‘neutralize’ these variables. So, the variables formulated by Haas and Schmitter would become:

a) rate of previous transaction among Members;

b) relative size and power of Members;

c) degree of pluralism in the political culture of each Member;

d) degree of complementarity in values among the Members;

e) governmental purposes;

f) powers attributed to the project;

g) decision making-style

h) rate of transaction among the Members;

i) degree of adaptability of Members.

Before turning to the operationalization of these variables, and inclusion in a theoretic framework on assessing regional projects, let us first complete the theoretical analysis. After all, in order to strengthen the existing framework, it seems useful to also explore other authors then solely Haas. The next section will first explore possible difficulties concerning assessing regional projects. Then, useful additions or confirmations will be sought from other authors.

§ 1.2 An attitude: elaborations and additions to ‘approach’

Why should academics concern themselves with theorizing integration anyway? As data show, over the years, more and more regional integration projects, in all shapes and forms, have emerged.
Not only the emergence of the phenomenon is striking, also the significance attributed to them. As has been noted in the case study of Mercosur, the regional project is seen as a means to the end of economic and political development:

‘Teniendo en cuenta la evolución de los acontecimientos internacionales, en especial la consolidación de grandes espacios económicos y la importancia de lograr una adecuada inserción internacional para sus países;

Convencidos de la necesidad de promover el desarrollo científico y tecnológico de los Estados Partes y de modernizar sus economías para ampliar la oferta y la calidad de los bienes y servicios disponibles a fin de mejorar las condiciones de vida de sus habitantes;

Considerando que la ampliación de las actuales dimensiones de sus mercados nacionales, a través de la integración, constituye condición fundamental para acelerar sus procesos de desarrollo económico con justicia social;’

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14 World Trade Report 2003, p 47.
15 Parts of the preambule of the Treaty of Asunción, 1991. The complete treaty can be found at http://www.mre.gov.py/dependencias/tratados/mercosur/registro%20mercosur/Acuerdos/1991/esp%C3%B1ol/Tratado%20de%20Asunci%C3%B3n.pdf, the official Mercosur website. This part of the preambule translates to the affirmation of the global environment the region is finding itself and the importance of integrating in this environment, the affirmation that it is necessary for the states to develop and modernize in order to better the lives of its people, and the affirmation that through integration, economic development with social justice is to be achieved.
In his article, Lovering is quite skeptical about regionalism. He brands the line of reasoning that the region is crucial for economic development, and that therefore the region should be the focus of economic development, as a myth. His line of argumentation touches upon several interesting, and useful, points.\textsuperscript{16} First of all, he states that regional approach fails to address the significance of the state. One should always keep in mind that the state are in one way or another a reflection of a process of elections by the people that life in them. In contrast, regional projects represent undemocratic structures of economic government. Therefore, it seems problematic to attribute a large role to them. Furthermore, Lovering holds that it is problematic to state that ‘the region is a key scale for economic development’ and ‘is a fundamental basis of economic and social life’ since several fundamental questions are not addressed. For instance, to what extent is the abstract region related to actual regions? Also, development in a region fundamentally differs from development of a region. Analytical, descriptive, and normative questions seem to be confused and urgently need to be addressed.

Overall, Lovering indicates that ‘regionalism’ is not a paradigm. This realization has several consequences. It leads to philosophical and methodological looseness resulting in a variety of approaches: one exaggerating economics, the other overemphasizing the politics. Also, the concept of regionalism does not represent foundational insights, but rather a collection of ideas that are useful in merely some cases. Lovering states that, in order for theorizing regionalization to become a paradigm, relationships between processes and their connection to time and context within which these processes occur, need to be acknowledged.\textsuperscript{17} He also stresses that, in choosing case study-studies, one should not look for ideal-types. This will result in developing hypotheses of the theory of regionalism in an imaginary world.

Lovering discusses several valid concerns when it comes to theorizing regionalism. One should be aware that international organizations seem to hold undemocratic elements. Contradictory, the discussion seems to focus on how to expand their scope and depth. But, as data demonstrated in this section, international organizations are becoming more and more embedded in political, social, and economic life. Lovering’s concerns of democracy and foundation are not a reason to dismiss the subject, but rather a justification of studying the phenomenon. Nonetheless, Lovering’s elaborations provide us with a starting point on where


\textsuperscript{17} Idem, pp 384-388.
to focus our search for additions\textsuperscript{18} for our theoretical framework. His points of criticisms involve:

a) A focus on regions disregards the significance of the state;

b) ‘regionalism’ does not provide a coherent set of tools and approaches leading to a degradation of the field because of its inability to present foundational insights;

c) analyses within studies of regionalism tend to mix up analytical, descriptive, and normative questions.

§ 1.2.1 Dynamics: the state and its environment

Lovering’s remaining points lead to a number of hypotheses that will be tested in this thesis. First of all, \textit{a theory on regionalization should acknowledge the significance of the state.} Lovering states that a regional approach tends to neglect the authority of the state. However, states are after all the entities embarking on the regional project; it takes on the task of negotiations, consolidation, and, very basic, the signing of the treaties. Also, generally, the state represents a democratic process. The international organization does not. Therefore, the state should be attributed a central place in the paradigm. However, this does not mean that other actors should be downplayed in any way. The state should be of central focus, but related to this, should be an analysis of how the state acquires its (international) points of view. Considering the state can be regarded as a filter for sentiments, material and ideational, rooted in their society.\textsuperscript{19} Consequently, the state is also in a search for approval and support from the normative social groups in their society.

A variety of approaches exist in order to analyze how states acquire their points of view. Mecham points out that external factors should not be neglected, nor overestimated.\textsuperscript{20} Also, powerful domestic and historical factors should be kept in mind.\textsuperscript{21} Either way, it seems important to acknowledge both the material and values derived from ideas in the process of state behavior.\textsuperscript{22} Interestingly, earlier theories in the field of International Relations did not differ over ‘values’ and their application and significance: peace or war, wealth to poverty.

\textsuperscript{18} These additions are to address the two issues introduced by the tutorial research paper: how are the background variables to be specified and how do both rationalism and constructivism manifest themselves in the realm of international organizations.


\textsuperscript{21} The ‘historical factors’ will be elaborated on in the next subsection.

\textsuperscript{22} Haas and Haas (2002), pp 578-579, pp 582-585.
Also, Haas and Haas point out that regionalism is overwhelmingly seen in solely economic terms, i.e. analyses tend to be limited to economic terms. Rather, regionalism should be approached both exogenously and endogenously; in order to obtain a profound understanding of regional integration, in Latin America and elsewhere, it is vital to historically deconstruct international, regional, and domestic processes, trends, circumstances, and perspectives. After all, in general, regional, international, and domestic factors seem to exercise influence on state behavior and preference formation.

Returning to our quest for useful additions to our theoretical framework, let us focus on the type of approach. Especially when considering the Latin American region, deriving generalizations from the Western experience seems inappropriate and of limited relevance. The Latin American region is a distinctive region, facing specific conditions and circumstances. As do the African region, the South-East Asian region, the Middle East, etcetera. Mecham and Lovering lead us to the following hypothesis: a theory on regionalization should be a structural, all-inclusive approach. Both authors point out that within theorizing regionalism, a variety of approaches exist. Rather, the approach should be all-inclusive in order to be able to grasp the process. It should give attention to both politics and economics and the history and culture within which they operate. In other words: a theory on regionalization should be sensitive to politics and economics, developed through history, culture, and the reality of specific time and place. This should be done in a structural manner in order to distance itself from the character of ‘a loose bundle’. As Fawcett puts it:

‘[…] we must recognize that the make-up of each region under discussion is vital to understanding its prospects and possibilities. In this respect […] modified realism […] combined with a constructivist approach can be useful. We must also consider levels of interdependence, […] as well as linkages between different interest groups […] as well as the nature of states and regimes.’

Rather, applying this all-inclusive approach in a structural manner could enable one to move away from interpreting events that have happened and move towards building a predictive and expectational framework.

§ 1.2.2 Self-interest and Beliefs

In order to deal with the issues raised by Lovering relating to ‘the right type of question’, an all-inclusive approach is necessary as well. An analytical approach, based on interests, should go hand in hand with a normative, be it the constructivist, approach. As this subsection will demonstrate, these two types of questions cannot be posed separately. Rather, the normative enhances the analytical strength while a merely normative approach seems to be removed from reality when elaborating on politics and economics. In other words, the way regional projects develop, but also the circumstances within they are born, are dependent on both the rational, analytical matters and the way these projects are viewed, the ideas that surround these projects. The attitude towards regional projects tends to be dependent on historical factors and, related to this, culture.²⁴ Let us elaborate further on these two remarks.

First of all, the birth and development of regional projects is surrounded by both rational factors and ideational factors. The relationship between the two, how rationalism and constructivism do not exclude one another and how they can actually complement each other, is elaborated on in the preceding tutorial research paper which can be found in appendix one.²⁵ In short, constructivism can, and should, be seen as the middle ground between material and normative studies. It focuses on how (state) preferences are acquired and how they can change over time. Obviously, material theories view preferences as stable. But rationalism and constructivism can come closer as far as elaborations on how preferences are acquired are concerned.

Rather, the case can be made that focusing solely on cost-benefit type of reasoning and self-interest, one remains unable to fully grasp politics and state behavior. It should be kept in mind that the very core of politics is emotion. Politicians enter politics because they have certain believes or convictions. Or because they have a vision on where their country should be heading. International politics is just as much about emotions. It deals with matters relating to association and disassociation. However, politics can also not be fully understood if one neglects the material. In spite of emotions, politics is also based on reason. No politician, in general, can stay in office if continually bypassing reason.

Mansfield supports this stance in her book:

²⁴ Culture is stemming from historical experience, but is also a determining factor in attitude besides history.
²⁵ Appendix one, pp 26-37.
Democratic polities must balance techniques and institutions that assume self-interest and those that assume public spirit. As empirical social science stops ignoring this reality (of mixed motives) and starts exploring duty and love with the same intensity it has recently given self-interest, the resulting analyses are likely to become more useful.\textsuperscript{26}

Mansfield also supports the stance that rationalism and constructivism can co-exist:

\textquote{It is not about giving up on rationality all together, it is about specifying context. We should reject the notion of the single motive of self-interest in favor of looking at context. Our institutions and rules or not based on self-interest alone and therefore constrain the rationalizing political actors.}\textsuperscript{27}

So far, this section has elaborated on, and will further elaborate on, the application of the constructivist\textquote{ tradition. It involves ideas, perceptions, and additions and it touches upon the background variables of social structure and ideational patterns. However, an elaboration on what rationalism exactly tends to be, and how that could fit with constructivism, seems appropriate. Frank points out in his article that stating that an act is rational solely means that that act promotes self-interests.\textsuperscript{28} It remains oblivious of the motivation of those self-interests, for it can be motivated by material economic considerations or moral sentiments. Not the development of the aims, be it material or ideational, but the behavior to pursue those aims are to be labeled rational or irrational. In other words, rationalism and ideational factors seem to be able to go hand in hand. Mansbridge agrees with him, while continually emphasizing the interplay between ideas and self-interests, the inability to judge them separately. Rather, no good deed comes without self-interest:

\textquote{Conceptually we know what altruism means only by contrasting it with self-interest. In practice, however, altruism must coincide with self-interest sufficiently to prevent the extinction of either motive. Returns to both motivations needed to prevent them from being excessively costly. In theorizing, we often exaggerate when claiming that if we detect any self-interested reason to act in a particular way, that reason provides

the only explanation we need. Self-interest does not automatically drive out duty, in spite of the conceptual opposition between the two.”

Mansbridge further affirms that, in International Relations studies, ‘sympathy’ and ‘commitment’ are rarely addressed. Judging from her articles, she would argue for an incorporation of these concepts since they are indeed embedded in rationalism.

Keohane agrees with Frank and Mansbridge. He argues for a more modest interpretation of national interest, which should include more concern for the interests of other nations and restraints on the use of power and violence. Especially in case of unbalanced relationships, as is the case in Mercosur, patterns of behavior seem difficult to be explained in solely egoistic terms. All in all, these elaborations lead us to the hypothesis of a theory on regionalization should represent both analytical and normative viewpoints.

Interestingly, Keohane, in his well-known article ‘The Demand of International Regimes’, argues that one should only focus on the analytical, being the rational, part of the considerations. He is elaborating on why self-interested actors seek to establish international regimes, and how one can account for fluctuations among them over time in number, extent, and strength. He proposes an approach based on rationalism and microeconomics: an approach resembling supply-demand models. Keohane holds that the supply of multilateral projects is determined by the presence of an hegemon: the more power is concentrated, the more likely multilateral projects will emerge since that hegemon can absorb some of the costs. However, as he also points out, states that demand, also supply. So, demand and supply cannot be easily separated: factors that affect supply, also affect demand.

Furthermore, Keohane explicitly embraces rationalism as the tool of analysis. If a multilateral project is to change, that change can be explained on the basis of changes of the system itself, not on the basis of the characteristics and internal variations of the actors. This thesis will explore the interplay between history, culture, and rationalism in the realm of developing

30 Idem, p 139.
32 Idem, p 233.
34 Idem, p 327.
regional projects. Therefore, the hypothesis will formulate as: *in contrast to the elaborations of Keohane, the development of regional projects is dependent on the characteristics and internal variations of the actors, in combination with economic and political circumstances.*

In his article, Keohane focuses on the demand-side of international regimes. Among the factors he identifies influencing the demand-side, he elaborates on the factor ‘power’:

‘Relationships of power and dependence in world politics are important determinants of the characteristics of international regimes. Actor choices will be constrained in such a way that the preferences of more powerful actors will be accorded greater weight.’ Power relations are particular relevant to the supply of international regimes.\(^{35}\)

Keohane also repeats, in slightly different words, the spillover-hypothesis:

‘The demand side of international regimes depends on issue density\(^{36}\). Increased issue density will lead to increased demand for international regimes.’\(^{37}\)

Keohane adds:

‘The demand for international regimes will be in part a function of the effectiveness of the regimes themselves in developing norms of generalized commitment.’

This leads us to a next hypothesis for our theoretical framework: *the supply and demand of regional projects is heavily\(^{38}\) dependent on existing relationships of power and dependence, issue density, and the effectiveness of the regimes themselves.*

As already demonstrated in the tutorial research paper, spillover-reasoning cannot adequately account for the Mercosur case. Apparently, broadening and widening has occurred in a limited way. But at the same time, deepening of the project lags behind in that it remains an imperfect intergovernmental project and in that it lacks an effective dispute settlement system. Breslin and Higgott point out in their article that one should be aware to not exercise excessive naivety in its assumptions about the enhancement of interregional projects.

\(^{35}\) Idem, p 330.

\(^{36}\) *Issue density* refers to the number and importance of issues; the denser the policy space, the more highly dependent are the issues. Institutional imperfection will hinder cooperation within the policy sphere of these issues (Keohane (1982), pp 339-341.)


\(^{38}\) The word ‘heavily’ is used here as a reference to Keohane’s formulation of ‘important determinants’
generated by spillover-reasoning. Issue density could in theory lead to enhanced cooperation, but does not necessarily do so. Issue density is a factor to be considered in a wide array of factors.

To be fair, Keohane embraces rationalism here for methodological reasons. He holds that one has to create a starting point in the elaborations by establishing a baseline for future work. Essentially, this is what this work, in combination with the preceding tutorial research paper, is doing. The analysis started by using Haas and the rationale of spillover in trying to explain the Mercosur case study. It concluded that several voids in the analysis emerged; several characteristics of the project were left unaccounted for. Also, Keohane does acknowledge the need to specify the nature of the context within which actors make choices. He also mentions that one should assume a prior context of power, expectations, and values. He also acknowledges that principles and norms are intrinsic to multilateral projects. However, a model based on rationality and supply-demand is not, according to Keohane, the best approach for describing their interplay. In essence, that is what this thesis is seeking to distillate from the Mercosur case study: states act rationally, but one can only assess this in light of context, time, and place.

Keohane might be embracing rationalism in his article, he does leave some space for other factors to be considered as well. Attitudes, perception, and confidence do matter, according to him. He holds that when states are dealing with one another, information is quite important.

‘[This includes] not only information about other government’s resources and formal negotiation positions, but also knowledge of their internal evaluations of the situation, their intentions, the intensity of their preferences.’

So, states that maintain a closed attitude, according to Keohane, will encounter more difficulty in participating in international regimes that more open states. This is because closed governments are more likely to be viewed with skepticism. This can potentially result in the decline of the chances of international cooperation even though ‘real’ intentions or ‘real’ objectives are completely supported by both sides.

41 Idem, p 329.
42 Idem, pp 342, 344.
43 Idem, pp 346-347.
Keohane calls this the problem of the ‘veil of ignorance that stands between us and the future’. Perhaps Keohane offers us the second part of an explanation of why regional projects cannot be approached solely using the tools of rationalism, or solely relying on the constructivist’ tradition. Governments find themselves in political and economic circumstances and need to respond to them in a rational fashion. However, in order to judge the reliability of fellow governments, and in order to assess the future of the agreements among them, governments can only fall back on perceptions stemming from an historical experience. Taking this into account, one can understand why Haas and Haas point out that political practice involves intuitive understanding and explanatory beliefs on how to achieve material national goals.

§ 1.2.3 On Its Own Terms

Second of all, when returning to elaborations on constructivist’ concepts, the attitude towards regional projects tends to be dependent on historical factors and, related to this, culture. In the tutorial research paper, this has already been elaborated on. When one is taking social structure into account, one cannot ignore history. The way politics is conducted in the region, the way people view politics, and the general working of society, has to be dependent on historical experiences since they differ from region to region.

Regional projects should be based on its own terms. But the challenge lies in doing so structurally and comprehensively whilst being sensitive to particularities. One should be aware of every region’s complexities and distinctiveness. The first step towards achieving this, is adopting an epistemological pluralism, i.e. accept that concepts are differently understood around the world. Elaborations on culture and history can be useful in achieving this. For instance, in the case of the Southern Cone region, we come back at questions regarding the significance of cooperation, the role states and governments should play, and questions regarding what development should entail. If we do not do this, we will encounter difficulties in discovering what the region is (or is not). Several challenges can be posed regarding this issue. Does pluralism in the region mean ‘diversity’ or ‘fragmentation’? Also, it is essential to acquire an understanding of what the meaning of power, influence, and wealth

44 Idem p 342.
in a certain region tends to be. Lastly, what does ‘nationalism’ mean? In the Latin American region for instance, nationalism is generally conceived in emancipatory terms. Nationalism is often associated with the Left, with Developmentalists, and anti-imperialism. This tends to differ from general conceptions in Europe. If we do not make an effort to understand underlying culture, patterns, and perspectives, one cannot make sense of certain processes that develop in the region develop in the present day. This line of reasoning still does not erode rationalism. Actors still behave willfully, but differences exist in perspective or understanding.

The necessity to consider both rational factors and ideational factors, to incorporate culture and history, touches upon an essential point. The regional project in Europe is often used as a blueprint for other regional projects. It is tempting to compare the story of Europe to initiatives elsewhere. However, it will lead to an incorrect reasoning in argumentation. The observations based on the European experience are not to be considered generalizations, but specific to time, place, and context and can therefore not be used as such in comparative studies on regional cooperation. However, we can use the experience in order to try to formulate a theoretical framework on regionalism, in order to better grasp the influence of time, place, and context on the process. After all, in essence, that is the goal of this thesis.

§ 1.3 Towards a theoretic framework

So far, several hypotheses and background variables, relevant to analysis of regional projects, have been discussed. With these hypotheses, a more coherent analysis should emerge regarding regional cooperation in the Southern Cone. When putting these hypotheses to the test in the realm of Mercosur, a solid ground for a theoretical framework on regional cooperation will hopefully emerge. As mentioned several times, the theoretical framework focuses on interplay between rationalism and constructivism, and on operationalizing the background variables social structure, economic and industrial development, and ideological patterns.

Various factors, stemming from an historical experience, act upon the attitudes and preferences of states today. These factors create continuity in attitudes and behavior towards (political) challenges that the region is faced with and in turn influence social structure and ideological patterns. All in all, the context within, and the tools states are equipped with, seem to matter when they are faced with political and economic challenges. Basically, Breslin and Higgott sum up perfectly why rationalism cannot be applied solely when considering regional cooperation: it neglects domestic policies, it insuffiently pays attention to ideational questions, especially the importance of the idea of the region, and it relies too heavily on statist’ theorizing resulting in the inability to address matters of the influence of non-state actors and the developing multi-level governance agenda.\textsuperscript{50}

The underlying hypotheses of the theoretical framework, that seeks to address the shortcomings identified by Lovering, and confirmed and completed by Breslin and Higgott, combined with the elaborations of among others, Haas and Schmitter, on background variables that should be taken into account when analyzing a regional project. For sake of keeping overview, figure four will present an overview of the hypotheses derived from theoretical elaborations and the background variables that matter in analyzing a regional project.

\textsuperscript{50} Breslin and Higgott (2000), pp 335-336.
- a theory on regionalization should acknowledge the significance of the state;
- a theory on regionalization should represent both analytical and normative viewpoints;
- in theorizing regionalization, history matters;

<table>
<thead>
<tr>
<th>Social Structure</th>
<th>Economic and Industrial Development</th>
<th>Ideological Patterns</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before Launch</strong></td>
<td>Degree of Pluralism</td>
<td>Rate of Previous Transaction</td>
</tr>
<tr>
<td></td>
<td>Role of Politics</td>
<td>Relative Size and Power</td>
</tr>
<tr>
<td><strong>Birth</strong></td>
<td></td>
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<td></td>
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<td><strong>During</strong></td>
<td>Rate of Transaction</td>
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- a theory on regionalization should be a structural, all-inclusive approach;
- in contrast to the elaborations of Keohane, the development of regional projects is dependent on the characteristics and internal variations of the actors, in combination with economic and political circumstances;
- the supply and demand of regional projects is heavily dependent on existing relationships of power and dependence, issue density, and the effectiveness of the regimes themselves.
Firstly, the hypotheses derived from the elaborations on theory in the first sections of this thesis appear in this schematic overview of how to analyze a regional project. Three of the hypotheses are hypotheses that come into play beforehand. In other words, these are assumptions. It has already been set forth why the significance of the state should be acknowledged, why both normative and analytical viewpoints should be present, and why history matters. The remaining three hypotheses are hypotheses that could be seen as a result of the assumptions and an analysis of the background variables: it results in a structural, all-inclusive approach, acknowledges both the internal as external economic and political circumstances, and elaborates on the effectiveness and issue density of the project itself. At the same time, an analysis on the basis of this theoretical framework will demonstrate the influence of history and the importance of the acknowledgement of both analytical and normative viewpoints.

The variables mentioned under the header ‘Economic and Industrial Development’ seem quite easy to operationalise. Rate of transaction obviously refer to economic indicators, while relative size and power refer to both economic and political indicators. Relative political size and power can refer to the level of influence in informal and formal international fora.

The variables of degree of pluralism and the role of politics are variables related to ‘Social Structure’. The way politics is viewed and how the political process works are persistent features of a society that are not only relevant before the launch of a regional project, but also at the time of the birth and during the project. The degree of pluralism can be established by analyzing the role interest groups play in a society. In contrast to the establishment of economic and industrial development, the degree of pluralism cannot be caught in numbers but rather rely on analysis.

The variables mentioned under the header ‘Ideological Patterns’ involve a complementarity in values, governmental purposes concerning the direction of the project, and powers attributed to the project. During the project, the decision making style and the adaptability of governments matter. These variables, like the degree of pluralism, also rely on an analysis. The level of complementarity in values refers to the very foundation of the international project. What do the Members have in common? How do they view their position, the position of their region, and their future? The variable of governmental purposes refer to the same questions, but rather to the position and future of their project. Is it to be a political
project or an economic project? The variables of powers attributed to the project and decision making style are related to this. In light of the governmental purposes, are ad hoc, intergovernmental, or supranational powers attributed to the project? In light of the governmental purposes, are disputes settled on an ad hoc basis or rather embedded in a structural and sovereign framework? Finally, the adaptability of governments also reflects their ideas on the purpose of the project. In dealing their relations with each other, do the member states make use of the regional framework?

*Figure five: Variables and Indicators of the Theoretical Framework on Regionalism*

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>INDICATOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Degree of Pluralism</td>
<td>Role of interest groups</td>
</tr>
<tr>
<td>Role of Politics</td>
<td>How does the political process work?</td>
</tr>
<tr>
<td>High Rate of Previous Transaction</td>
<td>Levels of trade previous to the project, among the countries involved in the project</td>
</tr>
<tr>
<td>Similarity in Relative Size and Power</td>
<td>As both an economic and political variable. Economic: similar levels of GDP, similar volume of trade</td>
</tr>
<tr>
<td>Complementarity in Values</td>
<td>The way member states view themselves and their future</td>
</tr>
<tr>
<td>Governmental Purposes (direction)</td>
<td>The way member states view their region and their future</td>
</tr>
<tr>
<td>Powers Attributed</td>
<td>Ad hoc, intergovernmental, or supranational powers attributed to the project?</td>
</tr>
<tr>
<td>Rate of Transaction</td>
<td>Levels of trade after establishment of the project, among the countries involved in the project</td>
</tr>
<tr>
<td>Decision making-Style</td>
<td>Settlement of disputes on ad hoc basis or within a structural settlement framework?</td>
</tr>
<tr>
<td>Adaptability of Governments</td>
<td>Acknowledgement of regional framework in dealing with each other</td>
</tr>
</tbody>
</table>

This overview, and the elaborations on the theoretical framework on regionalism, enables one to critically and profoundly assess the Mercosur case study. More importantly, this theoretical framework will allow us to judge the region on its own terms and acquire an understanding of the process of development of Mercosur. The next section will be dedicated to analyzing the Mercosur project in two distinct, but interrelated, ways. First of all, it will address the project from the Mercosur, regional, point of view. It will address the background variables, while keeping in mind the remaining hypotheses. Second of all, it will address the project from the domestic level, from the viewpoint of Brazil. By doing so, a more comprehensive analysis
will emerge. The last section will consequently review whether the background variables and hypotheses represent a workable theoretical framework when confronted with practice.

2. The Regional Level: Economics and Social Structure

Let us now turn to the Mercosur case study. In the tutorial research paper, a first analysis of this case study gave rise to further theorizing and, ultimately, this thesis. The Mercosur case study will be approached, using the theoretical framework elaborated on in the first section of this thesis, from two angles. First of all, the regional level of analysis will be considered. Second of all, the domestic level of analysis, the project seen from the perspective of Brazil, will be considered. The choice for Brazil seems obvious: Mercosur’s largest member, biggest country in the Latin American region and internationally, one of the BRICS-countries.

The choice of first presenting theoretical considerations, and then test them through a case study has several advantages. Firstly, the research will benefit from the collaborative use of different research approaches that come into play when testing a case study. Secondly, the incorporation of a case study could result in the identification of new variables and hypotheses or, obviously, reveal the shortcomings of the theoretical framework. All in all, the Mercosur case study gave rise to elaborate more extensively on theorizing regionalism. And that very same case study will be used to analyze whether the framework is formulated correctly and to demonstrate its workings in practice. This has to be conducted firstly, and will subsequently pave the way for the analysis of a case study outside the Latin American region. In other words, the Mercosur case study will vivify and illustrate the abstract nature of the theoretical framework.

Even though the theoretical framework will be tested by using two angles, fact remains that merely one case study is being used. In order to be able to identify ideological patterns and the influence of history without being able to compare this to another case study, this section

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51 A case study is the analysis of a well-defined aspect of an historical happening (in this case, regionalism in the Southern Cone), rather than a historical happening itself (in this case, regionalism). By contrast, a case is regarded as an instance of a class of events such as an instance of revolution, type of governmental regime, etc.


53 Idem, p 19.

will use the method of process tracing. This within-case study method of analysis focuses on whether the intervening variables between a hypothesized cause and observed effect move as predicted by the theoretical framework.\textsuperscript{55}

Let us now turn to the case study. It seems obvious that when one holds a vision beforehand about how and what a successful integration process looks like, when one does not look at the specifics of a region, one can only conclude that the Mercosur project is a failing one. The statements of J. Grugel in his article are a clear example of this type of reasoning:

‘Yet the tragedy of Mercosur is that, without concerted efforts to give its institutions a social meaning, it will remain a project of economic integration that transforms and disrupts social identities through market-led change but offers no compensation to its citizens for the costs of belonging. […] <The> superficiality of contemporary processes across the region, […] the exclusion of social citizenship from the agenda of Mercosur restricts, […], the extent to which it can become embedded within the fabric of regional societies and ultimately threatens its legitimacy as a form of regional governance.\textsuperscript{56}

In the literature on the Southern Cone, there are similar statements to be found:

‘Mercosur is an ineffective regional association with little remaining capacity to promote other goals.’\textsuperscript{57}

‘[one should question] the long-term feasibility of Mercosur because of the unwillingness of Argentina and Brazil to apply rigorous structural adjustment, to pool sovereignty, to develop a collective macroeconomic position and to act as a single political entity in external relations.’\textsuperscript{58}

Obviously, putting a label on something, without properly analyzing possible explanations that are sensitive to the context, results in a meaningless label. In order to explore and analyze

why spillover has only occurred limitedly\textsuperscript{59} in the case study of Mercosur, one should apply the theoretical framework discussed in the first chapter. Part of this, is to historically deconstruct the region.\textsuperscript{60} The Mercosur project, seen from a regional level of analysis, will be elaborated on with help of the three subsections: ideological patterns, social structure, and economic development.

\section*{§ 2.1 Ideological Patterns}

As Figure four set out, the subsection Ideological Patterns consists of the elements shared values, governmental purposes, powers attributed to the project, decisionmaking style, and adaptability of the governments. If we recall, these variables were formulated in order to classify the strength of a regional project. An analysis of the decisionmaking style, adaptability of governments, governmental purposes, and powers attributed to the project gave rise to interest in writing this thesis. Since an analysis of these variables led us to classify the project as weak, while at the same time the Member States widen and broaden the scope of the project. So, in search for a comparative understanding of this, led us focus on the remaining variables of Figure Four and consider whether or not one can find an explanation of this contradiction of Mercosur. This subsection will thus consider the values that prevail among the Members of Mercosur, their roots and their impact.

One can distinguish an enduring pattern of attitudes and ideas stemming from an historical experience and rooted in the self-perception of the region. However, it is important to keep in mind that significant variations exist in both how and how much history impacted upon parts of Latin America. All of the following statements are tendency-statements and observations of patterns.

First of all, the Southern Cone region is a region that, due to historic experiences, at all times seems to want to avoid any signs of dependency.\textsuperscript{61} Vanden and Prevost link these historical experiences to the incentives for the member states to develop Mercosur. They state that the members, by forming Mercosur, were hoping to create an increase in trade and commerce among themselves without becoming part of solely trade associations outside the region, for

\textsuperscript{59} As demonstrated in Figure one, a deepening has not occurred, while a broadening and widening did occur in some sense.


instance with the United States. Also, in particular Brazil, has shown a fierce commitment towards the development of South-South relations, and the independence of developing countries.\textsuperscript{62}

It can be argued that these historical experiences also resulted in a reluctance of the member states to take on leadership since this implies willingness to intervene and accept the costs associated with leadership.\textsuperscript{63} Consequently, it can be argued that these historical experiences also resulted in an unwillingness of the member states to accept leadership by another country. These experiences seem to have a part in the reluctance across the region to accept community rules and supranational institutions and thus a reluctance to go beyond mere intergovernmentalism.

The historical experience of colonialism marks the region in another way as well. Schneider states in his book that contemporary Latin America, its economics, politics, and social issues, cannot be properly understood without some elaborations on its pre-independence development.\textsuperscript{64} The era of colonial rule\textsuperscript{65} marked the region in the areas of population makeup, cultural heritage, role of the state, a limited experience with self-government, and religion.\textsuperscript{66} In general, the motivations behind colonalization were ‘Gold, God, and Glory’.\textsuperscript{67} However, as said, all four countries have different experiences with colonial rule. For instance, Uruguay was founded by the Spanish in 1726 but was annexed by Brazil in 1821.\textsuperscript{68} And Brazil experienced years of consolidation of national independence under the rule of the same monarchs who governed Brazil when it was still linked to Portugal.\textsuperscript{69} Separation from the mother country and the consolidation of a new legitimate authority did not occur simultaneously, but were 67 years apart.

The colonial rulers created governments in the region in which the executive was strong, and the legislators and judiciaries weak.\textsuperscript{70} On the other hand, colonial policies resulted in an opening of more international trade routes and an expansion of the volume of trade. However,

\textsuperscript{62} Section three will elaborate more extensively on this.
\textsuperscript{63} Section three will elaborate extensively on the matter of leadership in the realm of Mercosur and Brazil.
\textsuperscript{65} Argentina, Brazil, Uruguay (annexed by Brazil) and Paraguay gained independence from Spain and Portugal (Brazil) respectively in 1816, 1822, 1828, and 1811. CIA World Factbook 2010.
\textsuperscript{66} The next subsection will elaborate on the matters of the role of the state.
\textsuperscript{67} Green, D., and Luehrmann, L. (2003), p 49.
\textsuperscript{68} CIA World Factbook 2010.
\textsuperscript{69} Schneider, R. (2007), p 61.
\textsuperscript{70} Idem, p 63-67.
this subsection will elaborate further on the persistence of certain features in Latin American politics perhaps rooted in the colonial experience, and not focus on the motivations of the colonial rulers.

With colonialism, Catholicism was introduced in the region and became, and still is, a very influential factor in the region. Wiarda points out in a fundamental tension between democracy and Catholicism can be distinguished and characterized as mutually exclusive belief systems:

‘Democracy requires independence of thought, Catholicism demands obedience to the Pope; democracy assumes that all men were equal, Catholicism accepts a social hierarchy; democracies allows for a written law open to individual interpretation, Catholicism maintains a tight control over the interpretation of sacred texts.’

Other authors do not take such a radical stance. MacLeish Mott states that even though others view the Church as a brake on political development, Catholicism should rather be considered as an authority on law, politics, and social life, and a source for social justice and political accountability. As Mansbridge points out in her article, during the years that Christianity dominated Western thought, the notion that self-interest could serve as a legitimate foundation for the political order found little support. The duties of the King, to coerce the wicked and defend the good, suggest a polity established to promote a common good. Christianity should not be considered as out-of-step with democracy, it just provides for different mechanisms for achieving democratic participation. Even though Christianity offers a strong bias in favour of authority, it does not entail obedience. Rather, it offers a social obligation: to be just. It seems quite strange to state that the Christian faith results in unfair authoritarianism. Instead, Christianity leads us to a certain system of natural law which keeps in mind the more social aspects of policy. Liberation theology is a movement originated in the Catholic Church that has had a powerful impact in Latin America. It is an action-oriented ideology that call to promote social justice and a focus on the economically poor members of society. This results paradoxically in a resistance to authority. This Catholic dualism is interesting. Within the public realm, involvement with society is largely missing whilst family loyalty is the true

71 In Appendix two, figure 1.1, one can find data on Christianity in the region.
73 Idem, pp 153-155, 164.
74 Mansbridge,.. The Rise and Fall of Self-Interest in the Explanation of Political Life, pp 3-22.
patriotism. The private domain starkly contrasts with the public domain; the ethical world seems strongly separated into public and private domains.

It should also be noted that Protestantism is upcoming in the region. At the same time, there are numerous people adhering to religions brought over or practices from Africa.\textsuperscript{76} The rise of Protestantism, in part caused by the spread of literacy and mass media, in the region could have some interesting effects. It will entail that pluralism in religion leads to the incorporation in everyday life of new ideas about justice, rights, legitimacy, and citizenship. Consequently, the existence of several voices, raises interests to maintain an open civil society, guarantee free speech, and ensure equal access. In politics, these pluralist’ voices would lead to a need of transparency, access, participation, and bargaining. As Haas has pointed out: pluralism in a society ensures organisation, public debate, rules, and reaching a bargained conclusion.\textsuperscript{77} It is going to be interesting to see what the effects of the rise of Protestantism are going to be on Latin American society.

With this historic background of colonialism and Catholicism in the back of our mind, the ideological patterns culture across the Southern Cone region unveils both patterns of continuity stemming from the Spanish Catholic colonial governance and patterns that can be traced back to Catholicism.\textsuperscript{78} Among the patterns stemming from the Catholic colonial governance, authoritarianism has been a persistent feature of politics in all four regions that experienced colonialism.\textsuperscript{79} Furthermore, the Latin American region tends to display a preference for a corporative political structure, legal idealism, patrimonial power structures, and pre-emptive bargaining in the decision making structures.\textsuperscript{80} Also, the region does not seem to understand government as responsive to and separate from society, but rather as directive and integral to society. As long as the people in power keep in mind the greater good. Consequently, Latin American political culture seems to be corporative and statist.\textsuperscript{81} This means that a group, rather than the individual, constitutes the basic unit of political life. Society and economy should be organized into major interest groups and representatives of those groups. Problems tend to be settled through negotiation and collective bargaining. Ideals

\begin{footnotesize}
\begin{enumerate}
\item Wiarda, pp 60-61.
\item Schneider, R. (2007), p 62.
\item Wiarda, pp 60-61.
\end{enumerate}
\end{footnotesize}
and aspirations are expressed in the legal tradition, not political practice. A strong government takes responsibility for both the moral and social life of their people and thus, holds an obligation to a greater whole. It is striking how these ideological patterns coincide with patterns within the Catholic Church and within Catholic faith.

The Hispanic and Catholic concept of governance has also a rebellious side.\textsuperscript{82} Because of this emphasis on the common good and social justice, the right of revolution exists if governments are not to act on their behalf. A constant search for harmonious, non-competitive social blueprints is being conducted. And values are to blend in with modernization and values. The type of governance is also characterized as a local resistance to power. Formally, society seems centralized, functionally it tends to be decentralized. This is merely one of the many examples of the seemingly contradictions of Latin American politics and culture.

However, the stance that a certain path is culturally predetermined has generated some criticism as well. Koonings and Kruijt, for instance, raise the issue of time.\textsuperscript{83} They state that it seems more relevant to consider the issue of ideological patterns in terms of persistence and change. Some of the features may have their roots partially in Iberic and colonial patrimonialism, but some of the features have undergone changing conditions. Thus, they should be approach with an acknowledgement of both the old and the new. What is important, when studying integration in a certain region, is to look at the political culture. In reality, ‘history’, ‘political culture’, and ‘attitudes’ are intertwined concepts. Even though this paper intents to separate these concepts, for analytical purposes, their dynamic seems quite fluid. Historical experiences do not only seem to shape preferences and identity, i.e. a structural attitude, but also seem to leave its mark on the current context, the current political culture. Undoubtedly, it remains a methodological challenge to determine which historical experience to give what weight. Either way, the Southern Cone region consists of various nations who all share a common history, but also have their own distinct experiences. This section seeked to ‘construct’ the region, but a construction is only complete when an analysis of the individual nations is added as well. One should differentiate the political culture between the different Mercosur members as well since the analysis so far rests merely on tendency statements\textsuperscript{84} of

\textsuperscript{84}Tendency statements in contrast to generalizations.
the region. However, in order to not lose track of the main line of reasoning, let us now consider the social structure among the Southern Cone region.

§ 2.2 Social Structure

In Figure Four, degree of pluralism and the role of politics fell under the header of social structure. In this section, the relationship between the degree of pluralism and the functioning of the role of politics becomes apparent.

In contrast to the foregoing, some authors seem quite skeptical about the influence of the colonial era on contemporary politics. Arias, former president of Costa Rica and Nobel Peace Prize winner, states:

‘Latin America won its independence long before countries in South-East Asia did. Today, despite their past as exploited colonies and their lack of significant natural resources, those countries’ per capita income is several times greater. Latin America should not place the blame for underdevelopment elsewhere.’\textsuperscript{85}

The former president of Costa Rica and Nobel Prize winner in 1987, Oscar Arias, points out that other regions were able to achieve certain levels of development and cooperation, despite, for instance, their past as exploited colonies.\textsuperscript{86} Instead Arias does mention four cultural obstacles in Latin America that need be overcome for development to succeed. The key is accepting these factors that always seem to influence perception across the region. First of all, a resistance to change through a glorification of the past. Second of all, a tendency towards preserving a certain present to an uncertain future. Third, a lack of politicians to walk the people carefully through a process of reform. And lastly, an absence of confidence is always present underneath the surface through the tendency across the region to doubt the true intentions of all those who cross their paths. A lack of confidence is also directed towards politics. Generally, people are disillusioned with politics and are faced with legal insecurity in many domains. Eitherway, one can acknowledge that both lines of reasoning, the influence of colonialism or certain cultural obstacles, affect the deepening of a regional project negatively.


\textsuperscript{86} Idem, pp 2-12
Both Wiarda and Schneider agree with Arias on the ideological patterns concerning the role of the state that prevail across the Latin American region.\(^87\) As Wiarda distinguishes a link between Catholicism and currently prevailing ideological patterns, Schneider articulates in his book a link between colonial rule in general and social structure. Schneider points out that during the time of colonial rule, the motherlands Spain and Portugal were facing tumultuous times at home.\(^88\) For instance, Spain was meeting the challenge of the Moors and the Reconquista. In order to deal with the issues at home, the governments had to adopt an absolutist and authoritarian approach; to reclaim their land and defend their faith. These practices carried over into the colonies. After the region claimed independence, the countries rushed into adopting blueprints for governments and institutions.\(^89\) With their little experience in governing, these blueprints did not address the real needs of the countries and its peoples. The new executives instead of recognizing their lack of experience, they recognized the need for a strong leadership in their disorganized societies with broad powers for the very same executive. Also, the establishment of the Catholic Church as the official church was intended for bringing about calm and organization.

Within the realm of ‘social structure’ lie the background variable of the degree of pluralism that exists in the region. As pluralism, the degree of participation of interest groups and business associations, represents an independent voice and input to politics that could further a regional project. The possible effects of pluralism within religion has already been elaborated on. Its rationale also applies to the participation of interest groups and business associations.

It is widely acknowledged that business associations and interest groups have had little influence in the Mercosur regional trade negotiations and during the project.\(^90\) This is dependent on the receptiveness of governments to pluralist’ input and the overall strengths of those groups. Generally, the interest groups across the region are professional but are not represented well largely because the political arena tends to still be regulated by corporatist’ legislation dating back from the 1940s, and perhaps dating back even further. For instance, the regional project from the viewpoint of Argentina and Brazil has largely been state-led. The

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\(^{88}\) Idem, pp 36-43.  
\(^{89}\) Idem, p 110.  
interest groups are numerous, but at the highest level often bypassed. In the case of Mercosur, they are at times consulted, but mostly after the signing of a treaty or implementation of a norm. These groups were later on incorporated at formal fora, but their representativeness is low. The regional project seems largely dependent on presidential initiatives and activism. Malamud has shown that presidential intervention has boosted the process of integration and shaped its outcome, with presidents not only acting as decision makers but also as dispute settlers and guarantors of commitments.

Hurrell is less pessimistic on interest group participation in his article. He states that one cannot hold that interest groups have no influence at all. This would mean that the state is disconnected from society. Rather, one should acknowledge the influence they did have, instead of focusing on the degree of influence they should have had. Hurrell does acknowledge that interest groups do not matter at a regional level, but holds that they do at a domestic level. But this makes sense since the Mercosur project at first seemed to be dominated by political motives. Later on, economic or commercial motivations came into play. The timing of interest group pressure was therefore not appropriate at all times. Hurrell’s comments place the earlier elaborations in perspective. The influence of interest groups have been limited, the project has been largely driven by presidential diplomacy. The role they play in society is probably culturally determined. But exactly because of this, one should not disregard the interplay between interest groups and politics.

The characteristics of the role of interest groups seem a persistence pattern in Latin American politics. After militarist’ regimes were removed in the second half of the 1900s, there was no sudden emergence of a pluralist political system. Rather, the governing elites were restored that practiced politics as in the 1940s and 1950s.

§ 2.3 Economic and Industrial Development – Embedded Reality

The previous section elaborated on ideological patterns and the origins of the nature of the social structure. However, the Mercosur project involves the lowering of barriers and

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development through increased regional trade. It is now time to turn to the economics. Among
the nine background variables formulated in the first section, two of them represent
economics: relative power and size, and rate of transaction previous to the project and during
the project.

The Southern Cone countries face debts, social exclusion, corruption, poverty, and uneven
domestic and regional economic development. Fukuyama elaborates in his article on how
Latin America’s ‘birth defect’, being a highly unequal initial distribution of resources that
dates back to the colonial era, works upon the region’s reality now.95 The region’s birth defect
lies in the fact that a stream of wealth was systematically extracted from the colonies which
came to benefit Spain and Portugal and, rather than development
of the region.96 Albeit that Fukuyama acknowledges the ‘history factor’, he reaches a different
conclusion. He states that all the listed problems are at least fixable through public policy and
that they are not rooted in culture. According to Fukuyama, the real challenge lies in the
ability of democratic politicians to build political coalitions to see reforms through. This battle
involves ideas including democracy, individual rights, and free markets. Obviously,
Fukuyama seems to be able to both stress the ‘history factor’ and dismiss it. However, as
Arias has pointed out, the people in the region generally do not have a confidence in that their
politicians can skillfully and patiently walk them through reforms. Also, it has to be pointed
out that Fukuyama should not dismiss the variables of history and culture. Obviously the
region is in accordance with Fukuyama that free trade can help deal the region with the
development dilemma. However, ‘free trade’, just as ‘democracy’ is, is a concept conditioned
by context. Free trade through regionalism and cooperation elsewhere, could benefit the
region. However, countries are also keen, especially in Latin America, on preserving their
own identity and protecting domestic producers. ‘Free trade’ has a different connotation is the
United States, in Europe, in Asia, and among Latin American countries.

Haas rightly pointed out, back in 1961 already, that the European experience occurred in a
region characterized by divisions in language and religion but united by similar social and
economic conditions and institutions.97 This is obviously in sharp contrast to the Southern
Cone region. The Mercosur countries are economically quite different. As Figure 1.2 of
appendix two demonstrates, Brazil is ranked around the 25th position in world trade, Uruguay

and Paraguay around the 100th position. Uruguay and Paraguay rely heavily on agricultural export, as all countries’ majority of import concern manufactured goods. Most interestingly, and perhaps most defining, Brazil is the main import-and export country for all three Mercosur countries, as Figure 1.3 of appendix two demonstrates. In turn, Brazil relies mostly on the United States and China.\textsuperscript{98} These differences, the focus of import and export and the articulation of the main import-and export partner, define the dynamics, and interests for all countries and with that, the region project. One can also approach the matter of economic differences among its members more elementary. Brazil is a far bigger, geographically, country than Uruguay and Paraguay.\textsuperscript{99} Some parts of the north of Brazil are not able to be reached easily. For this country in terms of development, consequently, infrastructure is important and ‘social justice’ involves reaching as all the people. Lastly, asymmetries in the region can also be approached within the social realm. As Figure 1.5 of appendix two demonstrates, both population density and literacy rate can be divided in cores and peripheries. The differences within Brazil are most striking: both in population density and the literacy rate across the country.

How states in the Southern Cone view their possibilities to respond to these challenges, seems framed by structural attitudinal features. The lack of confidence Arias already referred to is also applicable to economics: the general lack of confidence also contributes to the low levels of entrepreneurial initiatives.\textsuperscript{100} On top of this, the region lacks effective mechanisms to support innovative projects. A report of the Inter-American Development Bank seems to support it stance.\textsuperscript{101} It states that it takes 80\% of the entrepreneurs in Latin America longer to identify a business opportunity than entrepreneurs in East Asia, although the desire to become an entrepreneur begins at a younger age. Also, the contact networks of Latin American entrepreneurs tend to focus more on their immediate social circle, in comparison to their East Asian counterparts. Lastly, Latin American networks tend to remain more limited to specific socio economic sectors and local areas. Part of the problem can be found on the governments sides. Public strategies to stimulate entrepreneurial development tends to be weak or even

\textsuperscript{98} The next section will elaborate further on the specifics surrounding Brazil.

\textsuperscript{99} CIA World Factbook 2010. Argentina is ranked the 8th biggest country in the World. Brazil, Uruguay, and Paraguay respectively 5th, 91st, and 60th.

\textsuperscript{100} Wiarda also elaborates on the lack of entrepreneurship in the region: Wiarda (2003), pp 62-63.

absent among the region.\textsuperscript{102} Also, new firms encounter difficulties in finding funding for their business ideas.

With the economic background variable of relative size addressed, let us now focus on rate of transaction previous to the project and during the project. This thesis will present two ways of analysing this rate of transaction: intra-industry trade and trade creation/diversion.

The volume of intra-industry trade, from 1988 to 1996, is indicated in terms of the Grubel-Lloyd standard (figure six). This is an index widely used, although it has generated some criticism, for the measurement of intra-industry trade, in differentiated products.\textsuperscript{103} This index enables to analyze intra-industry trade in general, without having to address each homogenous product separately. The Grubel-lloyd standard represents the value of export of an industry matched by the value of import of the same industry.

\textit{Figure six: Bilateral Intra-industry Trade, Brazil/partners and Argentina/partners.}\textsuperscript{104}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure6.png}
\end{figure}

\textsuperscript{102} Idem, pp 4-5.

\textsuperscript{103} Cernosa, T., \textit{Standard Grubel and Lloyd Index Thirty Years Later}, found at http://oliver.efri.hr/~euconf/2005/files/1st%20session/3rd%20cernosa.pdf, 10-08-2011.

Without getting into a thorough analysis of the standard and its criticisms, it becomes clear that intra-industry trade between Argentina and Brazil grew in the second half of the 1980s. This was the time that the initial bilateral trade agreements between the two countries came into effect, the trade agreements that are seen as the first step towards the Mercosur regional project. After the Treaty of Asunción, intra-industry trade also grew between the two countries and Paraguay and Uruguay. Just not as dramatically as it initially did between Argentina and Brazil. Figure six also demonstrates that the indices for bilateral trade between Brazil/Argentina and Mercosur partners did not develop dramatically. All indices grew, but relative positions remained.
As figure seven shows, both import and export within the Mercosur region of Brazil and Argentina rose between 1989 and 1998. The percentage of intra-Mercosur trade as part of total trade also rose for both countries. However, in spite of these positive signs, Bartholomew points out that the majority of trade for both Argentina and Brazil still remains with the outside world.

All in all, one can conclude that the data presented above and in the appendix demonstrate that all four Mercosur members are important for each other in terms of trade, albeit to various extents. Another noteworthy point is that one is incapable of truly assessing these data. First of all, one does not know how the data would have looked like if the Mercosur projects was not launched at all. These four countries all share borders, so the likeliness of increased levels of trade, in a globalizing world, is great.


106 As figure 1.3 of appendix one shows, this seems more so the case for Brazil than for Argentina.

Another way of assessing the economic impact of regional projects, is the approach of trade creation/trade diversion. A regional project facilitates increasing levels of trade within its borders through the lowering of barriers and tariffs, the improvement of infrastructure, and increased communication and trust. Expensive domestic products can be replaced by cheaper foreign products, thus creating trade. On the other hand, a customs union is not necessarily welfare enhancing as a regional project diverts trade from countries outside the project. Less efficient countries, intra-project, suddenly become more efficient (through the lowering of tariffs) and diverts trade from previous more efficient countries. In other words, with a trade creation/diversion approach, one seems to be able to determine the net welfare effects of a regional project. This approach has also generated criticism, but again, the point is not to start up a thorough discussion on trade creation and trade diversion. The point is to elaborate on some data concerning trade in the region and to paint the economic part of the regional picture. Fact remains that these countries communicate often, through trade. Therefore, it can be stated that Mercosur likely is a factor in the considerations of the Member’s politicians. Bartholomew finds in her study that in Argentina the net welfare effects (in 1998) is 0.5 % of GDP, and in Brazil 1.4% of GDP. So, there is a positive net welfare effect but in terms of GDP can this be regarded as a small positive effect. Bartholomew holds that the welfare effects for Brazil remain low through the Mercosur project because import and export only play a small part in Brazilian demand and regional trade is relatively small than total trade, as has been elaborated on earlier in this section. The same seems to go for Argentina, external trade plays a larger role than trade in the realm of Mercosur.

Baldwin somewhat places these findings concerning trade creation and trade diversion in regional trade agreements (RTAs) in perspective. He presents data that shows that of the fifteen separate RTAs analyzed, eight were found to have been effective in the sense of creating new trade among the partners. Of these eight, only were found to divert trade. The remaining seven did not increase or decrease trade significantly. In other words, trade agreements and changes in trade are always observable. One needs additional information and economic analysis to complete the picture.

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108 Idem, p 16.
110 Idem, p 23.
113 Mercosur was also analyzed and was presented as a RTA that resulted in trade creation.
Concretely, when one looks at data on the main import-and export countries of the Mercosur member states, an interesting picture arises. From these data, one can conclude that trade (both import and export) with Brazil is quite important for Argentina, Paraguay, and Uruguay. In turn, these countries do not represent the main trading partners for Brazil. Also, the economy (in terms of GDP) of Brazil is considerably larger than its Mercosur partners. These asymmetries make it difficult to adopt institutions with a supranational character. A gradual, functional, and intergovernmental approach to integration seems to better suit Brazil’s interests. The biggest country of the project, whose economic interests also lie elsewhere.

Another related conclusion is that in order to develop economically, extra-regional trade will remain important. As Uruguay and Paraguay already trade mostly with the Mercosur partners and Brazil’s trade in goods focuses more on extra-regional partners. Consequently, the regional project cannot only be justified by trade in goods; trade in general seems not a sufficient justification. Rather, Mercosur is widely regarded as a political decision to end distrust, consolidate economic reforms and democratization, and restore economic and political credibility. For Argentina and Uruguay, the economics of the project seem quite important. Interestingly, Uruguay has been reluctant at first to join the project, for fear of being absorbed economically by its neighbour-giants. For Brazil, on the other hand, data demonstrate that their trade is more diversified and dependent on its neighbours. These elaborations on the economic position of the Mercosur members can only lead to one type of cooperation, a type of cooperation that is sufficient with regard to its economic and industrial development and meets its goals in that realm: cooperation with an intergovernmental nature.

3. The Domestic Level: Brazil

Considering the domestic level as well, has several advantages. First of all, the analysis becomes more concrete. An analysis on the regional level of analysis forces us to generalize

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115 As said, the next section will provide for a more extensive analysis on Brazil.

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and merely sketch tendencies. When we turn to the domestic level of analysis, one inevitably sketches tendencies as well, as the writer of this thesis is of the opinion that the task of presenting the absolute and complete truth is an impossible task. However, the analysis will gain depth and profoundness. This section will elaborate on the regional project from the point of view of Brazil, its economically and geographically largest Member.

The analysis on the domestic level of analysis will once again follow the theoretical framework as set forth in Figure Four and Five, and as exampled in the previous section. So, this section will firstly address the social structure and ideological patterns, and its variables. Secondly, this section will elaborate on the economic and industrial variables.

§ 3.1 Ideological Patterns and Social Structure – Values and Purpose: How Brazil Sees Itself, the Region, and the Future

In Brazil’s history, as in the history of all nations, one can distinguish several patterns of continuity and turning points. The goal of this section is not to present a complete and comprehensive overview of the (political) history of Brazil, since that would require, and deserve, a lot more study and space. Rather, the focus of this subsection on ideological patterns should be placed on the values prevailing in Brazil’s foreign policy, in particular its values towards the region, and its self-image. In analyzing the remaining variables at play under the header ideological patterns, governmental purposes, powers attributed to the project, decision making style, and adaptability of governments, the usefulness of the domestic level of analysis becomes apparent. Because now, one can leave the realm of generalities, and move towards specificities. Obviously, matters such as decision making style have already been discussed, but from the regional level of analysis. This section will consider the attitude of Brazil towards these variables and analyze were Brazil is coming from. This will result in a compact overview of ideological patterns in Brazil that are relevant to the regional project of Mercosur.

As has been stated before, Latin American culture cannot be properly understood without some knowledge of the colonial period and its aftermath. Obviously, it seems impossible to establish how much history has impacted upon parts of Latin America. Some institutions and practices have survived over decades, some have not, something that also varies per country.

120 Schneider (2007), p 35.
In the case of Latin America, it has been stated that a correlation exists between the rule of the Moors on the Iberian Peninsula, and the character of Latin America. Since the reconquest of Christianity over the Moors had a militant, absolutist, authoritarian, and militaristic nature, which carried over into the colonies, this practice supposedly became embedded in Latin American’s fabric. Obviously, this thesis is trying to establish the influence of history on contemporary practices in politics, the inherent impossibility to empirically establish this should be kept in mind. The core of this argument is rather philosophical and subject to the readers’ personal convictions regarding life and its origin. Because if history plays a part in the contemporary, what parts of history matter? And do they matter universally or are they subject to spatial context? And how come certain parts of history matter, and others do not?

In order to remove the discussion from the philosophical sphere and move it towards a workable environment in light of the research question, one should not focus on whether or not the reconquest specifically played a part in forming Latin American’s general character. Rather, one should focus on persistent features and trends and discover whether or not history is present in contemporary patterns.

§3.1.1 The Domestic

First of all, the Brazilian experience of decolonization differs from that of the other Latin American countries. The separation from the mother country Portugal, whereas Spain colonized the remaining countries in the Southern Cone, and the quest for a new basis of political authority did not occur simultaneously. After the decolonization, Brazil remained for 67 years under the rule of the same monarchs who would have governed Brazil had it remained linked to Portugal. As has already been elaborated on, a period of colonization leaves a country or a region with little experience in governance and in executing policies. In the case of the Southern Cone, it also had an impact on philosophy and a development of thinking about politics, society, and destiny: the Enlightenment reached the region with a significant delay.

The best way to characterize persistent features and trends in Brazilian political and economic history, is to distinguish pioneers and significant moments: from Vargas to Cardoso and Lula.

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121 Schneider 61
From this, it becomes clear that the main persistent questions and challenges Brazil has been facing concern questions of economic development, the role of the state in this, and the role of outsiders in this. The following sections will elaborate on these questions.

The First World War was devastating in many ways, but left Brazil in a significant shock. The Brazilian elite had developed a belief in Europe as a cosmopolitan, politically stable and mature model for Latin America. The First World War consequently gave rise to theorizing and discussing liberalism, and the decline of Western Civilization. But, Brazilian thinkers noticed more structural flaws in addition to this: the erosion of traditional religion and morals and the failure of the prevailing economic system in enabling the politics to take care of its people. The following world financial crisis created the final rationale for strengthening the central government in Brazil. Getúlio Vargas served as a dictator from 1930 to 1945, and as democratically elected from 1951 to 1954. The ingredients of Vargas’ ideology can be described as a mixture of nationalism, industrialization, centralization, populism, and social welfare. Obviously, this characterization of ingredients of Vargas’ ideology seems a perfect example on its own of how Latin America challenges the political scientist and forces him to move away from the paved lanes.

Policies under Vargas were quite protectionist, as he sought to industrialize Brazil. Governmental intervention and the protection of domestic industries were two characteristic elements of political practice, even for decades on. The protectionist’ element was only reversed with the liberal reforms in the 1990s. Also, Vargas relied on the military for political stability, technocrats for the administration and a corporatist route. As elaborated on before, Latin American states view corporatism as a way to facilitate the embedding of modern capitalism in society, while avoiding the extremes of freedom, laissez-faire on the one hand, and total state direction on the other. In order for Brazil, and the region, to grow and to play a part in the world economy, it needed to become a player in the game called Capitalism and World Markets. But, true to its traditions and beliefs, Latin America needed a mechanism that would still allow the state to play a role, and at the same time, disallow the state to loose sight of the common interest. Corporatism was the answer in establishing separate corporate entities, each representing specific sectors. The coordination of the relations between these

corporate entities was the national government’s responsibility. In other words, the last word was left to the government.

After the Second World War, the political landscape became more liberal but has always remained to contain elements of control. For instance, in order to promote and facilitate industrialization, the energy supply must support adequately. In order to make sure that it does, the government proposed in the 1950s to create state enterprises in the oil and electricity industry. Vargas, president right after the Second World War, defended these measures by invoking patriotism, nationalism, and realism in the face of the changing world economy. But it was not just Vargas. His successor Kubitschek, maintained this chosen path and continued to bring together state and private sectors in a strategy that aimed to accelerate industrialization and the construction of infrastructure necessary to sustain it. Obviously, in present time, the best-known Brazilian oil company, Petrobras, is still a state enterprise.

Relations with the United States go far back. Brazil actively participated in the First World War by being involved with its military and by being present in Versailles in 1919. From 1940, the United States, being fed with a fear over the spreading of Communism, reached out to Brazil and granted large loans. These loans were in turn used by Vargas to industrialize the country.

Brazil was also involved in the Second World War. Initially, the country tried to remain neutral, for economic reasons since Germany was Brazil’s main market for cotton. Neutral in the formal sense that is, because Brazil had two assets that the Allies needed and actively made use of: raw materials and minerals, and a coastline on strategic points in the Atlantic Ocean. In return for military equipment, technical assistance, and a financial deal, Brazil provided these assets. However, after Brazilian merchant ships were sunk by Germany and Italy, Brazil decided to side more actively with the Allies in August 1942. Interestingly, this siding caused some friction at home: the Brazilian elite and the Brazilian people recognized the created paradox of a dictatorial regime supporting antifascist Allies. The decision to join democracies in their battle against the authoritarians forced Vargas to respond to these sentiments of growing discomfort of the political system and promised a liberalization of the politics, meaning presidential elections and the legalization of opposition parties. This eventually set the stage for a debate that would eventually lead to Vargas’ resignation.
An interesting question related to Brazilian history is the question whether or not the Brazilian political tradition is inherently democratic or authoritarian. Obviously, Brazil has experienced eras with both systems, but what is normal? The 1960s and 1970s were eras of military rule during which the elite, the critical elite that is, fled into exile. Many of them, fled to Cuba where they experienced a very different political system and economic policies. Besides the elite, the Catholic Church, who first endorsed, and later came to denounce certain authoritarian features in political rule. Interestingly, as it comes to the question what type of governance is typically Brazilian, Brazilian writers, thinkers, politicians, and the everyday man feel a need to recognize its history of torture and misconduct, but not the need to recognize the whole story of military rule. It is pointed out that civilians remained in charge of the governmental machinery, albeit with a less independent turn of mind, and that foreign investors denounced the political tactics of the authoritarian regime, but continued to support Brazil’s economic policy which was yielding great dividends in economic growth. Obviously, we all agree that Brazil has known times of authoritarian rule, of democracy, and of a mixture of the two. Putting a definite label on Brazil’s political tradition is both undesirable as impossible. One should carefully distinguish the different periods and analyze them in more depth than is done in this section.

§3.1.2 Domestic Challenges

The 1970s were characterized by strong economic growth.\(^{124}\) This growth had a side-effect that left the country with an all too familiar topic: growing inequality. The disparities were economical, but influenced the social via income, education, health, housing, and transportation. The people of Brazil more and more came to realize the country was faced with a social debt. More importantly, the people identified a role for the central government in addressing this social debt. It asked, and longed for, a directive and clear attitude from the political elite.

After experiencing a military dictatorship from 1964 to the mid-1980s, the country found itself in an unstable political climate.\(^{125}\) First of all, politics in general was faced with a legitimacy problem. Economically, the country was experiencing high inflation, and still a growing inequality in society. Politics should serve society, as is believed in Brazil. However,


politics was yet to actually address society’s reality. With the democratization, pluralism in the political spectrum was allowed. More political parties were allowed to participate in elections, and the candidacy list for running for president suddenly becomes an open one. From that moment on, not just the political elite, but all Brazilians could run for president. Also, the numbers of seats in parliament was increased. All in all, access to and participation in political life become greater for Brazilians.

However, Brazil was also a country with little experience with democracy. The democratization of the country was a great leap forward as opposed to the previous regime. At the same time, Brazil stood at the beginning of a great learning curve. The democratization of the country, more political parties and more seats in parliament, also meant electoral volatility, political fragmentation, and weak institutionalization. The new political system also had an effect on the economy. As elaborated on, neo-liberal policies were adopted and the country was faced with the outside world and its competition. In effect, democratization meant institutional change and economic disorganization and Brazil could not permit itself to embark upon a slow learning curve.

Collor was the democratic president after the military dictatorship, and was faced with a failure to govern without the backing of an organized congressional majority, as in line with the context of political fragmentation and weak institutionalization. He resigned in 1992, and with this, Brazil realized it had to embark upon a re-legitimization of the political system, an institutionalization of the party system, and a restoring of the economic order. The reason this background has its place here is obvious: by the time of Collor’s resignation, Mercosur was already up and running.

Collor was followed by Cardoso, who was able to restore the links between the political, the elite, and the party machine. In other words, politics and the elite was backed up by institutionalization. Cardoso was right in not dismissing the elite entirely, in seeking to legitimize the political. A legitimization of the political implies ‘bringing the politics closer to the everyday-people’. However, the political cannot operate without its elite. A political without elite would be just as unnatural and artificial as a political system without the everyday-people. Cardoso established a system of multiparty alliances, in trying to represent people from all waves of Brazilian life. Cardoso also drew up plans to stabilize the
economy. Served as a Minister of Finance under Collor, he proposed to mildly overvalue the exchange rate which led to an increase of the real interest rate. This in turn made Brazil able to fight off inflation, led by cheap imports and prevent a consumption boom. Cardoso’s plan resulted in incredible numbers: the inflation rate in 1994 was 1094%, in 1995 15%. During the Cardoso era, political fragmentation remained, with eighteen parties present in the Chamber of Deputies. At the same time, the Cardoso era meant a beginning of an increase in public investment in education, health, transportation, and communication. Ever since, public investment has taken center stage in the government budgets of Brazilian presidential eras.

Panizza argues in his article that Brazilian elections tend to be less about ideological content than is often thought. Because of the personification of politics, not only generally in Latin America, but also specifically in Brazil, presidentialism is quite strong, and a weak party identification, elections are more a personal contest and battles about governmental performance than ideological battles. This seems quite contradictory in what we have established about Brazil so far. Brazil is a country who is continuously faced with questions of equality, self-determination, and social development. At the same time, the Brazilian party system experiences an absence of ethnic, religious, and proper regional parties. Therefore, political fragmentation and a lack of identification with politics and ideology are not because of the presence of strong identities and rights-oriented social groups. They are more a product of differential access to politics and negotiates interests. In other words, the inequality in Brazil results in an inability of the political to address the social. This leaves Brazil in a vicious cycle and a pragmatic approach: handle what you can pragmatically handle.

§ 3.1.3 The 1990s and Onwards: the domestic and the international profile

Working with the theoretical framework as proposed in this thesis, one should separate the economy from the political. However, it is quite difficult to separate the economy, from the domestic, from the international, in an analysis of Brazil in most recent times. Lula was Collor’s successor and at the same time, Brazil underwent dramatic changes, both economical and political. As the next section will elaborate on, the economy grew fast. With Lula as

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127 The price of imported goods rose because of the overvalued exchange rate.
128 The price of money increases which leads to a decrease in the money supply.
president, exports flourished and began to take center stage, made possible by the adoption of a more involved attitude towards the outside world. Analyzing the new Brazil first in terms of the social, then in terms of the economy, is a challenging task to take on. As these areas are very intertwined and actually influencing each other.

Lula was in fact the very personification of the new democratic Brazil. He was the first president to ‘come from the masses’. Many argued that with his election, the social transformation was completed. A person that speaks imperfect Portuguese, a person without a proper political background, coming from a workers’ family, become the president of Brazil. As the data in the next section will reflect, Brazil experienced an impressive growth in economic performance in the 1990s until recent times. Lula as president has actually linked this transformation in economy with a social transformation by setting up social programs that addresses access to education and ensuring the distribution of food. Investments in these programs have known a rapid expansion: 3.6 million $ in 2003, 6.5 million $ in 2004, and 8.7 million in 2005.

With economic prosperous times, arrived a more confident attitude internationally. Sweig puts it strikingly in her article:

‘Brazil’s aspirations are fueled by its social and economic development, and its diplomatic accomplishments, as well as the ambition, vision, and personal narratives of its presidents Cardoso and Lula.’

Let’s elaborate further on this. First of all, Brazil faces a multidimensional identity. No consensus exists on what Brazil’s role should be. As indicated, this has its roots domestically, but this also has to be explained by other reasons. Interestingly, Brazil is both a developed and a developing country, strong and weak. The third-largest stock exchange is the Brazilian stock exchange, while at the same time over a quarter of its population lives in slums. The 2006 Failed States Index still classified Brazil as a weak state due to the presence of violence and injustice in society, the low quality of state institutions, and a slow, inefficient, and corrupt justice system. Democratically Brazil is a strong state, but the country remains weak or dysfunctional as a provider of civil security and social services. These contradictions would leave any country wary of its role and its limits.

Actually, the Brazilian story is full of contradictions. Introducing neo-liberal values in the economy in a country that has a strong development paradigm leaves a country to balance free trade and a protection of new industries from foreign competition.\textsuperscript{135} Also, by being neither a great power, nor a small power, middle powers tend to favor the use of soft power in contrast to hard power, coercive measures and economic sanctions.\textsuperscript{136} Soft powers usually operate within the framework of regional institutions or international fora and tend to promote a new type of multilateralism. This new type does not intend to change the world order, in contrast to Brazil’s orientation in the 1970s, but accepts the existing rules and takes advantage of them to promote a more equal and just distribution of power. Furthermore, they attempt to maximize their influence over small countries, minimize the influence of great powers, and prevent the emergence of other middle powers in their respective regions. Lastly, an intermediate state, as Brazil is characterized, is in its core in a state of contradiction: such states possesses embedded autonomy and effective institutional structures and inconsistencies reign. Efficiency stands alongside organizational weakness, professionalism alongside the unprofessional. A domestic uneaseness about ideology, and the international intermediate position forces Brazil to play the balancing act it is playing right now: supporting and promoting regional projects, but not developing them towards a new supranational level.

Economics have played a great part in Brazil current consciousness, however, in a broader way than expected. Even though its economy has grown, the political discussion focuses on how the matter of division. Brazil is a country that is faces with great inequality, abundance and deprivation coexist. In Brazilian society, a broad based agreement exists on investing the revenues in people on the margins. This leads to an expansion of a domestic consumer class. Even though almost thirteen million people have escaped from poverty, and twelve million from extreme poverty, Brazil remains the third most unequal country in Latin America. More importantly, even though government oil revenues are invested in infrastructure, education, and social spending, its growing domestic consumer middle class remains relatively uneducated and therefore civically underequipped. This also gives rise to the possibility of


phenomena such as corruption, and insecurity. A good example is the Northeastern region, that has recently known a fast economic growth as well as the highest homicide rate. The matter of the division of revenues and the spreading of investment is a matter of economics and politics, but is also a philosophical discussion.

These three areas in the realm of ‘division’ come together in the Foreign Policy of newly confident Brazil. The key words are autonomy and universalism. These concepts can very clearly explain Brazil’s attitude at the international stage and lead to a tendency to lead an independent course by taking its distance, and a commitment towards multilateralism at the same time. Again, at first sight, this seems contradictory. But in the realm of Latin America, and specifically in the realm of Brazil, this indeed does make sense. First of all, participation internationally, increases a country’s power while decreasing its vulnerability. It is not surprising that Brazilian Foreign Policy is often characterized as ‘pragmatic institutionalism’. The change from autonomy through distance to autonomy through participation and diversification set in motion at the end of the 1980s, leaves Brazil to engage in multiple international fora and to strengthen many bilateral relationships, in particular with other developing countries on the rise: China, South-East Asia, and South-Africa. Also, Brazil’s geographic, ethnic, and cultural character represents a pluralism of interests domestically. This domestic attitude started to match the international attitude in the 1990s.

Basically, success at home has allowed Brazil to develop its Foreign Policy ambitions. Brazilian foreign policy has therefore been increasingly more assertive. Brazil is attempting to play an active role in multilateral fora and tries to position itself as a representative of emerging countries and a defender of the poorer countries in the South. Brazil has close links with other regional powers such as India, China, Russia, and South Africa, is an active promoter of the South American Community of Nations, and stresses the need for diversification of bilateral relations in the policies of the countries of the South. It advocates a diversification in trading partners and can therefore be found pushing for the negotiation of free trade agreements with third countries within the context of Mercosur, for the extension of

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137 Gratius takes a sarcastic stance in her article. She states that the logic behind intermediate powers to promote multilateral fora is the capability of such countries to negotiate behind closed doors and the incapability to assume important international functions. Gratius (2008), p 23.
139 Latin America’s New Alliances; whose side is Brazil on? The Economist, August 13, 2009.
Mercosur in terms of Members, and for the association negotiations between the European Union and Mercosur. Brazilian participation has been most successful in areas such as peacekeeping, climate change, and global governance. Brazil actually shares a diplomatic interest with China in multipolarity and mutually beneficial economic business ties. In effect, Brazil has taken the domestic emphasis on equality abroad.\textsuperscript{141} It advocates a more diverse spectrum, without a close embrace.

Brazil’s Foreign Policy objectives are not centered around Latin America but rather on gaining more weight internationally.\textsuperscript{142} Its ingredients are consolidating the country, maintain a distant but cordial relationship with the United States, and promoting self-determination through participation and diversification.\textsuperscript{143} These ingredients lead to a reluctance to lead Latin America, but an ambition to lead non aligned countries. Bearing this formula in mind, Brazil’s effort to secure a seat on an expanded UN Security Council, to organize coalitions of developing countries within WTO trade talks, and efforts to expand voting rights for itself and others at the World Bank and the IMF only make sense. The Constitution of Brazil is actually oriented towards civic values with a developmental and moral orientation.\textsuperscript{144} Article four establishes ten humanitarian principles of foreign policy, including equality among states and peaceful resolution of conflicts. Also, the Constitution of Brazil is unique in that it explicitly mentions regional cooperation as one of its goals in Foreign Policy.

Interestingly, Brazil’s international image contrasts sharply with the regional perception.\textsuperscript{145} Its neighbors are quite skeptical of any signs of aspiring leadership from the side of Brazil. Within Brazil itself, a consensus exists on the future role of the country in the region. As indicated before, it does not aspire a leadership role because of the financial commitment associated with this. There is also a cultural obstacle: Brazil is the only Portuguese speaking country in the region.

Coming to the end of this subsection. All in all, even though Brazil has experienced an unprecedented growth both economically and prestige-wise, one can distinguish certain questions that the current politicians are dealing with that politicians were already dealing with over 60 years ago. These questions are related to the development paradigm. How is Brazil to develop economically? What role should the outside world, trough foreign direct

\textsuperscript{143} Sweig, (2010), p 173.
\textsuperscript{144} Gratius (2008) p 20.
\textsuperscript{145} Idem, pp 9-13.
investment and trade, play in Brazilian development? And reversely, what role should Brazil maintain internationally? Brazilian politics is obviously is about finding a way to develop the country, domestically and internationally, in a way that is in line with their historical sense of easeness, a way that is true to their own self. The next subsection will elaborate on the Brazilian Economy and then, the next section will put all of this in perspective. To what extent can one explain the characteristics of Mercosur using this analysis of Brazilian social structure, ideological patterns, and economic development?

§ 3.2 Brazilian Economy – Opportunities in the Region and Elsewhere

The previous section elaborated on persistent features in Brazilian politics and structural traits in the attitude towards the political. Even though that section concerned the social, politics and society, in effect it also concerned the economy. It became clear that the country is looking for a way to develop itself, on its own term. Also, Brazil’s upgraded profile is derived from its improved economic performance that set in from the 1990s onwards. In other words, Brazil’s ability to emphasize their beliefs and convictions internationally, is justified by economics. The social, identity, and historical experiences, clearly intersect with the rationale of economics.

For these reasons, it seems quite artificial and forced to explicitly separate the social and the economics as is done in this thesis. On the other hand, such a separations remains necessary to do so. In order to paint a complete picture, and establish linkages among the different variables, one needs to distinguish and elaborate on the parts. This section will elaborate further on the economic indicators in relation to Mercosur, only this time with a more narrow focus: solely on Brazil. As previous sections have already elaborated on economy and Mercosur, this section will continue the analysis.

§3.2.1 Two Sides of the Same Coin: The domestic and the international

Brazil is an upper-middle income country, a top-10 consumption market. The services sector encompasses 66% of its GDP, the industry sector 20%, and the agriculture 6%.146

However, even though these numbers are correct, the picture painted by them seems misleading. Brazil is not merely a country that has experienced and is experiencing economic

growth, it is also a country that experiences quite some inequality. Even though these domestic problems are acknowledged, internationally, Brazil is described as one of the five emerging BRICS markets. This statement is based on Brazil’s economic achievements, natural resources and the possibilities that come with this, the political climate of stability and democracy, macroeconomic stability, and a manageable debt.\textsuperscript{147} As Brazil was faced by a persistent deterioration of the trade balance, which caused a balance of payments crisis in 1999, the International Monetary Fund formulated an adjustment program for the country.\textsuperscript{148} Ever since, structural reforms have been taken place to restore the macroeconomic balances. These reforms include a floating exchange rate system, an inflation-targeting regime, a tight fiscal policy, and a prudent macroeconomic policy. Obviously, Brazil’s economic growth and the roots of its economic stability are not a matter of discussion in this thesis. Rather, as the previous section elaborated on the social position regionally of the country, this section will elaborate on the economic position of the country and its impact on the region.

The end of the 1980s, as already indicated, marked the emergence of a new domestic political and constitutional order in Brazil.\textsuperscript{149} These changes at home, generated shifts in domestic economic policy and had important implications for foreign policy in the 1990s. The development of the idea of autonomy through participation, rather than autonomy through distance, took hold of Brazil. Periods of Import Substitution were replaced by a model of competitive integration into the global economy. The domestic fight against unequal income distribution and an assertive foreign policy are actually two sides of the same coin; inclusion is a major topic in Brazilian domestic and foreign policy. In a rational way: it generates support at home for more involvement in international politics. But also in a ideational way: the development component and its ethics do not belong exclusively to Brazilian territory, but is rather, and should rather, be applicable to all nations of the South.

Both in the social and international economical realm, Brazil embarked upon an interesting project: the promotion of autonomy, self-determination, and cooperation among the nations of the South, with its leadingman and spokesperson Brazil. Instead, it keeps emphasizing opportunities and regional projects. Interestingly, seizing these opportunities serve to strengthen the consensual hegemonic project of Brazil.\textsuperscript{150} Its goal is to stimulate regional

\textsuperscript{147} Sweig. (2010), p 173.
\textsuperscript{148} Ghosh (2009), pp 14-17.
\textsuperscript{149} Soares de Lima (2006), pp 21-23, 24-29.
formation centered on Brazil, using the collected strengths of the individual states as a platform to improve Brazilian presence in the international system. This hegemony, which has a social and an economical component is to be created without domination and without any economic costs for Brazil specifically.

As Burges classifies this project in his article, the project of consensual hegemony is a subtle project. It is an indirect and consensual approach that draws on the interrelation of ideas, economic factors, and overarching security concerns. As Brazil is regionally predominant, it is not a dominant state. Therefore, the project of consensual hegemony seems quite appropriate. It entails the application of pressure or the creation of conditions that would make a future policy appear a self-interested move by other countries. In effect, Brazil is creating situations where it becomes implicitly too costly for other countries for other countries to deviate from the Brazilian positions. At the same time, Brazil avoids being associated with terms such as ‘hegemon’ or ‘hegemony’ by constantly putting a focus on sovereignty and autonomy, both in politics and economics. This directly correlates with the elaborations in the previous section on Brazil and multilateralism, as this focus on sovereignty, both economic sovereignty and political autonomy, directly translates to the promotion of values such as the protection of democracy, the interpretations of liberal economics that would facilitate economic growth, and regionalized responses to the challenges of globalization. As in accordance with previous observations, Brazil’s desire to influence international rules has been understood in terms of soft power and it has consistently eschewed the development of hard power.

§3.2.2 Positioning the Brazilian Economy

To turn to data on Brazilian economics, table 1.4 of the Appendix two only makes sense when keeping the previous observations in mind. Table 1.4 demonstrates that Brazil is the Mercosur country whose import is determined the least by intra-Mercosur trade. In turn, Argentinean imports where in 2001-2004 more determined by intra-Mercosur trade, and Paraguay and Uruguay relied, in terms of import, for over 50% on its Mercosur partners.

However, it is necessary to paint the complete picture. When one considers Brazilian Total Trade, from 1989 to 2010 (Figure eight) one can distinguish an overall growth in import and export. In the mid 1990s, import levels were higher than export levels, from 2002-2007 the

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151 The year 2003 is a key year: an increase of 25% in exports, mostly due to increased sales to China of manufactured goods. Brazil has profited from an international consumption boom.
gap widened in favor of the export levels, and in recent years, the level of import and export have known a decline, as the international economic climate has been rough. Actually, when one takes a look at Figure nine and Figure ten, one can distinguish a similar trend in Brazil’s trade in South America and trade within Mercosur specifically.

*Figure eight: Brazil, Total Trade, 1989-2010*

![Brazil, Total Trade, 1989-2010](image)

*Figure nine: Brazil, South America Trade (Mercosur Excluded), 1989-2010*

![Brazil, South America Trade (Mercosur Excluded), 1989-2010](image)

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152 Data from the Ministério do Desenvolvimento, Indústria e Comércio Exterior.

153 Data from the Ministério do Desenvolvimento, Indústria e Comércio Exterior.
Figure ten: Brazil, Mercosur Trade, 1991-2010\textsuperscript{154}

![Brazil, Mercosur Trade, 1991-2010](image)

Figure eleven: Brazil, Export+Import, 1991-2010\textsuperscript{155}

![Brazil, Export+Import, 1991-2010](image)

\textsuperscript{154} Data from the Ministério do Desenvolvimento, Indústria e Comércio Exterior.

\textsuperscript{155} Data from the Ministério do Desenvolvimento, Indústria e Comércio Exterior.
Obviously, as Figure ten and eleven demonstrate, Brazil-Mercosur trade took off after establishing the cooperation. However, after the 1999 crisis it followed the same route as the international trade. This point becomes even clearer from Figures twelve to fifteen. Import and Export with Argentina experienced a boom after 1989 and fell dramatically in the beginning of the 21st century. As has been elaborated on, this was due to both the Argentinean as the Brazilian crisis at the time.

Apart from the observations that trade did took off at first within the realm of Mercosur, and ‘normalized’ within a couple of years, one can conclude several other things regarding the Mercosur-Brazil Economics. First of all, as Figures twelve and thirteen demonstrate, import and export levels with Paraguay and Uruguay have not shown a dramatic change in the context of Mercosur trade. Closer relations between the countries did not result in enjoying the benefits in terms of increased trade. As Argentina and Brazil did enjoy these benefits at first, after two currency crises, it is yet to regain these levels of intense growth.

Rather, within the Mercosur project, as much as Brazil emphasizes diversification and multilateralism, the country relies unevenly on its partners within the Mercosur project. Even though the total value of Mercosur export has increased significantly (Figure ten), Figures twelve to fifteen demonstrate that this is mostly due to increased export to Argentina. In other words, an absolute increase in export to all Mercosur members took place from 1991 to 2010. Relatively, export to Argentina takes a larger portion. This effect is actually more visible in terms of Mercosur import, (Figure twelve and fourteen). Also, this effect, the uneven reliance on Argentina, and a relative position that is even growing, is peculiar in terms of regional cooperation. It indicates that the project is not solely based on economic reasoning. Because, cooperate regionally with countries whose trade have little influence on your economic profile, and whose influence actually decrease, as in the case of Uruguay/Paraguay-Brazil, cannot be supported from a economic-rational point of view.
Figure twelve: Brazil, Import, % of Total Import, 1989-2007

Figure thirteen: Brazil, export, % of Total Export, 1989-2007

Data from Central Bank, 2008
Data from Central Bank 2008
Second of all, as becomes clear from these figures, and from the data in appendix two, Brazil does not rely extensively on Mercosur. The overall development of Brazil in Mercosur is similar to the development outside the regional project (Figures eight to eleven), a relative small portion of its imports and exports rely on Mercosur (Figure fifteen), as the other Member rely far more on the project in terms of main import and export partner (appendix) as main import and export partners can be found outside the region.

Third of all, and lastly, to elaborate further on this point, in the Mercosur context, Brazil is rather in a league of its own. As Figure 1.2 of appendix two indicates, and as already been elaborated on in the previous section, Brazil ranks much higher than its Mercosur partners in world trade in merchandise and commercial services. Also, its export is divided more evenly among agricultural products, fuels and mining products, and manufactures goods. This is an important point, since a more diversified export ensures more stability.

In terms of diversification, a point that Brazil, as said, advocates strongly, Brazil juggles several international trade-options: the Free Trade of the Americas, the World Trade Organization, and Mercosur.  

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158 Data from the Ministério do Desenvolvimento, Indústria e Comércio Exterior.
These observations indicate that Mercosur is part of a bigger picture in terms of economic profile, in case of Brazil. In fact, Brazil practices what it preaches: diversification, multilateralism, and autonomy.

4. History Matters Trough Contemporary Patterns
After formulating a theoretical framework on regionalism, and considering the indicators and variables in the realm of Mercosur on two different levels of analysis, let us now link the two. Why did Mercosur develop the way it did? Second of all, after applying the case study, one can now assess the strong and weak features of the theoretical framework proposed. Lastly, suggestions for further research will be made.

§ 4.1 The Regional Project: Cooperation in Context
The previous section firstly applied the theoretical framework to the Southern Cone region as a whole and then to Brazil specifically. The hypotheses were honored: the significance of the state was acknowledged, the analysis contained both analytical as normative viewpoints, and the history factor was addressed. This has led to an structural and all-inclusive approach, and an honoring of the relationships of power and dependence among the region. Also, the background variables, in the three subsections of ideological patterns, social structure, and

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160 Data from the Ministério do Desenvolvimento, Indústria e Comércio Exterior.
economic and industrial development, were considered. This section will now consider this constructed region within the framework of regional cooperation in the Southern Cone by relating the findings of the previous sections to the case of Mercosur. Also, the remaining background variables and hypotheses that have not been addressed yet, will be addressed.

§4.1.1 Pre-project

The previous section has shown that in particular Argentina and Brazil were trading partners previous to the project. However, an high rate of transaction was not particularly to be distinguished. The previous sections have also demonstrated that a similarity in relative size and power does not exist. Brazil is economically, geographically, and also politically, the biggest country in the project. Uruguay, Paraguay, and, to a lesser extent, Argentina, are in terms of international trade dependent on Brazil. However, this is not reciprocal. Furthermore, the Mercosur members are not familiar with a particular high degree of pluralism. Obviously the political system is encountered with influences from the civil society. The key is the particular role interest groups play; the role they are attributed and the expectations they adhere to. The previous section has shown that the role interest groups play is not significant on a regional level. This means that the voices of the economic industries, and the articulation of their interests in favor of the regional project and the possibility of an increase in trade, are not heard. Interest groups were not involved in decision making or the design of the overall framework. They did have some input later on in the process, however. This was probably due to the evolving motivations behind the project: from politics to economics. All in all, the regional project seems to rely on the convictions and beliefs of the presidents of the Member States. Mercosur is both faced with deficiencies in its institutional framework and the lack of input from interest groups. These interest groups therefore remain domestically based. This means that neither interest groups, nor institutions, drive the project. The political progress of integration in the Southern cone seems both de jure as de facto, limited.

The issue of complementarity in values among the members has not been addressed in full yet. As has been acknowledged, all members share several motivations concerning the development of the project. These include the economic development of the countries respectively, the empowerment of the region as a whole, a tool to be able to adjust to a globalizing world, and the political development of the region through its democratic clause.

However, it is necessary to acknowledge the subtleties here. Brazil’s values differ from Argentina’s values, from Uruguay’s values, and from Paraguay’s values. This is rooted in their political and economic positions. Brazil is the natural regional leader and economically not dependent on its Mercosur colleagues. The country recognized that the opening of the market does not guarantee wealth, but also comes with risks. Its values can be considered as a mixture of protecting its economy and acknowledging the political promise of the project. Also, Brazil’s anti-hegemonic style of promoting cooperation results in a consensual style of leadership based on values of moderation and diversification. At the same time, Brazil way of conducting politics is influenced by its position of intermediate state. Such states attempt to influence small countries, minimize the influence of great powers, and prevent the emergence of other middle powers. Mercosur can quite function as a means to this end. The smaller members on the other hand, seem to seek stability in the region and further economic development. Argentina is economically more dependent on the region as Brazil. But is not regarded a small player either. It could be argued that the country is faithful to the project because it is simply not big enough to play on the big stage. On the other hand, the smaller countries have also been reluctant to join, out of fear of being absorbed by their big neighbors. So, regardless of size, all countries in this asymmetrical project have their reservations based on economics.

§ 4.1.2 Birth of project

The background variables to be considered at the birth of the project involve governmental purposes and powers attributed to the project. Among the members, a consensus on the political and economic direction of the project is small. It is has been made clear that especially in terms of economics, the member states differ. The smaller members benefit from the project economically, but at the same time are careful of not being swallowed by their big neighbors. Brazil is Mercosur’s biggest member and relies more on external partners as far as international trade is concerned. Brazil has articulated its values quite clearly: countries of the South should attain a level of autonomy by participating and diversifying. Mercosur is a means to this end. However, Brazil should keep in mind that the smaller Members Uruguay and Paraguay have to rely relative extensively on the Mercosur project since their export products are products that are not competitive on the international market.\textsuperscript{162}

\textsuperscript{162} Bartholomew (2002), pp 18-19.
The variable of ‘powers attributed to the project’ has already been elaborated on in the previous tutorial research paper. Institutionally, the project is not being developed, while broadening and widening does occur. The fact that these powers are not revised or upgraded gave rise to the current research question. Mercosur is characterized by an intergovernmentalism, consensus, and the absence of a legal order, i.e. judicial bodies. This institutional model thus entails bargaining.

§ 4.1.3 During the project

The variables relevant during the project are decision-making style, rate of transaction, and the adaptability of governments. The decision-making style remains obviously by consensus. This has already been elaborated on in the tutorial research paper and gave rise to this current Masterthesis. The fact that the region does not have autonomous powers leads to the project being dependent on the intentions of domestic politics. The way the domestic is perceiving the project, both in terms of the material and the normative, is vital for its furthering.

The rate of transaction during the project has been elaborated on. It has been demonstrated that the project does generate some net welfare effects, but not considerable effects. Again, it has become apparent that Mercosur, from a regional level of analysis, is more about politics than economics. In the case of Brazil specifically, Mercosur trade follows the same pattern as regional trade and international trade. At first, there was an effect visible in favor of Mercosur, but this effect quickly adjusted to overall trends. Also, trade with external partners such as China and the European Union took off, while Brazil’s closest trading partners did not prove to be able to enjoy the benefits of free regional trade. In fact, the relative portion of trade with Uruguay and Paraguay actually diminished in favour of Brazilian-Argentinean trade.

Lastly, the adaptability of governments has also already been elaborated on in the previous research paper and gave consequently rise to the current research question. Governments tend to continually handle disputes outside the framework of Mercosur, asymmetrically implement norms, or not implement them at all.

The previous section and this section have in a way addressed the paradox of Mercosur. On the one hand, the members are committed to the project. On the other hand, the project does not lead to a dramatic economic boost, norms are implemented asymmetrically or in some sectors not at all, and disputes are settled outside the regional framework. When taking
integration and the region’s political culture, shaped by experience, into account, one can only understand the region’s reluctance to move away from sovereignty towards a supranationalist mode of governance, the region’s reluctance to develop the Mercosur dispute settlement mechanisms beyond ad hoc recommendations, and the limited role interest groups on a regional level play. The Southern Cone region is a region where interest groups and entrepreneurs have little influence on politics. In Haas’ analysis, exactly these components should be a driving force behind spill over. Secondly, the historic experience of colonial power structures, and dependency relations cause the members to find themselves in a constant tension field of independence and interdependence. Thirdly, the political culture is a culture that does not favour law over informal negotiation as far as dispute settlements are concerned. This stems from the Iberian Catholic rule. Also, the states in the region are faced with a history of failed attempts and disappointments. This led to the emergence of pan-Americanism, a softer notion of the practice of international relations.  

It is debatable if the lagging behind of the development of supranationalism in Mercosur is a bad thing. Some authors, like Pena and Rozemberg, tend to argue that the development of Mercosur has benefitted from its intergovernmental character. They argue that

‘no supranational structure could have made Mercosur a more serious structure.

[Furthermore], the effectiveness of the integration process should be [seen in light of] the characteristics of the alliance and its historical roots, rather than attempt to design institutional responses based on theoretical models.’

Bulmer-Thomas in a sense agrees. He focuses on the more practical explanation by analyzing the lack of political will to move towards supranationalism. He argues that the set of intergovernmental structures corresponds to the level of development and to the economic and political reality. As pointed out before, the Southern Cone countries face debts, social exclusion, corruption, poverty, and uneven domestic and regional economic development. So, it was quite important that Mercosur was created as an organisation that would be functional. ‘Forcing’ supranationalism could have had a paralyzing effect.

164 Pena and Rozemberg (2005), p 5.
165 Idem.
Verbeek and Wessel also provide some insights on the paradox of Mercosur.\textsuperscript{167} The stress that International Relations and International Law refer to very distinct areas. Politics stresses competition, conflict, supremacy, and adopts a struggle for survival and influence at its core. International Law on the other hand, aims for harmony and regulation of disputes and attempts to create a framework which can act as moderating claims and balancing interests objectively. In the same journal, Grünfeld supports this stance and points out that International Law concerns the formulation of norms. Politics is about the social reality.\textsuperscript{168} The formulation of norms are of relevance, but gain substance when viewed in social reality. Reversely, social reality gains essence when its viewed in relation to norms and assumptions. In other words, law and social sciences both study the same phenomenon. But rather the same phenomenon in differing stages. Cypher and Dietz take it a step further.\textsuperscript{169} They state that ‘law’ is helpful, but not of primary importance in the case of building institutions. They argue that law, by nature, is socially derived and that lawyers are in effect technicians who effectuate decisions made by others. Law is not an engine of change or the primary indicator.

With these last considerations, the hypothesis that a theory on regionalization should represent both analytical and normative viewpoints, is also honored. As far as the last sections have not made clear yet the need to adopt an all-inclusive approach, based on both normative and analytical viewpoints, these last considerations of Verbeek, Wessel, and Grünfeld should definitely have given some insights on the need to do so. Lastly, the need to incorporate the hypothesis that the development of regional projects is dependent on the characteristics and internal variations of the actors, in combination with economic and political circumstances, refers to analyzing such regional project from the domestic level of analysis. By analyzing the regional project from the point of view of Brazil, the dynamics and intersections have been made more specifically. Therefore, this hypothesis needs to be included in the theoretical framework.

So, returning to the Mercosur case, seen from a regional level of analysis, whilst keeping in mind the analyses of this section and the last two sections, Prebish puts it into words strikingly:

\textsuperscript{169} p 383
‘Why has it not advanced beyond a certain point? It was not failure, it was not a success. It was a mediocrity, a typical Latin American mediocrity.’

§ 4.2 Theoretical Framework

This leaves us with two final points. This subsection will firstly address the Theoretical Framework after application of the case studies. This subsection will present four adjustments. The next subsection will consequently address suggestions for further research.

The fundamental reason to set up a theoretical framework to address regional integration, is to enable one to analyze those projects on its own terms. As elaborated on, regional projects are unique in their own kind, per region, and therefore a comparative approach does not seem appropriate. It was proposed to separate the economical from the political, and to include explicitly culture, history, and ideological patterns. Obviously, one can argue that culture flows from history, that ideological patterns are shaped by history and shape culture, and that culture and ideological patterns align. This thesis did not intent to ignore these foundational issues, but did prioritize creating a practical and useful approach to assessing regional projects.

As the social structure and ideology seem to be closely related, and therefore hard to address separately, the variable ‘politics’ is not mentioned explicitly enough. Obviously, ideological patterns, and the way the people view politics, result in a certain style of governance. But, as became apparent in elaborating on the domestic level of analysis, political interests should be incorporated in the theoretical framework more explicitly, as economic interests already have their place in this. In particular, political circumstances and interests should have a place in the theoretical framework, especially in the category ‘before the project’. By doing so, the theoretical framework will be sensitive to both economical and political circumstances and context before the project, at the birth of the project, and during the project.

Second of all, perhaps a minor point, but the term ‘complementarity in values’ proved to be a problematic term. The Members should not complement each other, because this would imply that the Members have differing interests. Rather, there should be a certain degree of similarity in values. In other words, a certain fundament needs to be present on which the Members can build their regional project.

Third of all, the separation of governmental purposes from powers attributed to the project, decision making style and adaptability of governments, all under the header of ideological patterns, seems to be too artificial. In dealing with the case study on the regional and domestic level of analysis, addressing these variables individually seems too forced. In effect, powers attributed to the project, decision making style, and adaptability of governments are all determinants of governmental purposes.

Fourth of all, lastly, the role of history is listed in the theoretical framework as an assumption. At the same time, the presence of history in contemporary patterns becomes apparent as a result of the analysis as well. The question therefore remains: is the influence of history an assumption one should embrace, or a result one should acknowledge? Even though this thesis addresses the development of Mercosur, the international evolution of Brazil, theoretical matters such as rationalism and moralism in politics, this thesis first and foremost stresses that in analyzing the origins of the social structure and the background of the prevailing ideological patterns, one should turn to history. History matters, through contemporary patterns.

The final Figure of this thesis represents the aforementioned elaborations concerning the theoretical framework. This framework has evaluated during this thesis, due to an application of the case study. Hopefully, one day, this framework will be used to address the suggestions for further research that will be made in the next subsection.
**Figure sixteen: Theoretical Framework Evolved**

**REGIONAL PROJECT**

- a theory on regionalization should acknowledge the significance of the state;
- a theory on regionalization should represent both analytical and normative viewpoints;
- in theorizing regionalization, history matters;

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- a theory on regionalization should be a structural, all-inclusive approach;
- in contrast to the elaborations of Keohane, the development of regional projects is dependent on the characteristics and internal variations of the actors, in combination with economic and political circumstances;
- the supply and demand of regional projects is heavily dependent on existing relationships of power and dependence, issue density, and the effectiveness of the regimes themselves.
§ 4.3 Suggestions for Further Research

This thesis sought to analyze the Mercosur project in a comprehensive and honest way. On a more fundamental level, it sought to present a theoretical framework that should be kept in mind when considering any regional project. However, the theoretical framework presented is only tested on a regional- and domestic level of analysis within the realm of Mercosur. This last section will present, shortly, some suggestions for further research in order to strengthen the foundation of this theoretical framework on regional projects.

In order to present a truly comprehensive analysis, one should firstly address the project from the domestic level of analysis from the remaining Members Argentina, Uruguay, and Paraguay. This thesis only studied the project from the point of view of Brazil. This starting point makes sense, since it is the largest Member within the Mercosur project. Nonetheless, only considering Brazil can be compared to analyzing a soccer game merely from the point of view of one of the teams. To extend the analysis, this thesis studied the characteristics of the league the soccer game is part of, and its biggest team. Besides also taking into account the other teams, one should also take into account their performance internationally, in for instance, the Champions League. In this case, one should also address the regional project from the international level of analysis. Especially in the case of Mercosur, this level of analysis would definitely be attributing to the goal of comprehensiveness of the framework. Mercosur is a reaction to globalization and at the same time in close contact with the United States, the European Union, and Asia.

More ways of deepening the research, is not to focus on trade in general, but to focus on specific sectors. In the case of the European Union, several sectors were formulated
specifically as a point of focus, among them agriculture and coal and steel. A more sophisticated picture will arise when analyzing sector-specific data instead of total trade. Also, instead of looking at specific sectors, one should focus on specific indicators. A focus on the real implications of the development model in a country in the areas of wages, employment, the social, GDP, capital, and/or inflation could result in some valuable insights concerning the working of regional projects as engines to growth.

Another interesting way to go, is put a focus on the regional level of analysis, but rather on the dynamics between the project and the region itself. The interplay between Venezuela and Mercosur is quite interesting in this respect. It does not only represent matters related to Membership and direction, but also the ethical questions on the development paradigm in the region. Lastly, it is useful to note that Mercosur does not possess a special place within the wide array of regional projects. It is interesting to apply the theoretical findings in this thesis, questions raised by the Mercosur project, to other regional projects in Asia and elsewhere.

All in all, the challenges lie in putting the framework subsequently to the test in the realm of the domestic level, the regional level, the international level, and of other regional projects. Like this, a more inclusive story can be told about regional projects that flourish beyond the European Union, and often exceed the economics. They concern and represent very foundational values in societies and therefore deserve an approach that is not solely based on the European experiences.

**Conclusion**

Even though the previous section ended with suggestions for further research, one can indeed derive several conclusions from this Master thesis. First of all, on a more profound level, phenomena on the international level are rarely only of a political nature or of an economical nature. Even though the theoretical framework in this thesis clearly tries to separate these two spheres, it becomes clear that politics and economics go hand in hand and can therefore not be considered in a separate way. Basically, a similar conclusion was made in this thesis about the relationship between self-interest and ideas. Ideas need to be supported by a gain of some kind, just as self-interest need to have an ideological foundation. At the same time, because of their intertwineness, the exact value of self-interest versus ideas, and politics versus economics, do not seem to get established. One should rather, as this thesis did, analyze case studies and demonstrate the role of the respective influences.
Secondly, one can conclude that in terms of economics, the Southern Cone region, and in particular Brazil, has developed. Export and import increased, as more and more people of those countries were able to escape poverty. However, it is hard to establish the exact role of Mercosur in this. The global economy has also experienced quite some high- and low points, and one should not dismiss this influence on the region. At the same time, it does not really matter that the economic performance of Mercosur cannot be determined independently. Mercosur is not a purely economic enterprise, nor a purely political one. Its economic performance is only part of the picture. Just as globalization should not be considered in purely economic terms, but also in political and social terms: the future of the nation state.

Thirdly, Mercosur does exhibit several constraints to develop towards a more effective regional project. These constraints are political and structural. The political constraints entail the inequality among its Members. This leads to different points of view and the articulation of differing interests. Argentina views institution building as essential to the development of Mercosur. The smaller Members do agree in some sense, but at the same time are very conscious about their uneven bargaining power within the project. Brazil mostly views institution building as harmful to their interests. Mercosur is merely part of their whole Foreign Policy. Betting on the Mercosur-horse would mean losing the outstanding bets with the rest of the world. The structural constraints involve the social structure and ideological patterns. The Southern Cone is a region that has a corporatist ethos at heart, in which the state is the most important determining factor in society. This has its roots in the historical experience of colonialism and the influence of Christianity in the region. Building institutions in the realm of Mercosur would mean diverting power away from the state’s prime regulator and coordinator to an unknown entity. As elaborated on as well, the people of Latin America also tend to be quite suspicious about one another in general and politics in particular.

Lastly, it is worthwhile to repeat the question that gave rise to the tutorial research paper as in Appendix one, and this Master thesis. Is Mercosur a failed project? Most literature on regional integration argue that the goal of creating a common market implies setting up regional institutions that can deal with decision making and dispute settlement. Obviously, one should argue, with the tutorial research paper and this thesis in mind, that Mercosur is not failing at all. Of course, institutions are needed on the regional level, but they are not essential for valuing a regional project. Institutions that are set up explicitly to establish rules may not be appropriate to all regions in the world. Furthermore, the deficit that is inhibited in Mercosur is not institutional, it is rather a normative deficit. When the social and the political are not
willing to articulate a positive attitude towards the regional project, the institutions will not be set up and made effective. Regional projects should be seen in light of historical context, political and social circumstances, and economic reality.

Epilogue

In essence, this thesis does not represent a clear-cut search. The starting point of this thesis, and the preceding tutorial research paper, was first of all a profound interest in the Latin American region and the international relations among its countries. The fascination for this region lies in the many contradictions that it encompasses at first sight. Concepts such as democracy, good governance, economic development, and power politics can spark a considerable amount of debate. But, placing them in the Latin American environment enriches the debate so much more. In my opinion, this is because the Latin American environment approaches all these concepts from their own point of view, influenced by both their own convictions and their own reality. Second of all, analyzing a concept such as regionalism results in a very interesting starting point of its own since this concept bears its own contradictions. After all, strengthening regional integration and a preservation of national sovereignty seem to mutually exclude one another at first sight. However, as this thesis has demonstrated, these two objectives seem to go hand in hand.

The fact that this thesis does not embody a clear-cut research direction, does not only logically follow from the choice of region and concept. Besides an analysis of the development of Mercosur and the environment this is taking place in, this thesis intents to challenge one to think about the, at least according to the writer, most important theoretical puzzle that one is faced by today: is ‘politics’ something that can be separated from moral judgement and something can be placed outside the realm of sentiments and subjectivities? This thesis obviously answers this question with a firm ‘No’. This answer then invites us, or rather requires, an elaboration on how this realm is situated in relation to self-interest and ‘hard politics’. This elaboration is intertwined in the theoretical framework proposed in this thesis. A formulation of such a framework, a framework that is also suitable to deal with regional projects outside the European region, means not only changing the content of the analysis, but also changing it terms. All in all, the core of this thesis is threefold: a
theoretical/philosophical exercise, an analysis of the Latin American culture, and elaborations on the political economy of Mercosur.

As much as this thesis is a reflection of my passion of international politics, writing it has been quite an intense process for me. It is safe to state that the experience of both an academic challenge and a personal search has been a valuable life lesson. Therefore, I would like to spend the closing words in this thesis on thanking Mr. Hoen for his guidance and patience, on thanking Vanessa Werners and Lisan van Veen for their advice and cups of tea, and lastly, on thanking Imre van Rooijen for his support and jokes that make me laugh every time.

Marieke Epskamp
November 2011
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Prologue

Most theories on international cooperation, the creation of international organizations (in any form, albeit intergovernmental or supranational) by countries, tend to present clear-cut answers to the why, when, to what extent, and so-on,- questions. Regionalism, the focus of these papers, can be an obvious response for states to problems of incomplete information, transaction costs and other barriers to Pareto efficiency, to matters of welfare improvement, or matters of ‘efficiency’ in security issues. A closer look would often reveal that international organizations alienate themselves, whether or not early in the process or later on, from the efficiency goals these theories had attributed to the enterprise. Reasons to start the enterprise differ from continuing the process, in any form. These papers will represent the dynamic process of international cooperation.

First of all, the facts that individuals, and state actors, cooperate in large groups of unrelated individuals is an evolutionary puzzle. Convergence of beliefs, attitudes, and values can possibly provide a solution to this puzzle. Second of all, not only motivation and goals of regional integration appear to be multilayered, the actual process and development seem to be just as fluid. New actors are created, who specify responsibilities and authority among them. Political entities, and also political thinkers and academics for that matter, will attribute meaning and normative value to them. This is an ongoing process. What always fascinated me is the biased attitude towards institutionalization, either within a global or regional framework. Governments value regional cooperation highly, but at the same time constantly re-evaluate the balance between cooperation and self-interest.

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Third of all, thinking about integration among political entities can be done from different starting points. But should always lead to a comprehensive understanding of the concept in a certain region, during a certain period of time. One can start by investigating the political questions associated with the enterprise, but should always bear in mind the economic variables concerned as well. The ethical side of the project in question should be highlighted too. When one does not engage oneself in investigating the meaning of cooperation, the meaning of borders, and the identity of the parts and whole of the endeavor, one cannot present an extensive characterization of the integrational developments. All in all, I consider both the politics and economics, as the ethics of institutionalism as definitely interrelated research topics. In other words, I think it is valuable to present an interplay between ethics, theory, and practice of regional, institutionalized cooperation.

Finally, the region of focus in these three papers is the Southern Cone region; regionalism within the framework of Mercosur. There are numerous factors at play in this region. To name a few (quickly): influence of the United States, emerging market Brazil, struggling Argentina, the influence of Venezuela and Hugo Chávez, relations with the European Union, and obviously the current global economic situation. This region represents a very different political tradition and social environment than the regions regionalism is usually theorized from. To add Francis Fukuyama’s words:173

‘Latin America has proven to be a key battleground for ideas where competing models of development, socialist, communist, free-market, mercantilist, have clashed. This is a continent of inequality, with an highly mobilized publics who are impatient with the political process.’

This is a very vital point. These papers not only concern the dynamic process of international cooperation, they will also concern quite a dynamic region. A region that has exhibited a remarkable capacity for fundamental and profound political and economical change that range from authoritarianism, to competing multi party systems, single party structures, and aristocratic governance.174 With this, several models of development have emerged.

All in all, not only the concept of integration is fluid and encompasses a variety of approaches, but also the application to a region such as the Southern Cone region, will prove the dynamics of theorizing regionalism. This two-part paper was written during my research internship at Instituto de Iberoamérica under the supervision of dr. Agustín Ferraro and of dr. H.W. Hoen (Rijksuniversiteit Groningen). The two parts of the paper can be read separately, but its strength lies in the connection between the two.

Part One

Integration in the Southern Cone Region; spillover theory as a tool of analysis

Introduction

When studying the topic of regional integration, it is interesting to analyze and write about the European Union. For over 50 years now, Europe has experienced an unique project which started by integrating one single industry among six countries in 1951. A project which leaves Europe now, in 2011, with supranational and intergovernmental cooperation in the realm of both high and low politics, among 27 member states.

Scholar Ernst B. Haas, considered a neofunctionalist scholar, has written extensively about regional integration while looking at the developments in Western Europe. However, his goal was to develop an universal theory. This resulted in his influential work *The Uniting of Europe* (1958). A few years later, Haas himself declared his work on spillover theory ‘obsolescent’; the actual developments were not in accordance with what was described to be expected. Later on, Haas stated that his work did not represent an universal theory about integration, but merely the European story (albeit to a certain extent).

However, theorizing regional integration does not belong exclusively to the European region. In fact, when one studies this concept in the context of a different region, the understanding of the concept of regional integration becomes more dynamic. Political concepts in this region are differently understood. Therefore, the concept of regional integration, or institutionalization, will be broadened and, at the same time, deepened when applied to a different environment. In this respect Haas seems to be right, a theory applicable to one region, does not automatically apply in its totality to another region; in the case of this paper, the Southern Cone region.

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177 Wiarda and Macleish Mott argue in their article that, for instance with regard to the understanding of ‘democracy’, Latin America understands this concept in terms of a strong leader, coordinated interests, and patronage politics. Obviously, this understanding is substantially different in comparison to understanding of this concept in, for instance, the United States.
This paper will study regional integration efforts in the southern part of the Latin American region, the so-called Southern Common Market, MERCOSUR region. The permanent members of this regional project are Brazil, Argentina, Uruguay, and Paraguay. In the words of Chile’s president from 2006 to 2010 Michelle Bachelet, Latin America today faces two main challenges: social justice and regional integration.\(^{178}\)

This paper will take the early 1980s as a starting point, since that period represents the beginning of a commitment between two of MERCOSUR’s founding members: Argentina and Brazil. At the time, the relations between these countries, as will become clear in this paper, was characterized by rivalry and mutual distrust.\(^{179}\) As said, this research paper will consist of two parts. This first part aims to study the regional integration efforts in the realm of MERCOSUR, while taking Haas’s work on spillover theory as a starting point. In other words, this part will analyze to what extent a rationalist’ mechanism like spillover can account for Mercosur integration. This analysis will take the form of three sections. Firstly, Haas’s theorizing integration will be discussed. A focus will be on Haas’s contributions, but also points of critique will be discussed. Secondly, Haas’s spillover will be considered in the realm of integration efforts in the Southern Cone. Thirdly, any voids that are left in the analysis of integration efforts in the region will be analyzed and recommendations for the second part of this paper will be proposed. In other words, these subsections together, will demonstrate to what extent Haas can account for the historiography of integration efforts in the Southern Cone region.

The goal of this paper is threefold. First of all, the value of spillover thinking will be demonstrated when studying the topic of integration in a very different context than the European Union, the context of the Latin American region. Secondly, this paper will present an history of the Mercosur regional integration effort in the Southern Cone region. Thirdly, through this paper, at-first-sight static political concepts such as integration and spillover will be approached with a more dynamic attitude, by analyzing its usefulness and exposing any voids. Overall, this paper is a first step towards a widening and deepening of theorizing regionalism.

1. **Theorizing Integration: Neofunctionalism**

The first section of this part will consider Ernst B. Haas’s theorizing with regard to regional integration. His work on spillover processes will be discussed. The goal of this paper is to find ways to analyze to what extent Haas’s spillover theory can account for Mercosur development. Therefore, this paper will not seek to present a complete overview of spillover theories and its criticisms, but rather to

\(^{178}\) The Latin American Dream, The Economist, Nov 16 2006.

constructively use his work and elaborate on possible additions if it falls short of explaining occurrences in the process of integration.

Studies of regional integration can roughly be divided into two strands of thought. First of all, a strand of thought that interprets regionalism as a logical process, set in motion by states. Its core assumptions involve an anarchical nature of the international system and the centrality and rationality of states. The establishment of regional trade agreements, therefore, can be interpreted as a joint response by states to problems or challenges existing in the world. In other words, also when approaching the concept of integration, this strand of thought relies on the rationality assumption. Secondly, a strand of thought that views the integration process as constructed and multilayered where different regionalizing actors try to impose their discourse on the regional agenda. Constructivist’ approaches can be placed within this strand of thought. Constructivist thinkers emphasize the role played by both normative and material structures, the role of identity in the constitution of interests, and the interplay between agent and structure. Also, problems concerning the concepts of rationality and stable preferences are stressed.

**Neofunctionalism and the Legacy of Ernst Haas**

One of the most influential schools of thought in this first strand of theorizing integration is the neofunctional approach, as developed by, among others, Ernst B. Haas. Neofunctionalism concerns itself with the matter of finding ways to peace other that either power (realism) or law (idealism). Integration should be seen as a device to limit transaction costs and uncertainty. Within neofunctional approaches, the concept of spillover plays an important role. When countries experience connectedness of economic relations, these countries tend to intensify their cooperation in other areas as well. Increased interdependence generates externalities, which the involved states have to face. So, international economic interaction facilitates intra-regional linkages and consequently, states begin to develop an interest in maintaining those regimes. This will even be the case when the factors that brought them together are no longer operative. This process of spillover is suggestive of automaticity. Economic integration invites further economic integration, for efficiency reasons. But economic

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integration generates a political dynamic that drives integration further as well. Closer economic ties require more political coordination in order to operate effectively and eventually lead to political integration as well. This process of spillover is quite dynamic. Not only the main actors, that is the state, will realize that further integration can be beneficial to existing relations, but also relevant interest groups will shift their attention away from the nation state and adapt to this new situation. However, and this is a vital point, spillover would only occur under certain conditions such as democracy, pluralistic interest representation, certain level economic development and the existence of an a priori interdependence between the component economies. In other words, the importance of certain background variables are stressed in order for the empirical discovery of spillover.

As this consideration already slightly suggests, Haas’s work does not rely on purely a rationalist’ or positivist’ legacy. Three elements of Haas’s work are quite interesting in this respect: his statements on generality, the characterization of ‘actors’ and the role of rationality. First of all, Haas stresses that theorists encounter a limited ability to generate truths, since there does not exist a consensus about methods. Positivism’s achievements in the natural sciences cannot be transferred unproblematically to the social sciences where social scientists cannot be sure that the reality studied is not a product of the concepts chosen to study it. Therefore, it seems difficult to formulate universal claims over time and across cultures because of the mutable nature and actor’s ability to change their minds. More specifically, attaining a consensual theory of international institutions is equally difficult. Analyzing and theorizing political concepts and developments is a social science, where nothing is ‘discovered’. Rather, scholars analyze, interpret, and conceptualize. These observations in relation to generality and theorizing does not lead to a complete dismissal of theories and concepts. Rather, Haas argues scholars ought to continually reexamine theories and debate the significance and contributions of political developments to peace, wealth creation, human rights, and sustainable development.

Second of all, the absolute importance of national states is challenged in his work. The logic of spillover rests on the expectation that underlying, and unanticipated, functional interdependencies will lead to an intensification of integration. This will occur both in three distinct and interconnected ways: a deepening, broadening and widening of integration. Once an integration project is started and developing, the members will gradually experience organizational and efficiency difficulties. The creation of institutional infrastructure and economic policy coordination becomes necessary: deepening. Along the way, members will experience efficiency difficulties and a practical demand for the inclusion of additional economic sectors: broadening. Lastly, a realization among the members

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183 P. Haas, E. Haas, Pragmatic Constructivism and the Study of International Institutions, pp 1, 12-13, 12-18.
185 Kaltenthaler and Mora (2002), pp 77-82.
arises that the integration project could benefit economically from the inclusion of certain neighboring countries: widening.

Yet spillover theory emphasizes the role of nonstate actors in providing the dynamic for further integration; neofunctionalism is a theory that relies on state actors, and nonstate actors be they interest associations, social movements, and the secretariat of the organization involved. The role of these actors is vital in providing the dynamic for further integration: the development of interaction at the regional level. Member states may set the terms of the initial agreement and strive to control events, but they do not exclusively determine the direction, extent and pace of change. Rather, regional actors in league with actors whose interests and values are advanced by a regional solution seek to exploit the inevitable spillover and unintended consequences that occur when states agree to some degree of supranational responsibility. Eventually their citizens will begin shifting more and more of their expectations to the region, while states will articulate their interests more in the regional context and gradually shift authority. Most certainly, spillover will not occur automatically.

Third of all, this process of spillover relies upon the rationality assumption. Haas’s deliberations on rationality are interesting in this respect. Haas questioned the existence of a singular national interest. His analysis included deliberations about the process of rationalization. This process involves both the gradual elimination of factors that challenge rationality, such as attitude and prejudice, and the growing importance of systematic calculation. With this, Haas acknowledged both the natural role non-rational factors play and, at the same time, that for effective public policy to develop, and thus for effective spillover to occur, states should move away from non-rational influences through social learning. His loyalty adhered to an ontology that included both material and ideational factors, and thus paid attention to the interaction between the two in, among others, his work on drivers of change. His work on spillover involved the analysis that by liberalizing flows of trade, investment, and persons, regional integration might transform the traditional interstate system.

These details on Haas’s work within the neofunctionalist realm raises the obvious question whether or not a placement among rationalist’ theories is justified. Rosamund argues that Haas clearly presents neofunctionalism as a variety of rationalist theory. A variety of rationalist theory, ‘soft’ rational choice that is. Social actors, while pursuing their interests, will choose among the means available to them. At times, they seem to rethink their values, redefine their interests, and perhaps choose new means to realize them. Ruggie, Katzenstein, Keohane, and Schmitter argue in their article on Haas that his work later in life on constructivism was only a logical next step from his earlier work on international cooperation. The classification of ‘soft rational choice’ seems appropriate. The underlying processes Haas articulated do indeed involve matters such as social learning, preference

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187 Rosamund (2005), p 244-247.
change, and subjectivity and one can argue that these processes are linked to the background variables formulated earlier. He acknowledges that a society that is not familiar with pluralism and debate can never be home to a rational process such as spillover. The process of spillover itself is rational but made available by its environment.

**Theory versus Reality**

The 1970s presented a time of stagnation in the process of European integration.\(^{188}\) It seemed like Charles de Gaulle tried to convert the EEC/EC into an instrument of French foreign policy, and put a stop to the gradual expansion of tasks and authority by the Commission and to the prospective shift to majority voting in the Council. So, a few years after the introduction of this spillover theory, Haas himself declared (in 1975) that the existing integration theories have fallen victim to the process of becoming obsolete.\(^{189}\) Due to changed conditions, and the institutional development, the integration process in Europe did not proceed as predicted by the theory. In effect, the process proved to be much slower. Haas pointed out that these changing conditions involved economic stagnation which resulted in a process of re-evaluation of the member states’ national interests, in particular a re-evaluation in France.\(^{190}\) Theories on integration, like spillover theory, did not seem to allow the possibility that actor’s motives change. Moreover, according to Haas, the theory had underestimated the impact of relations and commitments beyond the community and obviously the differing interests of the member states in such relations. The assumption that conflicts of interests involving trade-offs between ties with regional partners and non-members should be, and would be, resolved in favor of the regional partners, seemed flawed. From this follows that spillover does not seem to be such an automaticity as it was first suggested. Last of all, Europe demonstrated a gradual departure from the simple logic of the establishment of a customs union. It began to include issues from the social realm, for instance. This meant that the original orientation on economics and free trade was challenged.

However, Haas turned out to be wrong about being wrong.\(^{191}\) The inclusion of issues from the social realm exactly this involves a process of spill over, be it deepening. But apparently, this deepening, spillover after a certain point, seems to slow down the institutional development. The fall of the Berlin Wall, which required the firm binding of the new Germany to the rest of Western Europe, raised core realist imperatives once more on the European continent. These challenges where resolved through broader integrative measures which in turn required more policy alignment: the easy ratification of the Single European Act, the 1991 Maastricht Treaty. But at the same time, Haas distinguished an interesting pattern: even though states are part of an integration project, its merits and prevalence over other relations seem often to remain under consideration.

\(^{190}\) Haas focused on the European Community when declaring his theorizing obsolescent. It is interesting that Haas explicitly declared the process obsolescent, and not obsolete.
Broadening the Theory

Basically, recognizing a theory of regional integration means a denial of integration politics as a special form of international organization. Apparently, international cooperation is not necessarily an unique enterprise. Haas never intended to turn his work into an European exercise. Rather, he positioned his work as an exercise in grounding a set of general propositions about regional integration in the European experience. However, this does not mean one can approach all regional integration efforts with the same set of tools. Haas himself was skeptical about broadening the analysis of integration to other regions. The European experience should be useful in generating hypotheses for testing in other contexts. But one should always keep in mind that the significance of variables is distorted when they are taken from their temporal context; timing and sequence of particular events or processes do carry great weight. And even though Haas himself stated that states’ efforts to cope with ‘turbulence’ is unlikely to lead to any final set of regional institutions, because the dynamics of this turbulence are specific temporally and spatially, it seems possible to use his work as a starting point in analyzing integration efforts outside of Europe. In spite of skepticism about generating general theories in political science, scholars do need to remain interested in developing at least limited generalizations. Mainly because the other end on the spectrum is very undesirable: falling back on descriptions of single cases. Arguments can ‘travel’ in some form beyond a specific time and place. And in case they cannot, a first step has been taken towards understanding. So, even though Haas’s work has suffered from a lot of critique and suggestions for adaptations, including by himself, this paper supports this stance, that his theorizing is in fact more dynamic than it seems at first sight, that his theorizing provide useful insights and is thus, to a certain extent, applicable beyond the European region. After all, using Haas’s work on spillover as an analytical tool will make voids in the analysis apparent and provides space and direction for additional theoretical considerations.

This section first discussed, briefly, a divide than can be made in theoretical approaches to regional integration. Second, several key features concerning the spillover theory and Ernst Haas’s work were pointed out. The rationalistic attitude of states, and rationality of the spillover process were among them. Interestingly, Haas stressed the importance of rationality and at the same time acknowledged the role non-rational factors play. The next section will focus on the integration process in the Southern Cone region. Haas’s theorizing will be used as a starting point to analyze this process.

2. Integrating the Southern Cone

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193 Haas (1976), pp 173-212. In Haas’s words, this ‘turbulence’ involves the various new dimensions of interdependence between countries, issues, and objectives.

194 On the other hand, a theory that states that certain claims should apply, on average, across a wide range of setting, whenever a few condition hold, is not to be appreciated either.
The aim of this first part of the research paper is to study the regional integration efforts in the realm of MERCOSUR, created in 1991 by virtue of Tratado de Asuncion, while taking Haas’s work on spillover theory as a starting point. This way, one can analyze to what extent the rationalism of spillover can account for cooperation efforts in a context other than an European one. Even though criticisms and possible additions to Haas’s work have already carefully been suggested, neofunctionalist’ theorizing and spillover logic will serve as a starting point in the analysis of Mercosur. This section will first explore the reasons for the countries in the Southern Cone to cooperate. Then, the development, character, and institutional structure of the integration enterprise in the region will be considered, following the line of reasoning of spillover, i.e. the deepening, broadening, and widening of integration. At the end of this section, together with the previous section, the criticisms and additions will carry more value and further research questions can be proposed more carefully for the second part of this research paper.

**Towards Incentives to Integrate The Southern Cone**

The economic policy strategies over the last few decades, pursued in the region, do not form a seamless web of development. Rather, the Southern Cone, and more broadly speaking, the Latin American region, represents a region where competing models of development, and thus economic policy, communist, socialist, free-market, mercantilist, have clashed. Moreover, ‘next phase strategies’ can be quite contradictory to ‘former phase strategies’. When one takes the 1980s as a starting point, one can distinguish a transformation in economic policy strategy. The prevailing macroeconomic policy in the region was first characterized by import-substituting protectionism, export-pessimism, expansive monetary policy, acceptance of high inflation, skepticism towards Foreign Direct Investment, and nationalization. One of the underlying reasons for the region’s governments to support this current in macroeconomic policy, was an historical-political line of reasoning; the countries were to make sure that they would not be dependent on other countries anymore. Therefore, the main objective of the regional agreements that did exist at the time was to support the state-led import substitution industrialization model of development. Also, these agreements represented the elimination of internal barriers to trade, to a certain extent that is, and the maintaining or even increasing of external protection. Third party imports were to be diverted. So, the basic development model of the region was inward-looking.


This attitude shifted in the 1990s towards a more outward-looking attitude, an attitude of promoting export, attracting Foreign Direct Investment, and restraining inflation. Among other factors that can be contributed to this shift, it was clear that both Washington and international financial institutions such as the International Monetary Fund and the World Bank were dedicated to push the region’s governments to open their economies to global trade and reduce the role of the state in economic management. This new attitude of pursuing a neoliberal economic model of trade liberalization, open markets, privatization, liberalization of investment flows, and deregulation, is often labeled as the Washington Consensus. Obviously, this change in attitude had its effects on how regionalism was perceived.

A second type of change of attitude is relevant as well. As noted, the relations between Argentina and Brazil in the 1980s can be characterized by mutual distrust. A gradual process of cooperation between the two countries preceded the establishment of Mercosur. Also, an important point, a process of redemocratization in both countries enhanced shared interests in closer relations.

Characterization: Development of Motives, Objectives, and Institutions

External and internal engines

The characterization of the development of motivation for the regional project in the Southern Cone is multilayered. Brazil and Argentina began to face certain circumstances that forced the countries into cooperation and forced the countries, as said, to change their inward-looking-attitude. A move away from state-directed economic development obviously has political implications: it meant a rise in new national, regional, and international agendas. Particularly the realization that the consequences of globalization could be negative for the region is vital. The countries had concerns that they could be left behind in this new economic climate and thus be left behind in economic development. Deepening integration in other regions could possibly imply facing sharp reduced trade with those regions. For them, changing the current state of affairs meant dealing with these issues. Regional cooperation represented a tool in achieving economic development through increased trade and thus integration in the global economy; i.e. tools to deal with the challenges of stability and development. In this respect, regionalism can be seen as a response to the increasing impact of globalization in two distinct ways. A

198 Kaltenthaler and Mora (2002), pp 74-77.
defensive response, emphasizing and protecting local cultures and local enterprises, and a competitive response, giving impulses to the region and in this way strengthening the global position. These regional and global engines behind regional cooperation were strengthened by internal encouragement: during the 1980s the Southern Cone states experienced a transition towards democratization. Lastly, the desire to achieve social development was a clear rationale for the Southern Cone states to take on regional cooperation. Not only in the Latin American context, but also in the African context, regionalism has repeatedly been proposed as a solution for many economic, social and political problems. Regional institutions can play a significant role in shaping state behavior, standards of governance, and societal issues. Mercosur was not intended as simply an economic project, although its principle measures, as will become clear, are related to trade, production, and investment. Rather, the Mercosur treaties transcend economics and rather address political and social issues. Its treaties place consolidating democracy and preserving peace in the Southern Cone among its principle objectives as a fundamental condition for new members is that their governments be democratically elected. Social issues, as will become clear later on in this chapter, are addressed as well. The year 1996 clearly demonstrated the earlier point that MERCOSUR is not only about economics. The 1991 treaty includes a democratic clause; member states commit themselves to the ideas of democracy. In 1996, General Oviedo attempted a military coup in Paraguay. The Brazilian ambassador served as a mediator between the Paraguayan president and the general. The ambassador reported that the MERCOSUR partners would not recognize the general’s rule and that, if the coup where to be successful, the general could expect complete isolation. The list of threatened sanctions included mostly the MERCOSUR partners. Also, Brazil offered various forms of assistance to the pursuit of economic development based on the regional agreement; which would end if general Oviedo would take over. Brazil, representing the entire MERCOSUR bloc, had played a crucial role in maintaining a constitutional order in Paraguay. MERCOSUR members had used their economic leverage to achieve a political end.

Incentives for regionalism in the Southern Cone was rather meant as an arrangement to achieve economic and social development. To a lesser extent, integration was also a way to deal with security. After the Falklands war, the regional elite in the Southern Cone realized that they could not count completely on the United States for development and security. Basically, as the incentive in Europe to cooperate was at first motivated by security, the desire to rebuild post-war Europe safely, things were very much different in Latin America. Regionalism was seen as an instrument to economic

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development and an opportunity to keep up with other regions in a globalizing world by bringing the region in from the periphery by locating it inside the global economy.201

Deepening: creating and developing an institutional infrastructure

Just as one can distinguish radical breaks in the region’s macroeconomic policies, there is no seamless web leading from the Southern Cone region’s first steps towards regionalism in the late 1950s to the current state of affairs.202 Due to the economic strategy changes, the steps in the development of integration in the Southern Cone are complex. Key to the emergence of Mercosur was, as said, the development of closer relations between Argentina and Brazil from the mid 1980s on.203 The 1991 and 1994 agreements can be seen as the consolidation of former agreements between the two countries. In 1991, integration between Argentina, Brazil, Paraguay, and Uruguay was formally established by the Tratado de Asunción. This treaty listed four instruments for forming the common market: a trade liberalization program, a common external tariff, coordination of macroeconomic policy and the adoption of sectoral agreements. It set out a three-stage approach to the formation of MERCOSUR: a free trade area was to be established by 1994, a customs union by 1995, and eventually a common market was to be created and a common external commercial policy to be established. Furthermore, a transition period was to be used for the liberalization of internal trade, the negotiation of a common external tariff, the coordination of macroeconomic and sectoral policies to establish conditions for fair internal competition, and the drawing up of protocols covering sensitive sectors such as the automobile industry. The 1994 Ouro Preto Protocol further established the regional agreement by giving Mercosur international legal status and laying down the institutional structure, which can be characterized as intergovernmental.

It became clear that the priorities of the member states in the first years of MERCOSUR were reducing inflation and restoring growth.204 The ‘second generation reforms’ were expected to become institutional reform and improving social conditions. The rationale behind this was that it was first important that a core was to be build upon which the member states could further build on. The formal institution building has developed through several stages: the 1991 treaty, the 1994 protocol, and post-1994. The 1991 treaty set out transitional arrangements, including two key intergovernmental organs: the Common Market Council, a political body responsible for setting out political direction, and the Common Market Group, a technical body responsible for covering implementation of rules and

201 Obviously, one can also distinguish country-specific motivations to support the integration project. For instance: T. Vigevani and M. Fernandes de Oliveira, ‘Brazilian Foreign Policy in the Cardoso Era: The Search for Autonomy through Integration’, *Latin American Perspectives*, 58:34 (2007), pp 58-80. For the sake of conciseness, this paper will not discuss these country-specific motivations.
negotiations on macroeconomic and sectoral policy coordination. The Common Market Group today remains the highest-level organization, with ministers of Economy, Foreign Affairs, and the member states’ presidents meeting twice a year. The Common Market Group comprises of the ministers of Economy and Foreign Affairs and is assisted by several consultative and negotiating teams, the so-called Working Subgroups. The 1994 protocol introduced several institutional innovations and a dispute settlement procedure. The institutional innovations included the establishment of the Trade Commission, a Secretariat, the Forum of Representatives of the different economic and social sectors, and a Joint Parliamentary Commission. All these institutions have consultative functions, are responsible for monitoring, and only the Secretariat has a communitary budget. Lastly, since the 1994 protocol, two new institutions have been established. These new institutions involve a Consultation and Political-Consensus Building Forum, to foster political dialogue, and a Commission of Permanent Representatives of MERCOSUR, to assist the council by presenting initiatives related to the integration process, external negotiations, and strengthening economic, social, and parliamentary relations.

The dispute settlement procedure can be characterized as an ad hoc judicial body. Over the years, most disputes have been dealt with through consultation, after the actual event. In some cases, even outside the realm of Mercosur. Even though this part of the institutional body of Mercosur generates quite some criticism, it is vital to be sensitive to the development is has been going though. Under the Asuncion treaty, the dispute settlement procedure only contemplated diplomatic negotiations via direct negotiation between the involved member states, intervention by the Common Market Group, and submission to the Common Market Council. The Common Market Group and the Common Market Council only made non-binding recommendations. An additional protocol, the 1991 Brasilia protocol established a neutral arbitration mechanism, while the Ouro Preto treaty established a general procedure for submission of complaints to the Common Market Council. Lastly, the Olivos protocol established a permanent review court and a mechanism for an uniform interpretation of regulations.

The main objectives of MERCOSUR include the free movement of goods and services and the reduction of non-tariff restrictions. At the same time, a common external tariff and external trade policy is to be maintained. Furthermore, MERCOSUR calls for an overall coordination of numerous economic and political policies dealing with foreign trade, agriculture, industry, financial matters, services, transportation, communication, and other sectorial issues. Under the 1991 Treaty, it was established that each partner was allowed to exclude a number of ‘sensitive’ sectors from the process

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205 For instance, the dispute concerning a river in the border area of Argentina and Uruguay that was resolved in the International Court of Justice. *Argentine and Uruguay: Grinding Small*, The Economist, Dec 6th 2007.
of intra-regional liberalization.\textsuperscript{208} These sectors were to be gradually included during a transition period. However, under the 1994 Protocol, it was established that some sectors remained exempt from the free trade area. It was assumed that more time was needed for these sectors to become competitive enough to be able to participate fully in the process of regional integration. Even today in 2011, some exemptions are still in effect. Second of all, a lack of legal and economic coordination prevents the project to deepen.\textsuperscript{209} The differences in application of new regulations among the Mercosur members is one of the major problems. Only about 40\% of the regulations have been effectively incorporated. Severe constitutional asymmetries exist: Argentina and Paraguay grant international treaties supremacy over national law, while Brazil and Uruguay have no provisions established for granting supremacy to treaties with respect to national law. In effect, this means that each member adopts its own modality to internalize the same norm. Moreover, states failing to incorporate decision results in regulations not binding to the state parties. The right to introduce legislation lies exclusively in the hands of the state parties, operating in a regional environment that lacks either supranational institutions charged with the supervision of compliance with Mercosur law and judicial procedures for enforcement. Also, serious economic non-coordination prevents a deepening of the regional project.\textsuperscript{210} For instance, the 1990s showed Argentina drastically privatizing its economy, while Brazil maintained to pursue a mixed economic model.

It seems safe to state, with regard to the institutional development of MERCOSUR, that a process of deepening has taken place limitedly. New institutions have been introduced and old institutions improved. However, the abilities of the institutions remain limited since all these institutions represent an intergovernmental character. Also, the creation of infrastructure and the development of economic policy coordination remains flawed due to the option of exemptions.

\textit{Broadening: involving new sectors}

The region’s shift towards the Washington Consensus did not, however, produce the kind of economic growth as experienced in other regions that made the very same shift.\textsuperscript{211} Rather, it resulted in a crisis of stagnation in the late 1990s and a period of instability (1998-2002) and as some argue, the election of left of center political parties and the denouncement of neoliberalism. Furthermore, the MERCOSUR project brought Argentina and Brazil together, with strong economic objectives. However, at heart, it seems to be a political project as well.\textsuperscript{212} As the 1991 treaty clearly states, the member countries seek to accelerate ‘economic development with social justice’. Therefore, the new century promised to show a renewed attitude towards left-of-center policies and a denouncement of neoliberal policies. This move away from neoliberal strategies implies the acceptance that

\begin{itemize}
\item \textsuperscript{208} L. Gomez Mera (2005), pp 123-138.
\item \textsuperscript{209} Pena, pp 5-7. Vervaele (2005), pp 391-392, 394, 396-397.
\item \textsuperscript{210} Vervaele (2005), pp 407-409.
\item \textsuperscript{211} F. Fukuyama (2007), pp 177-182.
\item \textsuperscript{212} M. Mecham (2003), p 369. L. Casola (2008), pp 8-12.
\end{itemize}
Integration requires more integral policies, able to equilibrate the relation between economic and social issues. Integration in the Southern Cone requires this especially, since the 1991 treaty clearly mentions a social dimension to economic development. This realization resulted in an attempt to follow the European model: integration is not possible if economy does not go along with the regulation of all other areas involved in the process, such as society, environment, or education. After all, the Mercosur member declared that they share certain values and a commitment to the consolidation of democracy, economic and social development. Obviously, it was intended for integration policies to go beyond a mere cooperation in economic issues. For instance, in 2004, Brazil directed the Brazil Development Bank to finance projects that would create and develop the integration of infrastructure, and thus communication, and of the production of energy. The issues of infrastructure and energy touch upon the intra-regional asymmetries that have to be dealt with. A spillover effect of broadening contributed to cooperation in non-economic areas such as environmental issues, drug trafficking, and nuclear cooperation.

Widening: attracting neighbors

The changed strategy in the new century consequently represented an upgraded commitment to regional integration. Chile and Bolivia are associated with MERCOSUR through free trade agreements, signed in 1996. Furthermore, at the end of the 1990s, the Andean Pact countries allowed MERCOSUR to serve as a single spokesperson. Later on, Brazil proposed negotiations for the integration of the Andean Pact countries and Mercosur. Brazil holds the stance that the best way to contain Venezuela, is to include it. Also, matters of energy policy are also behind Brazil’s move. In 2004, the cooperation agreement was signed. This basically meant the launch of a South American Community. Venezuela’s application got accepted in 2006. However, the details had yet to be negotiated and the application ratified by the full members. The approval of Venezuela’s entry is still pending from the Brazilian and Paraguayan Senate. Both institutional bodies question the country’s commitment to democracy, and therefore withhold their approval. After eventual approval, Venezuela will be required to adopt a common external tariff system within four years. Venezuela and the

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213 L. Casola (2008), pp 6,7.
continent’s two largest economies, Brazil and Argentina, will establish free trade zones by 2012, Venezuela, Paraguay, and Uruguay by 2013.

This section elaborated on the motivations behind the Mercosur initiative and analyzed the development of project systematically with the concepts of deepening, broadening, and widening. The next and final section of this first part of this research paper will put the conclusions drawn so far in perspective and introduce the second part of this research paper.

3. Flawed Spillover?

The previous section discussed the concept of spillover in relation to the development of integration. At one point, Haas himself stated that his theorizing on this concept did not seem to be reflective of reality. In reality, the integration process seems thicker, dependent on several endogenous and exogenous factors. However, the concept of spillover today is still associated with the developments in the European Union. Despite Haas’ss work on spillover processes seems to lack predictive capabilities, it should be acknowledged that its explanatory capabilities are much stronger than its critics may suggest. Basically, spillover in ‘its purest form’, that is: its pace and scope, did not occur in Europe. The integration enterprise however, is still a product of spillover. Not only did the member states acknowledge that economic cooperation would not be successful if for instance associated non-economic sectors were not to be included. But also non-state actors seem to have shifted their attention to the sub-regional level, when trying to influence the policy agenda. Europe today is definitely not a case of merely economic cooperation, as it was in 1951.

When shifting our attention back to the Southern Cone, we should therefore not dismiss spillover theorizing on the basis of not exactly measuring up to expectations. Among the MERCOSUR members, what started as a commitment to adjusting to a new global economic environment and economic development in the region, today can be characterized as a commitment that goes beyond this. Social sectors have been included in the MERCOSUR project, membership has expanded, and new institutions now cover also coordination on political direction. Deepening, broadening, and widening of the integration project has occurred, albeit limitedly, slowly, and flawed.

As indicated, the prevailing motives in Europe to embark upon a regional cooperation project quite differ from the prevailing motives in the Southern Cone. It is interesting however, that when one analyzes regional cooperation efforts, Europe is used frequently as a blueprint. For instance, Armstrong analyzes regionalism in other regions than Europe and label them as ‘European developments outside the EU’. When it appears that the efforts do not coincide with the European experience, the efforts are quickly labeled as ‘flawed’. Obviously, in general, this is not justified, and specifically for the Southern Cone either, and for two reasons. First of all, the European circumstances

219 Armstrong et al., p 212.
were profoundly different than those in the Southern Cone.\textsuperscript{220} In Europe, the decaying political structures needed a common economic framework. Certain social and economic standards were already achieved through social democratic means. The Southern Cone project represented the development of economic structures and the creation and enhancing of newly independent prosperous states. Young democratic states found themselves in a problematic economic situation of debts and domestic uneven economic development, corruption, social exclusion, lack of social security and the lack of an entrepreneurial culture. Second of all, taking Europe and its derived theory of spillover, compare regions and then conclude that, if not fitting, the other projects are flawed, is an incomplete analysis and needs to be extended. Spillover theory and comparisons with the European experience are useful in that it shows were the differences lie. The next step is to elaborate on where those differences come from since so far, an historiographic analysis of the development of MERCOSUR has been incomplete.\textsuperscript{221} The second part of this research paper will elaborate on the gap that has emerged between theory and practice.

Finally, let us return to Ernst Haas. As noted before, he himself declared theorizing regional integration as obsolescent.\textsuperscript{222} In his article, he points to several underlying flaws of theories of regional integration. It seems useful to consider these points in order to place the analysis so far in perspective. Haas articulates several assumptions made in the theorizing-project that have attributed to the, put extremely, failure of the craft. He notes that theories of regional integration become useless when they are grounded on the assumptions of presumed predictability, of a tendency to treat the region as an isolated geographical space, and of a tendency to regard that ‘region’s practices of increasing the centralization of joint tasks and concerns as an autonomous process following its own unique rules’. So, in other words, when one attempts to theorize integration, one should make sure that the enterprise is not biased towards a certain institutional outcome. Haas points out that the setting that gave rise to an integration project gradually change with development of that very project. As said, actors reexamine their preferences and loyalties. Furthermore, one can assume that the integration project sets economic and political changes in motion. Therefore, institutional outcomes must be open. Moreover, the theory should not focus solely on the region. Back in the seventies, Haas acknowledged the interdependent nature of the modern times in which non-regional politics take place simultaneously with the actual regional politics and with domestic politics. It seems quite appropriate

\textsuperscript{220} Guedes pp 2, 11.

\textsuperscript{221} This section will not elaborate on extra-regional influences on the development of MERCOSUR. This does not mean, however, that this paper represents the stance that these influences do not matter. An analysis of these factors lie beyond the scope of this paper. It should be briefly mentioned however, that extra-regional influences do play a part in the development of the Southern Cone integration project. For instance, the European Union and MERCOSUR have strengthened, over the years, their ties. This opened the door for MERCOSUR to consult and look directly at a quite successful integration project. (C. Sanchez Bajo, ‘The European Union and Mercosur: a case of inter-regionalism’, Third World Quarterly, 20:5, 1999, pp 927-941.)

to consider the influence of these different levels and the interplay among them and a wide array of actors.

Overall, Haas states that theories of regional integration remain relevant for analytical purposes but that they should be sensitive to biases and more complex linkages.\textsuperscript{223} Obviously, Haas touches upon a valid point when asking himself to what extent theories of regional integration are still concerning actual regions. In light of this paper and the focus on Southern Cone integration, the analysis so far has only considered its historic- and institutional development. However, to make sense of what is, it is necessary to analyze how things got this way. The second part of this paper will take on this task.

Conclusion

When theorizing integration, the European Union is often taken as an example. Integration projects are quickly labeled as ‘failing’ when those projects do not move in the direction of the European model. Or at least, one starts looking for explanations for its ‘shortcomings’.

When Ernst B. Haas started theorizing integration, he was also looking at Europe. He wrote about a spillover theory: increased economic interdependency would lead to interdependency in other areas as well. This process is quite fluid: not only the main actors, states, will shift their focus towards the regional level, also non-state actors will shift their loyalty. Over time, however, the European region demonstrated that spill over theory lacks predictive capabilities. The process of spillover did not occur as fast and profound as expected. Rather, this process seemed dependent on certain factors.

The focus of this first part of a two-part research paper was on the Southern Cone region. The Latin American region as a whole represents a region where political concepts are differently understood. Therefore, by considering a concept such as regional integration in relation to this region, our understanding of the concept will be broadened. Even though spillover theory is regarded as a line of reasoning that is detached from actual practice, this paper sought to demonstrate that it does provide an useful starting point in analyzing the development of an integration project. Therefore, this paper represents at times a more optimistic stance than Haas himself with regard to spillover thinking.

The Mercosur integration project has remained an intergovernmental enterprise. At the same time, its scope has been extended to policy areas outside the mere realm of economics. This is largely due to the conviction across the region that a move away from the so-called Washington Consensus would be beneficial. By virtue of the changed attitude, MERCOSUR members sought to adapt to a new economic environment that was and is dominated by forces of globalization, sought to focus on consolidating liberal democratic regimes, and sought to address the region’s socioeconomic situation. The new economic model placed the market at the centre stage while a new political attitude turned the fostering of good relations and fruitful cooperation in the region into a priority.

\textsuperscript{223} Haas (1976), p 176.
Spillover theory, the expectation that increased economic interdependence will lead to increased coordination in the realm of non-economic sectors, seems to fall short with respect to the Southern Cone region. Its analytical capabilities are powerful, whilst its predictory capabilities seem limited. Basically, for the region’s enterprise to be successful, the MERCOSUR member states supported the idea that cooperation on economic issues should be accompanied with divergence of economic and social policies. So, from the 1991 Treaty de Asunción, to the 1994 Ouro Proto Protocol, and afterwards, institutions have been introduced into the MERCOSUR structure. The institutional expansion reflects a deepening and broadening of the range of MERCOSUR, covering more than merely the economic realm. Agreements have been signed with the Andean Pact countries. Furthermore, MERCOSUR serves as a single representative for its members in meetings with the Andean Pact. As became clear, the economics of the integration project has been used to achieve political ends. In light of these ends, Venezuela’s application got approved and awaits ratification by both the Brazilian and Paraguayan parliaments. The influence of interest groups in the development of MERCOSUR has been limited. The discussion of their role seems more appropriate in the second part of this research paper.

That is, spillover seems to occur, but its pace and scope seem to be subject to certain factors. Therefore, theorizing the expected path is much more complicated. This does not mean, however, that the concept of spillover should not, and cannot, be used when analyzing regional integration beyond Europe. Rather, its systematic approach seems quite useful. Spillover theory seems to fall short with respect to the Southern Cone region. But, so did it with respect to the European Union; arguably the most successful regional integration project to date. To complete the analysis of the Mercosur project, an analysis is needed on the background variables, on the environment in which the project was launched and is operative. Haas wrote extensively about these variables. The analysis in the second part of this research paper will therefore start again with his writings.
Part Two

Constructing a Theory of Regional Integration

‘Suppose you toss a rock into the air. It can make only a simple response to the external physical forces that act on it. But if you throw a bird into the air, it may fly off into a tree. Even though the same physical forces act on the bird as the rock, a massive amount of internal information-processing takes place inside the bird and affects its behavior. Finally, take a group of people, a nation […] and metaphorically toss them in the air. Where they go, how, when and why, is not entirely determined by physical forces and constraints; but neither does it depend solely on individual preferences and rational choices. It is also a matter of shared knowledge, the collective meaning they attach to their situation, their authority and legitimacy, the rules, institutions and material resources they use to find their way, and their practices, or even, sometimes, their joint creativity.’


Introduction

As the first part of this research paper suggested, no single theory of integration is capable of explaining the whole process of both birth and growth of integration. Background conditions and process conditions all vary over regions. 224 This raises the relevant question of why theorizing at all: Why should we configure, or adapt, integration theorizing? Haas held that the impasse of Latin American integration was not a failure for neofunctionalism. 225 Quite the contrary. As already mentioned, regional integration would not occur in case of the absence of conditions such as a certain level of economic development, strong presence of interest groups, and a dynamic environment of political parties. As previously demonstrated, the rational process of spillover occurred partially. So, a rational process of spillover can only account for part of the development story. In turn, this second part of the research paper will continue the analysis on theorizing integration. Because an (implicit) theoretical question has arisen: how to incorporate rational interest (political and economic) and the background variables already mentioned into a single theoretical framework on regionalism? This paper takes on this task of suggesting adaptations to rationalistic theories concerning integration, in order to be able to account for inconsequential continuance, i.e. the contextual and temporal differences among integration efforts. P. Pierson mentions a quote of Charles Tilly, an American

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sociologist, political scientist, and historian. Tilly’s quote is on democracy, but seems equally applicable to the political concept of regional cooperation.

‘People actually construct democracy, but ‘construct’ has the misleading connotation of blueprints and carpenters. […] The actual formation and deformation of democratic regimes has more often resembled the erratic evolution of a whole city than the purposeful building of a single mansion.’

The goal of this part is to argue that integration efforts should be considered on the basis of its own terms, i.e. on its own historiographic context and prevailing attitudes. The main research question will be addressed in two parts. First of all, a theoretical exercise needs to be presented regarding analyzing international regionalism outside the European context. Among others, Haas will lead us the way once more by elaborating on his considerations concerning background variables that should be present in order for spillover to occur. Second of all, the tension field between context and rationalism will be addressed. From this, it will logically follow that the analysis of an integration project, for instance an analysis of the Mercosur case, can only be comprehensive when both rationalism, regional context, and attitudes and ideas are included.

1. It Is Not All Rationalism

This section will address the theoretical framework of this paper. These papers do not support the stance that rationalism, or processes based on rationalism like spillover, should be completely dismissed. Obviously, it has been demonstrated that the explanatory and predictive power, when considering the Mercosur case, is not extensive enough. However, theorizing solely on the basis of constructivism does not seem to be all-encompassing either. Explanations or predictions based solely on ideas, attitudes, and sympathy seem to encounter difficulties, for instance, when facing differing levels of solidarity. How can one extensively and accurately theorize the difference between attraction, loyalty, identification, and association? Some of the underlying motivations and reasons behind both the birth and process of the integration project entail several rationalistic elements. The goal of this section is twofold. This section will demonstrate that rationalism will only get one so far. This already follows logically from the previous paper, but will be further elaborated on. Secondly, this section will study and propose theoretical elements in order to overcome the voids left in the analysis, elements that can be combined with rationalistic motives.

A society, organized at either the state-level or the regional level or in any form, is something quite strange. Fundamentally, it means caring for people one does not know personally. This results in a
constant tension concerning prioritizing self-interest and a moral obligation towards others. Basically, regional cooperation cannot only be considered on the basis of a rationalistic model since it also affects fundamental feelings and ideas. It is important that a sense of community exists, but that is not everything that is required. As Marx Weber, a German sociologist and political economist, noted: when this feeling of community leads to a mutual orientation of behavior to each other, a social relationship arises. So, actors need to believe and act in order for this ‘believing’ to consolidate. However, this ‘acting’, in the political context of regional integration for instance, needs to be based on rationalism. Political actors have a moral obligation to act in the best interest of the state. The political realm cannot, however, be a mere collection of individual actors acting on the basis of rationalism. They are part of a community as they find themselves with other actors sharing some attitudinal elements. At this point, a very vital point arises since it becomes clear that theorizing regional cooperation, in particular, touches upon both rationalistic and ideational elements. As the previous paper already demonstrated, using rationalistic models in considering regionalism does not paint a complete picture. Rather, it shows how things are, but does not address how things got that way. So, this section will concern itself with the matter of in what way rationalistic motives and constructivist’ motives, such as ideas, perceptions, and attitudes, can be put together in a single theoretical framework. First of all, it needs to be established in what way a rationalistic approach, such as spillover, does not exclude constructivist’ considerations. Second of all, an analysis will follow in what way constructivism can complement rationalistic theoretical models in this case. Fundamental issues of approach will also be considered in light of this extended theoretical framework.

How Spillover Does Not Exclude Constructivism

Spillover theory concerned itself with a rational choice approach. Actors are assumed to create institutions to reduce uncertainty and increase efficiency by reducing transaction costs. Most of the time, this process is an unintended consequence of self-interested behavior on the part of states. And even though spillover seems a logical, rational process, it only occurred limitedly in the context of Mercosur. Obviously, Haas formulated several conditions that needed to be fulfilled in order for spillover to occur. With this, spillover theory proved its merits; providing for a tool to analyze an integration project on its own terms. The conditions Haas formulated included, among others, the existence of pluralism in society. As this part of the research paper will demonstrate, the conditions mentioned allow spillover theory to look beyond mere rationalist’ processes and paves the way for an additional analysis of the region’s culture and history. Because, obviously, an analysis of the level of pluralism in a society basically involves studying its historical legacy and social conduct.

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229 This paper continues to refer to spillover theory as an example of a rationalistic model since the overall subject of this paper still is regional integration, an analysis that started in the first paper with spillover theory.

Spillover theory, as an example of a rationalistic approach, does not exclude constructivist’ elements to be added too. First of all, as already has been suggested above, rationalism within a society cannot be completely separated from ideas and perceptions. The actors that rationalize, all act as part of a community which requires some level of shared feelings and ideas. Second of all, economic rationalism and ‘ideas’ seem to be intertwined. Economics is about the distribution of wealth, which in turn affects social relations; i.e. economics and ideas on justice are interrelated. Thirdly, it seems problematic to address decisions and policies without reference to the decision-makers’ beliefs, perceptions and circumstances. When one does not take into account various aspects concerning circumstances, one places itself in the position of being unable to understand, and weigh, the rationalistic motives at play. Last of all, it is important to realize that the assumption of rationality as the sole factor in decision-making is a methodological choice. This simplification of reality in turn means not reflecting it properly. It is sometimes argued that this methodological choice, this simplification of reality, was born out of a need to build models and employ consistent definitions. In contrast, it is argued that concepts such as sympathy, perceptions, commitment, ideas, attitudes, and so on, are difficult to modify for theorizing. In a sense, however, the concept of ‘identity’ is also transformed for easy usage. Every identity is constructed and historical. Invented histories, invented cultural affinities come with every identity, roles have to be scripted and structured. Appiah reaches an in some eyes, cynical, conclusion that these ‘falsehoods’ are desperately needed, in politics for instance, since one cannot build alliances without mystifications and mythologies. Just like rationalism was used to define a framework, one should consider ‘identity’ also in light of this pragmatism.

So, basing a theoretical framework solely on rationalist’ considerations seems inadequate. Additionally, spillover theory stresses the dynamic role of non-state actors who are expected to ‘learn’ about the rewards of the integrating community and consequently will undergo attitudinal changes in favor of the integration project. These actors are expected to shift their loyalties, expectations, and activities towards the new institutional structure. It seems obvious that spillover theory and constructivism are positioned closer that it seems at first sight. Constructivism holds that identities are not only formed by ideational and endogenous factors, but also that they are subject to change. Constructivism stresses the volatility of the preferences of actors and in a sense, spillover theory also uses this as principle. Max Weber clearly stated the social construction of the interests of actors:

232 K. Appiah, In My Father’s House, pp 174-175.
We are cultural beings, endowed with the capacity and the will to take a deliberate attitude towards the world.’

In other words, an act is needed to manifest a new attitude. Spillover theory definitely fits this description.

From all this can be deduced, quite an important point, that constructivism can be considered as the middle ground between rationalist approaches and interpretative approaches, as a sociological perspective on World Politics that stresses the importance of both normative and material structures and is interested in understanding how the material, subjective, and intersubjective worlds interact in the social construction of reality. And, quite important, once institutions and practices are constituted, it takes the world as it finds it, as the given framework for action. Constructivist approaches do not abandon reason or rationality, but focus on rediscovering how rational considerations are brought to bear in collective projects and situations. The challenge lies in acknowledging practices and attitudes on beforehand, and not use it in retrospect when a case cannot sufficiently be explained on the basis of only rationalism.

It is not postmodern in that it rejects all foundationalism. It rather emphasizes that factors and circumstances are real but just that they either get buried or highlighted dependent of the narrative that prevails. The material world is shaped by human action and interaction and can only acquire meaning through the structure of shared knowledge and common understandings. ‘The Constructivist Thinker’ does not exist, since ‘constructivism’ should be seen as the family name of a family with a lot of diversity among its family members. Some constructivists are statist, some are not, some stress process, some structure. Among the family members, a concern with how world politics is socially constructed is shared. They state that all human beings are situated in particular contexts which inform their actions. They also reproduce, or construct, their world through their actions which makes the world therefore a contextual entity. More importantly, it should be kept in mind that this reproducing and constructing is a social process; it can only be done in engagement with others. Social structures are defined by shared understandings and expectations, it is stated. This intersubjectivity causes the structures to be labeled ‘social’. Sociality is about shared knowledge, what meaning is attributed to certain concepts. For instance, the actual meaning of the concept of ‘security community’ only becomes clear after its practice is shown. Also, material resources only acquire meaning through this mechanism. Wendt provides for two examples. First, 500 British nuclear weapons are considered less dangerous than 5 North Korean. And second, the Cold War was a structure of shared knowledge that governed power relations. But once they stopped acting on this basis, in interaction with the material


235 And even though this family is generally not considered to want to pursue emancipatory purposes, the notion that the international system is a construction consequently means that a reconstruction is possible.

changes, the Cold War was ‘over’. So, social structures exist, not in material capabilities, but in practices. Ideas always matter, since power and interest do not have effects apart from the shared knowledge that constitutes them as such. Ideas matter for policy, even when actors behave rationally.

Let us return to the point of diversity within constructivism and focus on the reasons for this. First of all, the theoretical strand does not put forward a set of coherent hypotheses that would form a unified theory. Rather, it operates with a series of core assumptions. From here on, it seems that more specific hypotheses and arguments need to be formulated. Second of all, the diversity among constructivists seem to be a result of the very position the theory holds in relation to other theoretical strands. Constructivism can be seen as holding a media position between the individualist account of rationalism and the focus on structure in structuralism. Logically, an attempt to occupy the middle ground between two very divergent poles results in a rather mixed set of approaches and diversity within the group of constructivist’s thought. And exactly this position allows rationalistic/neo-functionalist’ considerations to enter the debate as well. Even though the two have some points of tension, this paper proposes a certain constructivism-before-rationalism-framework.

*How Constructivism Is Capable of Complementing Spillover Theory*

In remains important to keep in mind that constructivism and neo-functionalist thinking belong to two very different strands of thoughts. The main differences lie in their attitudes towards epistemology and the nature of interests, fixed and given, or sensitive to change. In spite of this, it seems possible to relate the two. First of all, as said, spillover theory seems to present a form of changing attitudes. Second of all, as Ruggie puts it:

> ‘a core constructivist research concern is what happens before the neo-utilitarian model kicks in.’

Obviously, according to neo-functionalism states simply are, whilst constructivism focuses on the acquirement of identity and formation of preferences. However, identity and interests can be perceived as prior to interests and, more importantly, the pursuit of those interests could be incorporated in a rationalist model. Underlying, systematic factors could help to account for the development of an integration project. As Karl Marx put it:

> ‘Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly found.’

Albeit that Marx cannot be considered a constructivist, his statement definitely seems relevant in light of this paper. State conduct seems to, be it restricted or influenced, by certain factors like time and

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place. These factors work upon the outcomes of that very conduct. An important notion is that states socially construct their identities and interests, who demonstrate an interplay, dependent of time and place.

Then, what has constructivism to offer that benefits spillover theory, in order to provide for a better analysis of the regional cooperation efforts, in the realm of Mercosur specifically? As indicated before, theorists should not ignore temporal and spatial context. Ruggie also points out that it seems useless to consider ‘a process as merely a monological chain of cause-and effect relations and brute observational facts’. By giving elements stemming from the constructivist’ tradition, like the influence of history on ideas, attitudes, and perceptions, prominence in the analysis, one can more properly account for the development of a process by being capable of attaching weight on or value to certain developments:

‘Without a thorough examination of the historical causes, [the failures, successes, and forms of most existing political processes cannot be adequately explained for] (ed. by ME) Whether one assesses the international, economic, social, cultural, or institutional determinants of the existence and quality of [institutions], the historical context conditioned their regional and national impact. Despite their significance, institutions by themselves cannot fully explain [their] arrival, survival, or depth. Their success depended [and depends] (ed. by ME) heavily on structural and historical conditions."

These reflections seem useful in the context of this paper. Regional cooperation is not merely a process of cause-and effect. There are numerous intermediate factors at play, and history is one of them in trying to account for the pace and scope of the project. Obviously, ‘history’ needs to be operationalized and is dependent on choice as far as ‘what matters’ is concerned. Moreover, even though theorists have drawn up schemes showing various levels and scopes of cooperation, understanding the value of a certain integration effort remains shallow when one does not keep the historical context, and thus the context of the specific region, into account. As indicated before, when one addresses Mercosur integration with the European Union ‘tools’, one can merely conclude that the Southern Cone project is failing.

And exactly these considerations of time and place can be found in Haas’s writings. He stresses that theorists encounter a limited ability to generate truths, since there does not exist a consensus about methods. Positivism’s achievements in the natural sciences cannot be transferred unproblematically

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239 P. Drake (2009), pp 4-17.
to the social sciences where social scientists cannot be sure that the reality studied is not a product of the concepts chosen to study it. Therefore, it seems difficult to formulate universal claims over time and across cultures because of the mutable nature and actor’s ability to change their minds. More specifically, attaining a consensual theory of international institutions is equally difficult. Analyzing and theorizing political concepts and developments is a social science, where nothing is ‘discovered’. Rather, scholars analyze, interpret, and conceptualize. These observations in relation to generality and theorizing does not lead to a complete dismissal of theories and concepts. Rather, Haas argues scholars ought to continually reexamine theories and debate the significance and contributions of political developments to peace, wealth creation, human rights, and sustainable development.

All in all, A clear void has emerged. It is obvious that a pure rationalistic cause-effect reasoning on international cooperation is unable to paint a complete story about the enterprise. But Haas’s elaborations on the rationalistic, efficiency-seeking process of spillover provides for a certain space. Some observations are critical in this respect.

Haas’s emphasis on elite socialization and social learning, neofunctionalism can be seen as an earlier variant of the constructivist’ theories which drew attention to the influence of ideas and the ways in which they changed in the course of intersubjective interaction among actors. Haas stresses the role of loyalties, expectations, and political activities that have shifted. For integration to occur, it must be perceived by the political elite to be in their self-interest. In other words, spillover should not be merely seen as a logical process. Rather, it is a process that is dependent on the recognition and social learning of the actors.

The importance of interpretation and attitudes. Political leaders have to consider spillover more important than high politics. In Europe, with De Gaulle, this happened: high politics got in the way of integration. According to Haas, a process of integration spurred by the vision, energy, and force of Bismarck is clearly more productive of permanence than an indirect process fed by the slow fuel of economic expectations. Haas maintained thus that both politicians and other actors need to acknowledge a process of integration. Obviously, a process of integration and loyalty towards that process need to be formulated, i.e. the process needs to be identified and meaning needs to be attributed to it in order for it actually to occur or exist. In this, a ‘realistic’ attitude cannot be maintained. Haas discussed that the cost of realism is not only spent in a theoretical coin. None of the major realists of his day believed that the project of European unification could succeed. If political leaders and policy makers had always acted on the basis of a realist attitude, they would not

have undertaken what turned out to be one of the most significant initiatives in the realm of regional cooperation.

The prerequisite for conditions of pluralistic and democratic representation and the difference between initial and process conditions.\textsuperscript{243} Theoretically, policies of an initial task can be made real only if the task itself is expanded. The solution needs to be worked out at a higher level, which implies the expansion of the mandate or task. The higher level is needed in order to safeguard common interests. In turn, the higher level should be autonomous by character. This can only be done with the participation of independent experts and interests groups, which can be found in a pluralistic society. But first, these actors need to shift their loyalties towards the regional project.

These points make clear that spillover is essentially a process that is driven by perceptions, expectations, values and loyalties that might change in the course of action.\textsuperscript{244} Haas’s later work recognizes ideational variables more explicitly that his first work and began to explore the connection between neofunctionalism and constructivism. In light of our earlier observations, this was not a strange move. Haas’s characterization of constructivism, and our earlier characterization of the spillover effect clearly coincide. According to Haas, constructivism involves a certain degree of socialization and norm incalculation.\textsuperscript{245} This is a complex process involving multiple interacting actors whose influence and choices may accrue over time and contribute to shifts in perception of national identity and interest. The next paper will take on the task to embrace these observations and arrive at useful addition to our analysis of regional integration in the Southern Cone.

As indicated earlier, Haas himself was among one of the fiercest critics of spill over theory. In 2001 he stated that

‘Integration theorists tend to assume that any process of regional cooperation, coordination, or centralization of effort among […] member states should be conceptualized as leading to some definable outcome, some new order for the region […]’.\textsuperscript{246}

By stating this, he implies that when scholars analyze a certain region and its integration efforts, that should be done with an open mind.\textsuperscript{247} There are neither prescribed, or fixed, outcomes, nor tools. Haas stated this more explicitly in an earlier paper, published in 1961.\textsuperscript{248}


\textsuperscript{244} Rosamund (2005), pp 252-257.

\textsuperscript{245} Haas and Haas (2002), p 6.

\textsuperscript{246} Haas (1976), pp 173-212.
Because actors shift their loyalties and expectations. Factors that ‘allow’ them to enter are rarely the same as those that persuade them not to leave. Throughout the project, different dynamics will take place. However, this point need to be extended. In short, background variables and context need to weigh in since obviously any particular moment is situated in some sort of temporal context. The development of a process is dependent upon the temporal location, its pace within the sequence of occurrences, and interactions with various processes unfolding at different speeds.

Haas addresses this point. He states that ‘attempts to compare the EU expansion with efforts elsewhere compels attention to the environment in which the process is taking place’. He formulates three subsections of this ‘environment’ to be taken into account. These are the social structure, the economic and industrial development, and ideological patterns. The social structure involves the level of pluralism in the region, the role of the interest groups, and role of politics and politicians. The level of economic and industrial development obviously include variables such as investment, consumption, productivity, and import- and export levels. Finally, ideological patterns could include elaborations on culture and history. A focus on culture can account for variations among regionalization projects. ‘Culture’, a stable and distinctive property of the collective, is relevant when analyzing behavior, in this case behavior towards and in a regionalization project. Culture partly defines the basic goal of the collective in that it establishes valuable ends. Culture also conditions and interprets in that it shapes the perceptions of the external environment and the existing options of behavior. Wiarda and Mecham agree with this in their article. In his article, Mecham points out that theories in development studies are flawed in that they either overestimate external factors or ignore domestic and historical obstacles to development.

Modernization theories put confidence in the power of process and state that developing countries could achieve the same growth path as the developed world, producing the same social, economic, and political institutions. The main causes of underdevelopment are internal to the developing nations themselves: for instance, a lack of political parties, lack of interest groups, or a lack of effective government. Wiarda elaborates that this approach seems to be based too strongly on the US-and European development experience. No single model could, or should, fit disparate historical, cultural, and sociopolitical developing regions. In some sense, the Washington Consensus represented a variant of the modernization theories. Dependency theories on the other hand, focus on...

\[247\] It should be noted however, that a constructivist line of reasoning also seems to lead to a prescribed outcome. Deeper economic interaction should lead to the construction of stronger institutions, due to social learning and changing preferences, and ultimately to a new-found sense of a regional community.

\[248\] Haas (1961)


external factors, characterized by distortions stemming from the developed/developing relationship. So, when taking Mecham’s and Wiarda’s criticism into account, the new theoretical framework should be sensitive to both external and domestic factors, factors that are originating from both history and the rational reality. This is a vital point, especially in the case of considering regional integration processes in Latin America. Both Mecham and Wiarda point out that the conditions and circumstances in this region are quite different from other regions. The region is characterized by deeper historical-cultural patterns of socio-political organization; it has features of its own.

The three subsections of environment, social structure, economic and industrial development, and ideological patterns, are capable of presenting a story on the region in which the project of regional integration takes place. Obviously, the subsections need to elaborate separately on whether or not the analysis is relevant in relation to regionalism. The next section of this research paper will analyze the Mercosur regional project with help of these three subsections of environment.

How Criticism Is Easily Provoked

Constructivist’ theorizing has generated, like other theoretical traditions, considerable criticism. The concepts of identity, values, perceptions, and so, are controversial in International Relations Studies. This is largely due to the fact that ‘identity’ is a concept that is hard to measure or prove. The theoretical question arises as to what extent concepts or terms can really be determined or defined and therefore justified. ‘Identity’, and ‘state identity’, are more and more used as a tool for understanding both foreign policies and international politics. Identity and state identity are concepts generally used to something that is regards as what makes a state remain ‘itself’ through time, despite a change of, for instance, government. It is also regarded as something defined in terms of roles; examples include ‘major power’, ‘superpower’, ‘democracy’ etc.

This research paper is build around the conviction that political actors are rational calculating, whilst operating in a bigger framework consisting of values, identity, preferences, and values; i.e. constructivism before rationalism. State interests are perceived and responded to within a framework of identities, preferences, ideas, and interaction with others. World views and principled beliefs are ideas that become embedded in institutions and thus impact policymaking. According to

254 Haas stresses that an integration project is likely to evolve most rapidly in an environment where the project responds to social-economic demands stemming from an industrial-urban environment and when the project is a response to a growth of a new type of society. Haas, (1961), p 375.
255 J. Fearon, ‘What is Identity?’, Stanford University, Department of Political Science, (Stanford 1999), pp 22-36.
Goldstein and Keohane, both ideas and interests carry weight in explanations of (human) actions. It is often pointed out that a theorist cannot work with concepts like ‘identity’ or ‘ideas’. A main problem seems to be the direction of causation. Constructivism holds that certain values lead to certain policies or political action. However, these values can in fact only be inferred from the policies in question. Whether policy leads to identity, or identity to policy, is a question that deserves far more attention and sensitivity than it will acquire in this section. In fact, this debate seems unending. The problem of the direction of causation, defined as the problem that identity cannot be independently determined since this identity can in fact solely be inferred from the actual conduct, is indeed a challenge which is already briefly touched upon in our discussion of Wendt in the previous subsection. On the other hand, identity remains shallow without context and practice. This also holds for concepts used by other theorists. What does it mean to be an hegemonic power, without using the actual social context? Can this concept in particular, and even one single concept used by theorizing, be measured without practice?

It is difficult, if not impossible, to present an all-encompassing analysis of rationalism, constructivism, the tension and bridges between them\(^\text{257}\), and the position spillover theory holds in this. However, with the analysis so far, it is possible and important to focus on the Mercosur case again. This section proposed some additions to be made to spillover theorizing. One should take variables such as the social structure, economic development, and ideological patterns into account. The environment in which the regional project takes place needs to be elaborated on, since a mere analysis of spillover and rationalism leaves some voids and unclear areas. Constructivist’ approaches seem to be useful in this respect. Even though constructivism and neofunctionalism belong to two very different families of theories, they combined seem to contribute considerably to theorizing integration.

**Conclusion**

The first part of this research paper considered the development of the Mercosur project, using spillover theory as an analytical tool. Its purpose was to demonstrate that the concepts stemming from spillover theory can very well be used in the analysis, but that it leaves us with an incomplete analysis. Mercosur lacks an effective dispute settlement system, lacks supranational institutions, and lacks effective implementation. But is the project to be labeled ‘failed’ or ‘flawed’ on the basis of this spillover analysis?

The methodological choice of using Haas’s work on spillover as a starting point became apparent. Even though, as this second part of the research paper showed, spillover is considered a rational process, Haas paves the way for a more dynamic consideration of regional integration. He adds background variables such as social structure, economic development, ideological patterns to the

\(^{257}\) For instance, the multiple understandings of ‘rationalism’ can bring rationalist’ theories and constructivist’ approaches closer together.
analysis. With these variables come elaborations on interest groups, shifting loyalties, and pluralism into play.

This second part presented elaborations on the possibilities to incorporate rationalism and constructivist’ considerations into a single theoretical framework on regional integration. It served as a theoretical exercise on the form, utility, and foundations of this single framework. Spillover does not exclude constructivism. Rather, constructivism seems to complement spillover theory. For instance, when one returns to the Mercosur case, political and economic interests play a part. At the same time, it is unimaginable that the region’s understanding of political concepts and social structure can be excluded from the analysis. The Master thesis that follows this research paper will take on the task of considering these rational and constructivist’ elements in an analysis of the Mercosur integration project.

Epilogue

So, what does this paper not represent? First of all, this papers was not intended to provide for a concise overview of the constructivist’ tradition, with all its diversity, nuances and most important writers. Second of all, this paper was not to provide for a concise overview of neofunctionalism, with spillover theory at its core. Lastly, it was not intended to provide for a comprehensive, complete, historiographic analysis of the development of Mercosur.

Rather, the point that is intended to bring to light is that a multitude of variables are operating at different levels in a process such as regional cooperation. When analyzing regional cooperation beyond the European experience, the importance of including both rationalism and constructivism into a single theoreticalal framework becomes apparent.

Hopefully, these papers set up, and justify, writing about the role of ideas and attitudes, in interplay with rationalism, in the realm of Mercosur, as manifested in specificities. These specificities include ideological patterns among the region, the role of interest groups and pluralism in the political game, the inclusion of other Latin American nations, specifically Venezuela, and the influence of international actors such as the EU and the US on the Mercosur development process. These specific topics, all related to the interplay between ideas and rationalism, represent a consideration of the development of Mercosur from the domestic (interest groups), regional (inclusion Venezuela), and international perspective (influence of other regions such as EU). Analyzing these specificities will shed more light on the interplay between rationalism and culture, ideas, and attitudes in the process of regional integration at different levels.
Appendix 2: Data on Brazil, Argentina, Paraguay, and Uruguay.\(^{288}\)

**Figure 1.1: Demography (2010)**

<table>
<thead>
<tr>
<th>Age</th>
<th>Brazil</th>
<th>Argentina</th>
<th>Uruguay</th>
<th>Paraguay</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-14</td>
<td>26.5%</td>
<td>25.5%</td>
<td>22.1%</td>
<td>29.5%</td>
</tr>
<tr>
<td>15-64</td>
<td>66.9%</td>
<td>63.6%</td>
<td>64.5%</td>
<td>64.6%</td>
</tr>
<tr>
<td>65+</td>
<td>6.6%</td>
<td>10.9%</td>
<td>13.4%</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Faith</th>
<th>Brazil</th>
<th>Argentina</th>
<th>Uruguay</th>
<th>Paraguay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roman Catholic</td>
<td>73%</td>
<td>92%</td>
<td>47.1%</td>
<td>89.6%</td>
</tr>
<tr>
<td>Protestant</td>
<td>15%</td>
<td>2%</td>
<td>11.1%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Others (incl no faith)</td>
<td>12%</td>
<td>6%</td>
<td>41.8%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

**Figure 1.2: Economy, trade in merchandise and commercial services (2010)**

<table>
<thead>
<tr>
<th>Rank in World Trade – Merchandise</th>
<th>Brazil</th>
<th>Argentina</th>
<th>Uruguay</th>
<th>Paraguay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise: import/export</td>
<td>25/24</td>
<td>51/42</td>
<td>100/97</td>
<td>99/112</td>
</tr>
<tr>
<td>Commercial services: import/export</td>
<td>21/32</td>
<td>47/46</td>
<td>116/86</td>
<td>146/103</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Merchandise trade, commodities - export</th>
<th>Brazil</th>
<th>Argentina</th>
<th>Uruguay</th>
<th>Paraguay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural products</td>
<td>37.7%</td>
<td>50.6%</td>
<td>73.5%</td>
<td>88.7%</td>
</tr>
<tr>
<td>Fuels and mining products</td>
<td>21.3%</td>
<td>14%</td>
<td>1.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Manufactures</td>
<td>38%</td>
<td>31.9%</td>
<td>23.8%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

| Manufactures | 75.9% | 86.1% | 62.5% | 75.8% |
Figure 1.3: Economy, import-and exportpartners (2010)

<table>
<thead>
<tr>
<th>Brazil – Main export countries</th>
<th>%</th>
<th>Brazil – Main import countries</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>12.5%</td>
<td>United States</td>
<td>16.1%</td>
</tr>
<tr>
<td>United States</td>
<td>10.5%</td>
<td>China</td>
<td>12.6%</td>
</tr>
<tr>
<td>Argentina</td>
<td>8.4%</td>
<td>Argentina</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Argentina – Main export countries</th>
<th>%</th>
<th>Argentina – Main import countries</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>20.5%</td>
<td>Brazil</td>
<td>31.1%</td>
</tr>
<tr>
<td>Chile</td>
<td>7.9%</td>
<td>United States</td>
<td>13.3%</td>
</tr>
<tr>
<td>United States</td>
<td>6.6%</td>
<td>China</td>
<td>12.4%</td>
</tr>
<tr>
<td>China</td>
<td>6.6%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Paraguay – Main export countries</th>
<th>%</th>
<th>Paraguay – Main import countries</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>20.7%</td>
<td>China</td>
<td>30%</td>
</tr>
<tr>
<td>Uruguay</td>
<td>16.9%</td>
<td>Brazil</td>
<td>23.3%</td>
</tr>
<tr>
<td>Chile</td>
<td>11.5%</td>
<td>Argentina</td>
<td>15.9%</td>
</tr>
<tr>
<td>Argentina</td>
<td>10.8%</td>
<td>Venezuela</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uruguay – Main export countries</th>
<th>%</th>
<th>Uruguay – Main import countries</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>21%</td>
<td>Brazil</td>
<td>18.6%</td>
</tr>
<tr>
<td>Argentina</td>
<td>7.5%</td>
<td>Argentina</td>
<td>16.7%</td>
</tr>
<tr>
<td>China</td>
<td>5.5%</td>
<td>China</td>
<td>13.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Venezuela</td>
<td>9.1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>United States</td>
<td>8.3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Paraguay</td>
<td></td>
</tr>
</tbody>
</table>

Figure 1.4: Economy, Intra-Mercosur Share in Countries’ Total Import, 2001-2004

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>34.9%</td>
</tr>
<tr>
<td>Brazil</td>
<td>11.2%</td>
</tr>
<tr>
<td>Paraguay</td>
<td>52.6%</td>
</tr>
<tr>
<td>Uruguay</td>
<td>51.1%</td>
</tr>
</tbody>
</table>
Figure 1.5  Asymmetry in the Region, population density and literacy (2010)