

Mercosur Turns 15: Between Rising Rhetoric and Declining Achievement

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Abstract *Founded in 1991 as an intergovernmental association among four member countries, Mercosur is likely to begin 2006 as intergovernmental and with the same members as when it was founded. Political rhetoric notwithstanding, there has been little deepening and no enlargement in almost 15 years. There have been some achievements, however: increased regional interdependence and political cooperation. This article assesses how much Mercosur has achieved in light of its starting point and the explicit goals set by regional decision makers. It then makes a critical appraisal of the distance between political rhetoric and effective policy implementation, focusing on the role played by the two largest members, Argentina and Brazil. Finally, the article examines the current enlargement, deepening and institutionalisation agenda and assesses its feasibility.*

90% of the books dealing with the WTO [World Trade Organisation] are speaking of something that does not exist. I had already seen a similar phenomenon with regard to the MERCOSUR—people discuss and criticise a MERCOSUR that only exists in their heads. And nobody is speaking about what really exists.

Luiz Olavo Baptista¹

Introduction

Latin American integration has a long history according to conventional political rhetoric but a poor record when it comes to concrete accomplishments. Indeed, Latin America² is a region that was once ruled by only two metropolises, both located in the Iberian Peninsula. Gradually, the territory dominated by the Spanish crown was divided in two, later into four and then successively into a dozen autonomous regions, a process that culminated in the establishment of the Spanish-speaking states in existence today. Even as the process of fragmentation evolved, the leaders of the wars of independence nurtured the myth of Latin America's natural unity and the ultimate aim of restoring it. Simón Bolívar, the

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² Latin America, a contested concept for a controversial region, comprises 20 independent countries out of the 35 that make up the American continent. Spanish is the official language in 18 of them, whereas Portuguese is spoken in Brazil and French in Haiti.

best known of these leaders, called two pan-American congresses in 1819 and 1826 but failed to bring about the desired regional unity. Almost two centuries later, with the failure of reiterated unification attempts, the pan-American movement waned and was gradually superseded by a less ambitious but more realistic project: that of regional integration.

The first serious effort to promote regional integration occurred in 1960 with the creation of the Latin American Free Trade Association (LAFTA). Twenty years later, given its poor performance, it was replaced by the Latin American Integration Association (LAIA),³ with slightly better but still unremarkable results. Various subregional integration efforts were also made: the Central American Common Market (CACM) was established in 1960; the Andean Pact and the embryo of the Caribbean Community were set up in 1969; and in 1991, the Common Market of the South (Mercosur) was created. The first three scored some early points, but then stagnated or decayed; by contrast, Mercosur has been considered the most successful case of integration in the region (Campbell 1999; Kaltenhaler and Mora 2002; Roett 1999; Sarney 2000).

While Mercosur's record is reasonably positive in light of the previous Latin American experiences, the bloc is far from being the far-reaching entity that most public speeches depict it as being. This article examines from a comparative perspective the development and prospects of Mercosur in order to distinguish fact from fiction. Its main argument is that Mercosur is a case of cognitive dissonance, in which conventional political discourse reflects the expectations of its speakers rather than the real world. The article is divided into three sections: the first revisits the official treaties and describes the mismatch between them and public discourse on Mercosur; the second evaluates the latter's actual achievements and limitations; and the third assesses its potential for development.

Point of Departure: Austere Treaties, Rising Rhetoric

Mercosur was established on 26 March 1991, when Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asunción with the declared aim of constituting 'a common market' by 31 December 1994 (Article I). Four concrete goals were outlined: establishing the free circulation of goods, services and factors of production; adopting a common tariff and trade policy; coordinating macroeconomic and sectoral policies; and harmonising domestic legislation. Article V of the Treaty explained how this was to be done: there would be progressive, linear and automatic tariff reductions, and non-tariff barriers would be eliminated; macroeconomic policies would be coordinated; a common external tariff (CET) was to be set up; and there would be sectoral agreements to free factor mobility and establish economies of scale. These goals would be administered by exclusively intergovernmental means.

The Treaty of Asunción was austere and relatively clear. The prior processes of democratisation undergone by all four signatory states had made regional cooperation possible, but the Treaty abstained from referring to political

³ LAFTA and LAIA comprised the ten Latin American countries of South America plus Mexico and Cuba.

institutions, focusing entirely on economic and trade issues. And although the original goal of the presidents had been to lessen domestic pressures for increased military spending, the Treaty was silent about social actors and domestic equilibria, focusing only on tariffs and macroeconomic policies. To be sure, the agreement was politically motivated; but the means were exclusively economic and trade based.

On 17 December 1994, the Protocol of Ouro Preto was signed. Its purpose was to finalise the transition period and give Mercosur a permanent institutional structure, one that was to remain virtually untouched for a decade. The Protocol also gave Mercosur an international legal personality and defined its juridical bases. However, despite the original plan (reflected in the name of the bloc), Mercosur had not become a common market. At best, it had established a blueprint for a customs union that would be in place by the turn of the century.

The Treaty of Asunción and the Protocol of Ouro Preto⁴ constitute together with another three protocols the institutional underpinning and juridical backbone of Mercosur. They deal with economic integration (content) and institutional structures (form). They do not deal with aspects that have acquired greater relevance in other regional contexts, such as regional citizenship, social cohesion and democratic decision making. Somewhat surprisingly, however, these issues are present in nearly all debates about Mercosur, whether within political or academic circles. Most of these debates fail to recognise what Mercosur is really about. Indeed, many usually well-informed observers think that Mercosur is directly linked with political participation and regional democracy when it is not and was not intended to be according to its founding treaties.

The confusion about the nature of Mercosur took root in the mid-1990s, and was magnified because people have tended to confuse what Mercosur is and what they think it should be about. If it is expected that conventional rhetoric should fail to acknowledge this distinction, it is less easy to understand why the academic literature is largely unable to separate reality from normative wishful thinking. This confusion is widespread among scholars, social actors and public officials, its roots being sometimes ideological and sometimes instrumental. Thus, Mercosur tends to be ideologically represented as an end in itself rather than as a means to increase economic efficiency and economic growth. Alternatively, it has been instrumentally depicted either as a political panacea or used as an economic scapegoat or smoke screen to divert attention away from domestic political and economic failings.

After the global financial crises of 1995–99, Mercosur gradually came to be seen as a symbol of the resistance to neoliberalism. Now, it is usually considered an association of developing countries that could stand in the way of US-promoted hemispheric free trade. For the left, it attained an ‘epic’ status as a preferred tool to promote social rather than merely economic goals. Aldo Ferrer (1997; 2001) in Argentina and Samuel Pinheiro Guimarães and Helio Jaguaribe (2001) in Brazil are key proponents of this view. Their battle cry is for the creation of ‘a political Mercosur’ (*el Mercosur político*) that would be able to combat the

⁴They are the Protocol of Brasilia (establishing a system for dispute settlement and signed in 1991), the Protocol of Ushuaia (establishing a democratic clause and signed in 1998) and the Protocol of Olivos (establishing a permanent tribunal for appeals and signed in 2002).

neoliberal approach to regional integration. Their argument is that the original agreements signed by Argentina and Brazil in 1985–88 were perverted in the 1990s, such that what was a progressive state-led initiative became a conservative market-based project. A return to the original intent would thus entail bringing politics to the fore, i.e. to prioritise the social and representative dimensions of regional integration as opposed to trade and investment aims. It is in this context that the participation of civil society and the establishment of a regional parliament have become such recurrent rhetorical features—but no more than that.

While progressive thinkers have been loyal defenders of Mercosur, even though the project has not lived up to their aspirations, economic liberals have usually been critical. Former Argentine Minister of Economy Domingo Cavallo was one of the figures most fiercely opposed to Mercosur becoming a customs union rather than a free trade area; José Serra, Brazil's 2002 presidential candidate, was almost as critical during his electoral campaign. Former Uruguayan President Luis Alberto Lacalle (1990–95) also objected to a political Mercosur, albeit from a nationalist rather than liberal perspective (Malamud 2003). As in the EU, therefore, progressive voices have defended deeper integration while conservative voices have advocated widening the scope of trade liberalisation. The difference is that the founders of the EU conceived it as an ambitious political construct, a fact reflected in its far-reaching treaties, whereas Mercosur treaties have been solely about economic integration. Those who defend Mercosur, therefore, are supporting something that does not exist and that is, moreover, different from what the founding treaties set out as its goals.

The main official spokespersons of Mercosur, namely the presidents of Argentina and Brazil and their closest aides, usually refer to it as a 'strategic alliance' (Cardoso 1997), as 'destiny rather than choice' (Lafer 2001), as 'the dynamic axis of South American integration' (Silva 2004) and even as 'the most transcendental political decision in our history' (Duhalde 2005). Lower-ranking officials tend to use less lofty language—the language of the treaties—but the highest authorities, particularly the presidents of the two largest members, are those who define the contours of the public image of Mercosur. And no favours are done to conceptual clarity by the fact that the recognised founding fathers of the bloc—former Presidents Raúl Alfonsín of Argentina and José Sarney of Brazil—staunchly defend the idea of Mercosur and severely criticise its actual evolution. As Alfonsín complained, 'other actors, *with other ideas*, re-launched the process of integration in the early '90s' (2001, 7, author's emphasis). The aim of the integration blueprint that he and Sarney laid out in the 1980s was to build 'a true community and not just an [economic] association' (Alfonsín 2001, 6). The constant controversy that surrounds Mercosur present and future has led many analysts to refer to a lack of focus (Almeida 2003; Bouzas 2002). This explains the rather odd title of the first report of the Mercosur Technical Secretary of July 2004: 'A Focus for the Process of Regional Integration' (Secretaría del Mercosur [SM] 2004). Unfortunately, the report did not meet with the approval of someone in the Brazilian government and, after only a few months, it was removed from the official Mercosur website. It can be found on non-official websites, but the lack of transparency that characterises the association's proceedings (Peña 2005b) appears to have become actual censorship when top government officials do not like the statements issued by technical bodies.

Obviously, some leaders have a clear understanding of the nature, limitations and potential of Mercosur. One is Fernando Henrique Cardoso, who had to deal with the two gravest crises faced by the bloc as President of Brazil in 1995–2003: the Brazilian devaluation of 1999 and the Argentine collapse of 2001. In his view, South American integration is based on three pillars: trade and economic, physical infrastructure, and energy (Cardoso 1997). Although he has referred to a regional identity and a political dimension, explicitly including the issues of security and foreign policy, the latter are not pillars but rather complementary elements of southern integration. Cardoso's foreign minister, Luiz Felipe Lampreia, was a steady proponent of the same kind of realism. Their vision was questioned by the Lula administration in the voices of Foreign Minister Celso Amorim and presidential advisor Marco Aurélio Garcia (Agência Brasil 2003). For them, as for their predecessors, Mercosur is a strategic priority of Brazilian foreign policy, but in contrast to their predecessors they have supported a more decisive leadership role for Brazil, and pushed the integration agenda with greater (vocal) intensity. The central issue remains whether Brazil has the capacity to become the regional paymaster: the answer of the current administration has been more positive than the cautious scepticism of the previous one.

Mercosur has been a keystone of Brazilian foreign policy since the organisation's inception, but in the mid-1990s the government began to develop a strategy of informal enlargement to bring into the Mercosur fold all the other South American countries. In the Brazilian view, South America is not just a specific geographical region (different from Latin America as a whole) but also a political entity, since US influence arguably recedes as distance from Washington increases. The Brazilian government views this subregion as a natural part of its sphere of influence. Accordingly, the Cardoso administration organised the first summit of South American presidents in Brasilia in September 2000, and the Lula administration has maintained this vision, creating the South American Community (SAC) at the Cuzco presidential summit of December 2004. Mercosur arguably constitutes the core of the SAC, since one after another of the LAIA member countries had previously signed an association agreement with it. Eduardo Duhalde, the President of the Mercosur Committee of Permanent Representatives, sponsored the project enthusiastically, but, clearly, the driving force has been Brazil, the only country with the resources to promote its consolidation.

Thus, an integration project that was initially about trade, customs and market has unexpectedly become a symbol for leftist political activism and national liberation ideologies. Mercosur has turned into the dazzling dream of those South Americans who stand for progressive, developmental, anti-imperialist or nationalist ideas. As Hélio Jaguaribe, a prominent scholar and former Brazilian minister, put it in rather hyperbolic terms, 'the consolidation of MERCOSUR constitutes ... an indispensable task for the national survival of its member countries' (Jaguaribe 2001, author's emphasis). To many of its left-wing supporters, Mercosur is not simply an economic association or a strategic instrument, but rather a supranational identity that provides its member countries with the only way to survive in a globalising world. The significance attributed to Mercosur is more wishful thinking than an accurate reflection of reality, however.

Initial Achievements and Declining Performance

In its 15 years of existence Mercosur has achieved moderate successes. Its performance can be measured according to political, economic and international criteria (Bouzas 2002). The political attainments are essentially national and regional: the project has fostered domestic democratic stability and lasting peace among its members. In a region historically characterised by authoritarianism and military rule, this accomplishment alone justifies integration efforts. In the economic field, the achievements are visible too, albeit less notable: the creation of Mercosur has helped its members to lock in domestic reforms, and contributed to tripling intra-regional trade in less than a decade. Internationally, the regional association has given its members a degree of visibility that they would not have gained otherwise. Increased visibility is politically and strategically relevant in and of itself, but it also contributed to massive foreign investment in the 1990s, a decade of vast capital availability.

In the most thorough analysis made of the bloc's development to date, three of its top renowned specialists stated in 2002 that, '[a]fter more than a decade of economic integration, Mercosur has made very limited progress towards the originally stated aims' (Bouzas *et al.*, 2002, 129). They argue that Mercosur is not a customs union, not even an incomplete one. According to GATT (General Agreement on Tariffs and Trade) definitions, it has not even become a fully fledged free trade area. Bouzas *et al.* (2002, 131) call it 'an incomplete free trade area with some degree of harmonisation of member states' extra-zone commercial policies'. This mixed record is not bad in the Latin American historical context, but it falls short of the original expectations and current official rhetoric.

Just as the formula that led to the consolidation of the European communities involved a combination of liberalisation (by France and others) and compensations (especially by Germany), Bouzas *et al.* (2002, 145) suggest that the underlying formula of Mercosur is 'obtaining preferential access into the Brazilian market in exchange for Argentine support for Brazilian international trade strategies'. As time went by, however, both countries stepped back from their mutual understanding, giving way to increasing suspicion and decreasing cooperation. Henceforth, resulting implementation problems were dealt with increasingly by unilateral measures, and 'flexibility and a case-by-case focus [substituted for] the enforcement of rules and established procedures' (Bouzas *et al.*, 2002, 146; Malamud 2005). In what follows, a more detailed account of the political, economic and international dimensions of Mercosur are outlined, as well as a fourth dimension regarding institutionalisation.

Initial Achievements

Paradoxically, the main achievements of Mercosur are in the realm of high politics. Mercosur has turned an area of low mutual confidence and historical rivalries into an area where inter-state violence has been ruled out, international cooperation has become the norm and high-tension controversies have ceased to exist. Today, the Mercosur region is a nuclear-free zone with no arms race threat. Argentine-Brazilian nuclear cooperation was at the core of the bilateral rapprochement that led to the creation of the bloc, and cooperation on such a sensitive issue was crucial to foster confidence building (Alcañiz 2005; Oelsner 2003). In the view

of a key Argentine diplomat, 'the most relevant accomplishment of the integration process has been the opening up of the nuclear programmes'.⁵

Mercosur also has established a 'democratic umbrella' covering its member states. Although it was only in 1998 that a democratic clause became part of the treaty *acquis* of the group, concerted diplomatic action prevented Paraguay from slipping back into authoritarianism as early as 1996 (Albuquerque 1999). This positive influence was felt again in 2004 in Bolivia. Thanks to the joint efforts of Argentina and Brazil, a constitutional solution was found to resolve a political crisis in the country. Last but not least, Mercosur has helped to increase mutual knowledge and tolerance among neighbours, thus contributing to opening long-closed societies.

Economically, Mercosur also attained initially good results. Intra-regional trade tripled in the seven years following the signature of the Treaty of Asunción. What is more remarkable, the increase resulted from trade creation rather than diversion, since extra-regional trade also augmented. The point of departure was admittedly very low and trade interdependence is still quite low compared with the European Union or the North America Free Trade Agreement (NAFTA). Nonetheless, the reversal of a historical pattern of isolation and the trend toward increased interaction is noteworthy. Mercosur also did well in terms of foreign trade investment, with a sharp increase in the amount and diversity of investment projects, especially from European countries, in the 1990s.

As regards the international dimension, Mercosur has managed to obtain widespread global recognition that would have been impossible for member states to obtain alone. More recently, Brazil has embarked on extra-Mercosur diplomatic initiatives—such as the Zero Hunger Plan with Chile, France and Spain and the Group of 3 with India and South Africa—but Mercosur still is a major actor in multilateral negotiations, be it with the EU, within the Free Trade Area of the Americas (FTAA) or in the World Trade Organisation. Furthermore, it has become the core of a South American integration project endorsed by Brasilia.

As regards the fourth dimension of institutional development, Mercosur has taken some important steps: the creation of a Court of Appeals in Asunción, the transformation of the administrative Secretariat into a technical body with wider competences, and the establishment of the Committee of Permanent Representatives, whose president is entitled to participate in high-level meetings and represent the bloc abroad.

Declining Performance

Despite these considerable accomplishments, there have been failures as well. They have become deeper and more pressing as the integration process has evolved. In the political realm, it is important to look at participation, representation and the creation of a collective identity. Popular participation has not been a Mercosur feature: citizens have no vote at the regional level, only states can accede to dispute-settlement procedures and there is no autonomous locus of decision making to which citizens of member countries can petition. Collective forums such as the Consultative Social and Economic Forum (CSEF) and

⁵ Interview with Diego Guelar, former Argentine ambassador to Brazil, the European Union and the United States, Buenos Aires, June 2001.

Mercociudades lack real power and are not directly accessible to individual citizens. Representation is also weak or non-existent: the Mercosur parliamentary body represents national parliaments not citizens and it lacks effective competences. The representative role of the CSEF is also very limited, since unions and businesses prefer to lobby top government officials at home rather than lower-ranking envoys in Montevideo. And there is nothing like an emergent collective identity. Increased trans-border exchanges have not been accompanied by preferential treatment of citizens of other member countries vis-à-vis extra-regional citizens. The Mercosur flag and its associated symbols are not widely used, remaining limited to the diplomatic arena.

Mercosur failures are more strident in the economic realm. Unlike the EU, which put the so-called four freedoms at the heart of economic integration, 'MERCOSUR has not gone beyond goods' trade liberalisation' (Bouzas *et al.*, 2002, 133). Although the Treaty of Asunción proclaims that economic integration should include services and factors of production, it makes no operational provisions in this regard. Measures to promote the free circulation of services, capital and workers have either been scarce or ineffective if not repealed. And every analysis of Mercosur made since its creation places services, direct investment and government procurement in the deficit column (Instituto para la Integración de América Latina y el Caribe [INTAL], various years).

The chosen integration technology has also proved to be either insufficient or inefficient. Since all decision-making, dispute-settlement and implementation capacities are in the hands of the member countries, Mercosur operates through diplomatic rather than juridical procedures. Hence, as Bouzas *et al.* (2002, 147) point out, 'the intensive use of diplomatic resources to move regional integration forward was accompanied by poor implementation mechanisms. Consequently, even in those areas with agreed regional rules, implementation weaknesses proved functional to the subsistence of national discretion.' The result is a Harlequinesque mixture of normative inflation, implementation gaps and ineffective integration mechanisms.

As regards the international dimension, Mercosur has failed to enlarge its membership. Although some countries have expressed their intention to join, there is still no clear application procedure. According to the treaties, any member of LAIA can become an associate member, and six have done so: Bolivia and Chile in the mid-1990s, and Colombia, Ecuador, Peru and Venezuela more recently. However, the category of associate member is legally unclear and seems to have had little institutional impact (Zalduendo 2004). Although the creation of the SAC has been presented as an association between Mercosur and the Andean Community (CAN) or as a first step towards including the latter in the group, the juridical and political rules are blurry at best. South-South agreements with extra-regional countries such as India and South Africa have generated sporadic waves of expectation but results have been meagre. Finally, the two most important agreements under negotiation—the FTAA (for which the bloc has attempted to keep a common position) and the EU–Mercosur agreement—have stalled and their likelihood of success any time soon is remote.

Mercosur's institutional deficits are probably the most visible but not always the best understood. Although Bouzas *et al.* (2002, 149) are right when they affirm that '[the] founding treaties are as ambiguous as they are imprecise', the treaties are not as vague or contradictory as the regulations subsequently created by the

Mercosur bodies. There are two main deficiencies in the legal structure: normative inconsistency and an internalisation gap. The former means that norms often conflict with others with equal status; the latter means that many regional regulations are not applicable because they have not been ratified by every member state. Thus in mid-2004 only half of Mercosur legislation was in force (SM 2004, 9). The inability to establish regional institutions that create and implement common rules results from domestic institutional deficits and regional asymmetries of size and development. Despite this discouraging reality, whenever regional decision makers speak about Mercosur difficulties they vaguely refer to a 'democratic deficit' rather than these more obvious normative and institutional deficits. It comes as no surprise that a pompously entitled Presidency of the Committee of Permanent Representatives was created without granting it any effective powers. In fact, the Permanent Representatives to Mercosur are the representatives to LAIA who were already commissioned in Montevideo; they were simply renamed as 'representatives to LAIA and Mercosur'. In the medium term, if the bloc is to improve its institutional performance and even survive, operative rules and more consistent procedures are necessary.

Having outlined the failings, it is fair to mention that unexpected spillovers into areas not initially envisaged have occurred as part of the integration process. Education and justice are cases in point (Bouzas *et al.*, 2002, 136). Although this kind of spillover has been a consequence of attempts to cover up failures in crucial areas by setting off fireworks on 'soft' issues, the net effect of spillover has been to foster cross-border exchanges and increased interdependence. In the future, better and more frequent communication between national elites might nurture demands for further integration, a feedback process that neo-functional theorists view as positive and that is worth noting.

Prospects: Between Rhetoric and a Hard Place

Mercosur architects and analysts are fond of comparing the project with the process of European integration. They do so for myriad reasons: some explain the development of Mercosur as a form of institutional mimetism (Medeiros 2000); others take the EU as a yardstick against which similar processes are measured (Camargo 1999); and others attempt to draw lessons from the EU about what can (Flôres 2004) or cannot (Malamud 2004b) be done. It is now clear that institutional mimetism has not taken place, and that the EU is not yet a standard integration model but a unique phenomenon that can serve as a point of reference and inspiration but cannot be transplanted or replicated wholesale. Indeed, most EU worshippers in Latin America usually fail to distinguish between process and result. In the EU, transnational transactors and national governments demanded institutions and rules, which were accordingly supplied by national governments, the European Commission and the European Court. It is impossible to understand the emergence and development of regional institutions without reference to demand and supply conditions. Hence, what follows is a discussion of six proposals to deepen Mercosur that are repeatedly advocated by official and non-official sources (Duhalde 2005; Silva 2004; Mercosur 2003) purportedly drawing on the European experience.

Proposal 1

Mercosur should establish a supranational institution that performs executive functions along the lines of the European Commission.

Unlike the EU, which has featured supranational authorities since its inception in the 1950s, Mercosur has never had anything other than intergovernmental organs. There were two main reasons for this: the fact that national governments did not want to lose control over the process, and the lessons derived from precocious over-institutionalisation in the past, with former regional blocs (the Central American Common Market and the Andean Pact) clearly failing to consolidate integration projects (Malamud 2004a). These reasons remain valid today. Although some heads of state routinely issue public declarations calling for a stronger Mercosur, no national government has signalled a credible intention to relinquish power to a supranational body; and institutional performance has not improved in Latin America significantly, so institutional inflation as a way to solve problems seems ingenuous at best. A third reason why the creation of a supranational commission is not a credible step is that there is no social demand for it: entrepreneurs and transnational transactors are accustomed to appealing to domestic governments, particularly chief executives. Mercosur is in this sense a power-oriented rather than a rule-oriented organisation (Peña 2005), and as long as vested interests have access to the powers that be, they will see no reason to invest in the creation of new institutions. So, in the absence of social demand and political supply for a supranational commission, it is unlikely that one will be created.

Proposal 2

Mercosur should establish a supranational institution that performs top judicial functions like the European Court of Justice.

Mercosur has had an ad-hoc dispute-settlement mechanism since 1991 that provides for a three-stage process of direct negotiations, mediation by the GMC (Common Market Group) and arbitration by an ad-hoc tribunal. A permanent appeals court was set up in 2002 and started working in 2005. The objective of the institution builders was to create arenas to settle disputes through juridical rather than diplomatic means, thus creating a third party in addition to, and independent of, the parties in conflict. The main limitation is that, unlike in the EU, only states can be parties to a dispute, so that the mechanism is more like those found in the World Trade Organisation than in the EU. The net result is appalling: not only have citizens been denied access to regional courts, but judicial activity—and therefore judicial activism such as that which fostered European integration (Stone Sweet 1999)—has been ridiculously negligible. Only rarely have Mercosur member states resorted to the dispute-settlement mechanism: whereas the European Court has produced hundreds of rulings every year always since its creation, the Mercosur dispute-settlement mechanism has been used nine times in 14 years. There appears to be no official or social demand for an empowered court or for the judicialisation of regional procedures. Furthermore, even if a supreme tribunal were finally established, the non-existence of Mercosur common law (every piece of legislation must be internalised by all four members to be enforced) would render inconsequential any increase in judicial activism.

Proposal 3

Mercosur should establish a supranational institution that performs legislative functions like the European Parliament.

This is one of the most frequently reiterated and defectively reasoned proposals. Its goal is to confer democratic legitimacy on a Mercosur that purportedly suffers from a democratic deficit. Mercosur decision making, the argument goes, is opaque, distant from the people and more concerned with economic matters than with social and political issues. The projected solution is to promote democratic legitimacy with the direct election of representatives. A regional parliament, it is claimed, would foster popular participation and citizen representation. Much less effort is invested in defining a feasible composition of this body and explaining how it could preserve national equilibria and, more importantly, what decision-making powers it would actually have. Four issues need to be addressed to determine the need for and viability of this proposal: First, is there really a democratic deficit? Second, how could a parliament lessen that deficit? Third and fourth, what composition and competences would a Mercosur parliament have? Regarding the first, it is hard to find a democratic deficit in Mercosur: since its decision-making process is entirely intergovernmental, all decisions are made by consensus among officials of the four national governments, all of which are democratically elected. Moreover, decisions are not valid until approved by every member country following domestically determined procedures. Mercosur is as democratic as the most democratic of its members.

It can be argued that a regional parliament may anyway strengthen transparency by fostering public debate and helping to bridge the gap between the authorities and the citizenry. If so, the question is whether a parliament can make this happen. According to the available data, public opinion in all Mercosur countries locates parliaments, parties and politicians at the bottom of a scale of credibility (Lagos 2002). It is hard to imagine how these unpopular institutions might foster credibility and legitimacy at a regional level.

The two remaining questions raise the issue of viability rather than need. First, as regards composition, sharp population asymmetries make this a difficult puzzle to solve. Brazil has roughly 80% of the population of the bloc so any distribution that allocates to it less than 50% of seats would be perceived as undemocratically biased and would, at any rate, face resistance from Brazilians motivated by considerations of national interest. And yet, giving Brazil more than 50% of seats means that one country would permanently hold a majority against all the others. A compromise could be reached by conceding either party the majority, and by simultaneously stripping the majority of any real power, either by requiring supermajorities or by not endowing the parliament with significant competences. Whereas the former option diminishes democratic legitimacy and popular sovereignty, the latter deprives the parliament of effective decision-making capacities. Neither option is a solution therefore.

The aforementioned does not preclude the establishment of a parliament sometime in the future, but this would have to be preceded by the enlargement of Mercosur and a mitigation of current demographic asymmetries. Failing this, the most likely outcome is a parliament that will be toothless, a deliberative forum rather than a decision-making body. Given this context, it is hardly surprising that

there have been few demands for the parliamentarisation of Mercosur from any significant social or transnational actors.

Proposal 4

Mercosur should establish a common currency and a supranational monetary institution that performs technical, monetary functions like the European Central Bank.

This proposal would be precocious if Mercosur really were a customs union aiming to become a common market. In its current state, the proposal is simply unrealistic. A common currency is an instrument of economic union, a more advanced stage of integration than a common market. Nonetheless, it can be argued that gradual coordination of macroeconomic policies and the establishment of a monetary institution that studies and synchronises financial and monetary policies among the member countries is not a bad idea. But there is a strong objection to these arguments: First, Mercosur is not even a fully fledged customs union, let alone an economic union. Therefore, a common currency is way ahead of its time. Second, macroeconomic coordination, mandated by Mercosur treaties since the beginning, has never been implemented. Structural non-compliance is the worst possible antecedent for a policy that requires high levels of credibility like the establishment of a common currency. A common currency would face another challenge that is usually overlooked by those who are dazzled by the achievements of the European model and fail to see the complex processes behind them. The European Central Bank and the euro were not created in an institutional vacuum. On the contrary, they were rooted in the strength of the German Bundesbank and mark, which provided stability and anchorage for a thirty-year-long process of monetary coordination. No functional equivalents exist in any of the Mercosur countries, and a regional bank or currency cannot be replicated without similar stabilising foundations. At best, a monetary institution that scrutinises currency oscillations and sets patterns of monetary coordination could be set up, but its impact would be limited in the absence of strong, credible national anchors.

Proposal 5

Mercosur should establish a common foreign and defence policy like the European Common Foreign and Security Policy (CFSP).

Most Mercosur supporters claim that there is more to the project than economics. In their view, the original goals of the bloc were deeply political; investment and trade were essentially instrumental. The aim of Mercosur, the argument goes, is to contribute to multilateral governance by becoming a relevant global player, and such a strategic dimension implies defence and foreign policy harmonisation. Some officials have even declared that they aspire to develop a common policy in this domain. This ignores at least two vital facts: First, the European experience shows that foreign and security cooperation is much more complex than 'low politics' cooperation. The failure of the European Defence Community (EDC), in 1954, was virtually contemporaneous with the success of the European Coal and Steel Community (ECSC) and the European Economic Community (EEC); likewise, the deepening of the 1990s and the enlargement of

2005 were contemporaneous with the failure to make CFSP an effective tool and the ongoing inability of the EU to determine the contours of a common defence force. The failure to adopt a common position on Iraq and UN Security Council reform clearly signal the difficulties. If there are to be common foreign and security policies, they will be the last and not the first step towards political integration. Second, there is the clash between Argentina and Brazil over a key priority of Brazilian foreign policy—winning a permanent seat in a reformed UN Security Council, a claim militantly opposed by Argentina. Closer foreign policy cooperation by Mercosur members is certainly possible, but the top foreign policy issues are likely to remain divisive. Only if Argentina or Brazil unexpectedly renounced their rival ambitions would a common foreign policy transcend the level of rhetoric.

Proposal 6

Mercosur should establish a common social and developmental policy based on the European structural and cohesion fund model.

This proposal also stems from the understanding of Mercosur as a political association, albeit focusing on the internal rather than foreign dimension. The idea is that the bloc should be an instrument of social solidarity that not only creates but also redistributes wealth along two dividing lines: intra-regional and inter-class. Such a proposal is usually accompanied by the rhetoric of participation of subnational entities, sectoral representatives and civil society. The idea is impracticable for two reasons, however: first, because of the heterogeneity of member countries, and second because there is no regional budget. Heterogeneity does not mean that wealthy and poor countries coexist, but rather that total wealth does not coincide with per capita wealth. Brazil is the largest economy in the bloc and the only possible regional paymaster (Mattli 1999), but its GNP per capita is lower than Argentina's and its poverty and inequality rates much higher. It would be difficult for Brazilian authorities to explain to their poor that the Mercosur social dimension calls for them to subsidise richer countries. The second challenge is not insurmountable, but, as it is rarely addressed, it is not likely to be overcome soon. Mercosur lacks a budget except for a minimum amount that is used to support basic administrative tasks. No redistribution is possible without a budget that allocates revenues and spending. As obvious as this may seem, 14 years have not sufficed to provide the bloc with such an indispensable tool.

Conclusions

The above proposals all hope to replicate the EU experience but neglect the process that led to its creation and success—i.e. the Monnet method, based on the perception that regional integration is supported by concrete projects and not by general declarations of basic principles. They also fail to recognise that interdependence is a prior condition for successful integration, at least according to the main contemporary theories developed to explain European integration (Moravcsik 1998; Sandholtz and Stone Sweet 1998). Furthermore, they overlook that many institutional features of the EU, such as parliamentary decision-making and cohesion policies, are a feature of the region rather than the process of integration per se.

The main driving forces of European integration are transnational transactors, the national governments, the European Commission and the European Court of Justice (Sandholtz and Stone Sweet 1998), some both a product and an engine of integration. In Mercosur transnational transactors are weak because interdependence is low (currently one-eighth of the level of the EU), and there are no supranational actors such as the European Commission or the Court; therefore, national governments are the only driving force of Mercosur integration. In this context, demand for and supply of further integration can only emerge from national chief executives (Malamud 2005). The consequence is that spillover in crucial areas has not taken place, since there is neither delegation nor pooling of decision making that could enlarge the scope or increase the level of the mutual commitments. In the absence of spillover, the joint political will of the national presidents is what has kept Mercosur going. And this is why erroneous presidential or key aide perceptions are a threat to the endeavour, since exaggerated expectations endanger further integration.

Mercosur was initially a realistic process that sought gradually and pragmatically to overcome the integration fiction syndrome and the rhetoric that had hitherto predominated in Latin America. As a key Brazilian negotiator early put it, 'grandiose objectives with little likelihood of success would not be undertaken' (Thompson-Flôres Netto 1989, 131). As interdependence increased and economic growth lubricated the process, a pragmatic approach prevailed. After the completion of the schedule of automatic tariff reduction and the onset of economic crises ignited intra-regional conflicts, however, national leaders opted to up the rhetorical ante. Deepening, enlargement and institutional upgrading became obsessive topics as trade controversies multiplied and temporary barriers were erected and taken down time and again. The gap between the politicians who set the Mercosur agenda and the few serious area specialists became increasingly wider. Whereas the former talked of creating supranational institutions, a regional parliament, a single currency and a common external policy, the latter underscored the need to promote the liberalisation of services and government procurement, to facilitate the process of internalisation of regional rules, improve macroeconomic coordination and enhance the decision-making mechanisms without necessarily going supranational. Although there are areas of agreement between the two camps (the need to invest in physical integration and to negotiate in multilateral trade fora as a united group), disagreements far exceed points of consensus.

Cognitive dissonance may be a common dysfunction in large processes of regional integration, as the current attempt to constitutionalise the EU shows. In Latin America, however, the phenomenon is reinforced by a historical propensity towards magical realism and high rhetoric. Mercosur was created to mitigate such tendencies, much as the EU was established to overcome a historical record of inter-state conflict. As Peña (2005b, author's emphasis) remarks, 'history teaches that, if the road to integration is not paved with *political direction* and *economic content*, it may fade even though nobody wishes it'. His statement has been turned inside out in Mercosur: neoliberal critics advocate *economic direction* whereas progressive practitioners promote *political content*. Unfortunately, this conceptual reversion does not work. Only rigorous analysis and realistic ambitions will make Mercosur more than a piece of sonorous rhetoric. If history really teaches, it could be said that the cause of regional integration has been better

served by the procedures established by Monnet than by those outlined by Bolívar.

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