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MERCOSUR AS A REGIONAL AND GLOBAL PROTAGONIST

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## **Abstract**

Developing a climate of mutual trust and promoting a renewed regional integration, especially one that enables to connect the economic systems and encourage the proliferation of transnational production chains, are two priority courses of action that the current circumstances impose upon Latin America nations and, in particular, the South American space. Both courses of action are interrelated: one feeds the other generating a virtuous cycle between mutual trust and the density of the network of cross interests of all kinds. The new world context will demand a greater regional cooperation, both to control the effects of the financial and economic crisis and to develop an assertive strategy for a competitive participation in global markets. Both, Mercosur and UNASUR, could play an important role if they contribute to renew the approaches and methodologies of regional cooperation and integration.

## **Keywords**

Mercosur; UNSUR; Latin America integration; regional governance



## **I. The integration of regional spaces and the new international realities**

The financial and economic crisis that has been shaking especially Europe and the euro zone countries, but that may have yet unforeseen chain effects at a global scale, could be perceived as part of a scenario of deep structural changes in the international system. These changes will probably require time to mature and bring about their full effects. They will not show themselves in a straightforward course. Even when it would seem fateful to mention it, in the course of history -always a great teacher-, radical transformations and wars have frequently been closely linked.

The fact is that we are in the presence of a global systemic crisis that recreates the historical dialectic tension between order and anarchy in international relations. It is made manifest by the inability of the institutions belonging to the collapsing order to find efficient answers to some of the more serious collective challenges being faced at a global scale. The true danger is that this gives rise - as has happened in the past- to systemic problems within those countries that have been and still are relevant actors in the international scenario. These domestic systemic crises can produce a domino effect in the different regional spaces and, eventually, at a global scale. This might happen if the citizens of the different countries, including the most developed ones, lose trust not only in the markets but also in the ability to find solutions within the framework of their democratic systems and thus become "outraged". If this were the case, the bleak forecasts of some analysts could be pale in comparison to what might be confronted in the future.

This scenario of global systemic crisis reflects the simultaneous ending of at least three long historical cycles which have dominated international relations during the last centuries.

One of such cycles started five hundred years ago when Europe first and then the United States became the main center of the world political and economic scenario. This was quite a lengthy cycle dominated by the Western civilization<sup>1</sup>. Currently, the international system has entered a period of decentralization of power in which an undetermined number of main players have attained significant prominence<sup>2</sup>. It has become a place in which multiple options are now open for the strategic international action of all kind of protagonists –not only sovereign states–, whatever their relative economic weight. Some of them realize that now they have more power and are prepared to use it.

The other cycle that is reaching an end is the one initiated by the Industrial Revolution of late the 18<sup>th</sup> Century, a cycle which gave birth, among other things, to the diverging economic paths between the central and the peripheral countries, between the North and the South<sup>3</sup>.

And the third cycle started in the mid 17<sup>th</sup> Century with the Peace of Westphalia and then the Vienna Congress (1815), when different modalities of groups or clubs of relevant nations were developed, all of them with the ability and expectation of having a decisive influence in the preservation of an international order<sup>4</sup>. The insufficient capacity of the G20 summits to give common and effective answers to some of the more relevant issues of the global agenda could be eventually one signal that this cycle is also ending.

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<sup>1</sup> Cf. Zakarfa, Fareed, *"The Post-American World. Release 2.0"*, W.W Norton & Company, New York 2011 and Fergusson, Nial, *"Civilization. The West and the Rest"*, The Penguin Press, New York 2011.

<sup>2</sup> Cf. Guillebaud, Jean-Claude, *"Le commencement d'un monde. Vers une modernité métisse"*, Seuil, Paris 2008

<sup>3</sup> Cf. Spence, Michael, *"The Next Convergence. The Future of Economic Growth in a Multispeed World"*, Farrar, Straus and Giroux, New York 2011.

<sup>4</sup> Cf. Badie, Bertrand, *"Diplomatie de Connivence. Les dérives oligarchiques du système international"*, La Découverte, Paris 2011.

The mentioned structural changes are perhaps behind the existential and methodological dilemmas that can be observed in some of the regional geographic spaces in which sovereign nations coexist and that in the last decades have opted, in their mutual relations, for a path of cooperation among them instead of accepting the logic of fragmentation and conflict. This most certainly includes the European space, but also the South American regional space or the broader –and at times more difficult to define accurately–Latin American and Caribbean space.

The existential dilemmas refer to the reasons that lead a group of nations that share a geographical space, to institutionalize a voluntary and permanent association aimed at granting one another preferential economic treatment that could facilitate the transnational productive articulation, and to work together in their relations and negotiations with third countries, in both cases, in order to facilitate regional governance through the prevalence of democratic values, social cohesion and, most particularly, peace and political stability. Thus, those dilemmas concern the objectives that are sought through the association of the respective nations. It implies the acknowledgement of the need to transcend the exclusive use of the logic of bilateralism on their regional relations.

On the other hand, the methodological dilemmas refer to the modalities of working together among neighboring nations and, in particular, to the mechanisms, institutions and disciplines that are employed to achieve the common objectives sought by a voluntary association of a permanent character.

In a very preliminary approach it would be possible to draw three conclusions from what is actually happening to the European integration process and that could be useful for the future construction of South American regional governance that involves overcoming Mercosur's visible insufficiencies.

The first of these conclusions is that in a highly dynamic international context, the permanent reengineering of the common policies and institutions, to adapt them to the new realities and circumstances, is a constant demand for the construction of an integration space between sovereign nations sharing a "neighborhood". This requires methodologies of working together that are extremely flexible and predictable at the same time, and that take into account the signals that those making localization and investment decisions will try to perceive, especially for the development of production networks and transnational supply chains.

The second preliminary conclusion is that such reengineering should not follow any preconceived or text book model. In a certain way all of them have been in the past, and still are, "tailor-made suits" based on the assessment of concrete national realities and on the perception of the leeway allowed by the external context. They respond to the needs of member countries and, above all, to what they are effectively able to accomplish.

And the third conclusion is that to navigate the current world dynamic reality, especially between an integrated set of contiguous nations, is not possible to use any "GPS" as there are no preset roadmaps. On the contrary, it requires much instinct, economic realism, flexibility and technical skill. But, above all, it calls for an enlightened and firm political leadership in each one of the member countries and, in particular, in those with the greatest capacity to influence reality and to mobilize the partners. Ultimately, it requires also a great deal of luck.



## **II. Latin America integration: a phenomenon with diverse interpretations<sup>5</sup>**

The deep changes that are taking place at the international and regional level and certain dissatisfaction regarding the progress achieved, especially when considering the expectations, can account for the deepening of a needed debate on Latin American integration and its future.

This is a debate strongly conditioned by the interpretation that the respective regional analysts and protagonists have made of the events of the last fifty years and of what is currently happening. This is due to the fact that Latin American regional integration -and the integration of its diverse sub-regions- is a phenomenon that allows different interpretations, both in its political and in its trade and economic dimensions, which can be quite conflicting. In any case, the complexity of these interpretations may be explained by the proliferation of institutional ambits whose functions and scope would seem to overlap. For some observers, such is the impression conveyed for example by the co-existence of UNASUR (Union of South American Nations) and Mercosur (Southern Common Market) -and also to a certain degree the Andean Community of Nations (CAN) - within the South American regional space.

The picture appears even more complex and heterogeneous if we consider the existing institutional ambits -or those that are being projected- within the wider Latin American geographical space. Sometimes it becomes difficult to specify their reach, scope, functions and real jurisdiction. There are several cases that can be considered, each with different degrees of formalization. In some cases their area of responsibility is focused only on economic and trade issues. The most relevant are: the Latin American Integration Association (LAIA), the Latin American Economic System (SELA), the Rio Group, the Bolivarian Alliance for the Americas (ALBA) and, most recently, the proposed Latin American and Caribbean Community.

Seen as a whole, such ambits may generate the idea of an unintelligible mosaic, for example in the apparently more orderly perspective of the European integration, at least seen in the light of its most recent stage of the last two decades, before the current global financial crisis had an strong impact in its development and raised questions about its future, at least of the euro zone.

Without overlooking others, there are at least three possible views on Latin American integration that deserve our attention.

The first one places the emphasis on what the development of the integration between countries sharing a regional geographical space should be. This perspective stresses considerations of a normative and even idealistic nature.

It is a point of view that can be found frequently in the analysis of both insiders and outsiders specialists and protagonists. In such cases, reality is confronted against what it should be using different reference points. Thus it tends to appear lackluster, even unsettling. The used perspective is based on theoretical models either coming, for example, from the theory of international relations or of international trade. It is also usually based on the comparison, either implicit or explicit, with the experiences from other groups of countries -most frequently that of the countries which developed the European integration.

The second one involves a view from the perspective of what were defined as the formal objectives of each of the integration processes, either by the founding legal instruments or by the interpretations that were made of them by political protagonists of the moment. These interpretations usually involve the use of concepts and the construction of a narrative aimed at producing an immediate positive effect

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<sup>5</sup> Cf. [www.felixpena.com.ar](http://www.felixpena.com.ar) that includes several articles of the author related with the evolution of economic integration in Latin America, including Mercosur, and also his book, *"Momentos y Perspectivas. La Argentina en el mundo y en América Latina"*, Edutref, Buenos Aires 2003.

on the local public opinion of the respective countries. It is common that such view leads to encounter a gap, sometimes a great one, between what was understood or stated about what a certain integration process would be -especially because of the concepts used in texts and declarations- and what were the actual results. In the case of Latin America, such outlook normally leads to a negative assessment and even to the devaluation of the phenomenon of regional integration. The trend towards the devaluation of agreements and integration processes is in opposition with that of exaggerating the expectations of the eventual results, used more frequently by the protagonists of the respective foundational moments. As a matter of fact, both trends complement each other.

On the contrary, the third view that can be highlighted tends to favor the analysis of the progress achieved, even if small. Not in relation with theoretical paradigms, previous experiences, foundational regulatory schemes or the expectations generated by the protagonists of the moment. But in terms of the concrete possibilities and of what would have been the prevailing situation if the idea of integration would not have led into some commitments, facts and lines of action. The capacity and potential of a given integration process to generate, among the participating countries, a relative mutual trust, common ground rules, social and business networks with cross interests and common symbols, are some of the main indicators to consider in such interpretation.

The mentioned progress, even when small, can then be measured by the degree of neutralization of the deep forces that in the relations of neighboring nations with a significant degree of connectivity and interdependence, normally lead to the predominance of the logic of fragmentation and conflict over that of co-operation and integration. On this regard, it is necessary to recall that history has shown that the most common occurrence between nations that share the same regional geographical space has been the prevalence of the logic of fragmentation, eventually resulting in armed confrontation and war in its multiple and changing modalities.

In this third view, the concept of integration is then directly linked with that of the governance of a regional geographic space, measured by indicators related with the prevalence of peace and political stability, especially through the rule of law.

Seen in such perspective, it is interesting to observe the trends and events that signal the gradual and consensual construction by the participating countries, of what they understand to be the most convenient regional environment, particularly in terms of institutions and ground rules that facilitate an atmosphere of reciprocal trust and a relation of mutual co-operation. Such gradual construction, based on the perception that the countries of the referred space have of their respective national interests, is sometimes unnoticeable in the short term.

It is a construction that does not necessarily correspond with preconceived models -neither theoretical nor of other regional spaces-, nor does it have a final result that would eventually imply the substitution of preexisting national sovereignties for a new autonomous unit of power in the international system, or even to reach a point of no return that makes the predominance of the logic of integration irreversible.

A realistic analysis of Latin American integration has to take into account the experience accumulated in the last fifty years, during which the countries of the region have strived to move forward in the development and institutionalization of voluntary processes under different forms and degrees of formality, but which have as a common denominator precisely the strategic idea of working together.

Different elements are used in this construction. These are expressed through several instruments aimed at establishing, in practice, a differentiation between "us" and "them" based on a minimum degree of mutual trust -that can grow in time- and that eventually translates into trade preferences compatible with the commitments entered into within the wider scope of the GATT and, nowadays, with the rules of the World Trade Organization (WTO).

### **III. What lessons can be learned of an experience of fifty years of Latin American integration?**

To summarize, after five decades of Latin American integration processes there are some important lessons to be learned. Some of them are essential if we want to make a realistic and positive analysis of the phenomenon of regional integration. These are:

- No single model exists for the methods to be used for the institutionalization of an ambit and an integration process between nations that share a regional geographic space. Experience shows - not only in Latin America but in other regions including most certainly European integration - that in each concrete case the participating countries combine diverse techniques for the integration of their markets and different joint work methods, including those used for decision-making and for the creation of rules.
- These are not linear processes. On the contrary, Latin American reality shows that voluntary integration processes between sovereign nations that share a regional geographic space have a gradual and mostly winding evolution. There are regressions and prolonged standstills, but failures are hardly ever formally recognized, least definite ones. What happens normally is that the corresponding process undergoes a great transformation, in actual fact or formally, like for example with the former Latin American Free Trade Association (LAFTA) or the Andean Group or even with Central American integration. Often, crisis originate leaps forward or cause a metamorphosis of the original plans and engagements, a fact that produces certain bewilderment in those observers prone to interpretations based on theoretical models or on the experience of other regions.
- There are no final results such as, for example, the full integration of the political and economic systems of the participating countries. They may be considered as processes under continuous construction which never actually reach a point of no return that is truly irreversible. They are processes full of contradictions. In fact they often show a state of confusing dialectic tension between facts and attitudes that may result in a future of conflict and confrontation and others which, on the contrary, are the expression of the logic of integration and cooperation. This coexistence of contradictory tendencies is what makes it difficult to decipher the relation between countries that share a regional geographic space and the membership of a formal process of integration.
- The quality of the relation between those countries with more potential to destabilize a geographic space, due to their relative size and power, could be crucial for the prevalence of the logic of cooperation and integration among the whole region. That has been the case in South America of the relation between Argentina and Brazil. They could be perceived as the core group of the regional governance and of the integration process.

Perhaps another lesson is related to the importance of the fact that each country has its own national strategy vis-à-vis the corresponding integration process. The idea that the path towards the regional integration starts with a correct definition of the respective national interests is corroborated by the concrete experience of the last fifty years. The countries that have had the clearest idea of their national interests, helped by the institutional quality that shaped their definition, are probably those who have taken the most advantage of the regional integration agreements. Additionally, it becomes a safeguard against the emergence of some sort of integrationist romanticism according to which what has been called the hypothetical supranational rationalities would constitute the guiding force behind any given regional process.

Finally, it is possible to mention at least three reasons that would allow having a cautiously optimistic view of the future of Latin America.

The first of these reasons refers to those aspects in which the learning process that the region has undergone in the last decades becomes more evident. Firstly, the growing number of social and

political leaders -representing a wide ideological spectrum- and of vast sectors of the public opinion in different nations who recognize the importance of fiscal discipline and macroeconomic stability to guarantee development goals within a democratic and open society framework. Secondly, refers to the recognition of the importance of institutional quality to move forward in the areas of productive transformation, social cohesion and competitive insertion in world economy. Thirdly, the clear perception that in the current international system nobody will take up the problems of another nation - unless these affect them directly or indirectly- and that the destiny of any country -big or small- will need to be worked out at a national level with an active participation of all the society.

The need to reach the articulation of the different social interests and to achieve collective disciplines as a result of strong institutions; a home-grown strategy for economic development; and a competitive insertion in world economy are also lessons that several countries of the region and their public opinions are drawing from their experiences of the last decades. These have a strong impact on social attitudes and public policies.

A second reason to be optimistic is the existence of clear signs of a cultural change with regards to what the region may achieve in the future. These signs are related with the great value being assigned to the definition of long term objectives and to the development of pragmatic strategies to achieve them. This entails having a clear idea of where a country is headed to in terms of its development and its international insertion, what it can effectively achieve and, most particularly, which steps would be necessary to move forward along the chosen path. It is possibly in this aspect where the greatest differences between the countries of the region can be found. Deeply rooted structural issues, yet unresolved, including those related with the active participation of all the social actors in the development of the nation, can sometimes explain these differences. In some cases the countries are still on their way towards achieving greater social inclusion. These can account for a certain propensity towards political instability and even towards economic and social policies of a more radical nature. In such cases, future perspectives are more questionable and uncertain.

The third reason is related precisely to the impact on the region of the above mentioned deep changes that are taking place in the global scenario. As a result of this, the countries of the region now have multiple options in terms of external markets and sources of investment and technology. As a consequence, diversification in their international relations has expanded. They perceive that they have a significant value for what might be their contribution to face some of the most critical problems of the global agenda. Energy, food security and climate change are, among others, some of the issues about which the countries of the region -especially acting together- have something to say.

#### **IV. A new stage in Latin American integration?**

Is a new stage of Latin American regional integration beginning now? Certain elements would indicate so. There are several factors that would be encouraging it.

The first factor is the emergence of a plurality of options for the insertion of each Latin American country in global markets and in the international system resulting from the growing number of relevant players in every region and the shortening of all kinds of distances. The second factor is that it is understood that such options may be utilized simultaneously for the development of multiple and cross partnerships. The third factor is that it is feasible to develop, in the majority of the options, strategies for mutual gain in terms of the trade of goods and services, productive investments and the incorporation of technical progress, as long as the respective country has a clear idea of its needs and what it can achieve in the development of a strategy for its international insertion.

However, perhaps the main factor that drives towards new integration modalities in the Latin American geographic space, as well as in its multiple sub-regional spaces, is the growing

dissatisfaction of many countries with the results achieved by the processes currently under way. This is evident in the case of the Andean Community and also in the case of Mercosur.

Such dissatisfaction can lead to at least two scenarios. They are alternatives to the more extreme scenario in which a member country would opt to withdraw from a concrete integration process.

The first of them is one of integrationist inertia. It would imply to continue doing the same that has been done until now, that is, not to innovate too much. The risk is that the corresponding integration process becomes irrelevant for certain countries. In such case it could result in a process that only moves forward in appearance but that would increasingly show traits of obsolescence and have little impact on reality.

The second scenario would result in some kind of foundational syndrome. This would mean discarding what has been achieved so far -and in Mercosur and CAN this is much- both in terms of shared regional strategy and in preferential economic relations, and once more try to start anew.

There is, however, a third possible scenario. It is probably the most convenient and achievable one. It would involve capitalizing on the accumulated experiences and results, adapting the strategies, objectives and integration methods to the new realities of each country, of the region, the sub-regions and the world. Such adaptations would seem to be more necessary in the sub-regional agreements, such as Mercosur of the Andean Community, than in the broader frameworks of the LAIA -whose function in the regional trade is still relevant- and UNASUR -which however still has to prove its real efficacy.

## **V. South America as a differentiated regional space: the complementary role of UNASUR and Mercosur**

South America has the characteristics of a differentiated international subsystem. These characteristics are related to its geography, its vicinity and its history. Nowadays, they are also related with shared resources and the proximity of its markets. An agenda of the prevailing political, economic and social issues results from these similarities and reflects the shared problems and opportunities that often require collective answers.

In fact, the idea that South America forms a different sub-region is deeply rooted in history and is based on geographic reasons. These, in turn, strengthen the connection between the respective national agendas in a way that the effects of the events of one country deeply affect all the others. This, however, does not imply that it is a separate or opposite space to others such as the Latin American or hemispheric ones. Neither does it deny the existing differences within the same South American space: for example, between the Andean and the Atlantic sides, or between the northern countries that tends to be included with the Caribbean and is economically more linked with the US, and the southern nations, with a greater tradition of association with Europe.

However, South America is a differentiated regional space which also shows blurred outlines, given that, in several aspects, it may not be distinguished from the more encompassing Latin American and Caribbean space. These unclear boundaries account, in many cases, for the leading role of Mexico in matters related to the political development of the region.

Many are the challenges that need to be faced in order to develop the institutionalization of the South American region. Among them, two stand out: on the one hand is the challenge to reconcile the multiple spaces of regional and global insertion of each country and, on the other hand, is the need to furnish the institutional spaces with a sufficient dose of credibility. Both challenges will be accentuated by the already mentioned fact that the deep transformations that are taking place in the distribution of power and in the global economic competition are generating multiple options for the external positioning of each country. In view of such perspective, no country will accept to be

circumscribed to its regional environment only but, on the contrary, will attempt to take the maximum advantage of the opportunities that are opening up in the world. Moreover, the transformations may be explained by the perception that, in general, the existing processes of regional integration are perceived as ineffective. This view is a consequence precisely of the cumulative experience of the last five decades, which has not always produced the promised results.

Facing such challenges will require at least three conditions. First, is that each South American country develops a national strategy to capitalize on the multiple spaces of international insertion that include the region. Second, is that the initiatives of regional scope are reflected by rules and institutions that have the necessary qualities to permeate reality. Third, is that the commitments that are assumed through the different regional institutions -and particularly those of trade preferential scope- serve to strengthen the development of an efficient multilateral system at a global scale, especially in regards to the trade of goods and services within the rules of the World Trade Organization (WTO).

However, in order to understand these conditions it is necessary to remember that South America has become a geographical space of increased density, with marked differences and a great dynamism. It has acquired, in this sense, a mosaic-like quality and all indicates that it will continue to be this way in the future. To fully grasp the deep forces that have been unleashed in the region constitutes a complex challenge for its actors, both at the political and, above all, at the business level.

The region has become more interconnected than ever before. The interdependence between the different countries has deepened considerably during the last decades, bringing national political and economic systems closer to each other and making them more susceptible to what happens in the neighborhood, which has, increasingly, a South American scale.

This dense interconnectedness can be verified in at least three spheres. First is that of production and trade: the networks established by transnational firms and increasingly by multi-Latin ones - as well as by a significant number of small and medium enterprises of regional origin- have gradually consolidated, with a particular intensity during the last years. This is reflected in the commercial exchange and the investments, focused mainly in the south of America, and the resulting impact on logistics and transportation. The second sphere where the growing density of South American relations can be verified is that of energy in its multiple modalities. On this respect, unlike the previous one, the relations are not concentrated in the south but extend across most of South America. The third plane is that of drug-dealing and the diverse manifestations of violence and organized crime. Its interconnectedness has also accentuated and has become a palpable threat in several countries of the Latin American region.

It is necessary to recall that South America is not only a more densely interconnected region but also a more differentiated one, something that foreign studies and analysis have failed to realize. Aside from the differences in country size and level of development, other differences that are a consequence of growing conceptual disagreements have recently emerged. Among these are the concepts of democracy and integration which allow for dissimilar interpretations. Other clearly visible difference is the result of the expectations placed by some of the protagonists on the global challenges faced by the different countries. While some of the nations look into the future and perceive globalization as an opportunity to be seized, others have yet to overcome their histories, with issues deeply rooted in their pasts. In such cases, there is a tendency to see the world around them more as a threat than as an opportunity.

Ultimately, South America is a region with a strong change dynamic. Even when the transformations reflect the dynamism of a turbulent world in continuous metamorphosis, some of the changes are of its own crop. Those who do not follow closely the news originating in each of the countries of the region or who insist in analyzing them under the paradigms of the past, run the risk of not understanding what is happening. Facts loaded with future consequences are constantly emerging

and it is essential to detect them in time in order to anticipate the changes. One of them is, for example, the discovery of what promises to be a huge oil reserve off the Atlantic coast of Brazil.

All these factors -the growing density, the greater differentiation and the dynamic of change- are important for the approach of the core issue of governance of the South American space, that is, to guarantee the prevalence of peace and political stability in the region. The efforts to allow for the logic of cooperation and integration to temper the natural conflicts and, above all, to neutralize the tendencies towards fragmentation need to be aligned with this perspective. These efforts will require an up to date assessment of the deeply rooted forces that are at work in the South American reality, rich in nuances. Wisdom and political caution will be required as well, above all because it is becoming a multi-polar regional space where, as noted before, each of the countries has several options in terms of its insertion in the world.

If the South American reality has a mosaic-like quality as a result of the diversity of situations that coexist in it, it is most likely that this will be reflected in the institutional level for a long time. It is possible that, at least for a while, the regional geographic space is unable to conform something similar to what the European Union represented for the European space. This is the reason why only time can bring a clearer notion of what will be the contribution of UNASUR to South American governance. If it succeeds in effectively becoming an instance for the reinforcement of democracy, peace and political stability, sustained by nations with a high level of social cohesiveness, its contributions will be worthy.

However, UNASUR also poses several questions. One of them refers to its ability to permeate reality. The yet unfinished experience of the addition of Venezuela as a full member of Mercosur justifies the doubts. Even when the Treaty of Brasilia that created UNASUR is formally in force, it will have yet to demonstrate that it can attain its ambitious goals. It is quite common to find a significant distance between formal constructs and concrete facts in a region where it would seem easier to create institutions than to fully profit from them.

The other question relates to the coexistence with actual integration processes and, in particular, to the eventual overlapping with an expanded Mercosur. According to the Treaty of Brasilia, the aim of UNASUR is to strengthen regional integration through a process that goes beyond the simple convergence of existing schemes. However, at the same time Mercosur, in its expanded version with the addition of Venezuela as a full member and of other countries of the region as associate members, has aspired to fulfill a role of South American scope.

The expansion of Mercosur has had at least two different dimensions. The first one is related to the space of commercial preferences. Through partial agreements (an instrument contemplated by the Montevideo Treaty of 1980) a network of preferences has developed involving other LAIA member countries and, in particular, those which acquired the status of associate members, such as Chile and Bolivia. The other dimension refers to the broadening of the political objectives of Mercosur. The defense of democracy and human rights, together with other social goals, were gradually added to the agenda which the associated countries adhered. UNASUR and the expanded Mercosur would have then similar goals, especially in regards to political issues. But, in turn, UNASUR should allow for the discussion of matters such as physical infrastructure and energy complementation, which exceed what could be achieved under the current geographical coverage of the restricted Mercosur. This is of special importance for Brazil, which shares borders with most of the South American countries.

However, beyond the outreach and goals there are two major differences between Mercosur and UNASUR. On the one hand, Mercosur is a concrete reality based on legal commitments undertaken by its member countries. As imperfect and incomplete as these may be, it would be difficult to set them aside, considering the trade and investment flows that have developed between the partners in the years since the signing of the Treaty of Asuncion. On the other hand, UNASUR has yet to demonstrate its capacity to fulfill its main objectives.

The other main difference between both organizations is that Mercosur -aside from the ongoing political will of the member countries which has weathered numerous difficulties- is based, above all, on agreed trade preferences which are a fundamental pillar for productive integration. UNASUR lacks anything of a similar nature. In any case, economic preferences between its member countries will result from the convergence of the network of existing partial agreements or those which are signed within the scope of LAIA.

The question arises about the impact that UNASUR will have on Mercosur. At least two alternative scenarios can be set forth. The first scenario would eventually involve the dissolution not only of Mercosur's most ambitious aspiration of having a South American political outreach, but also the more concrete goal of achieving an integration process that is perceived as an efficient tool for productive transformation. The most negative variation of this scenario would be if UNASUR fails to move forward and Mercosur is unable to strengthen its role of encouraging decisions for productive investments in the shared economic space.

In the second scenario, both organizations would complement and empower each other. This would imply a Mercosur endowed with flexible -albeit predictable- instruments that reflect variable geometry and "multi-speed" methods in a manner that it can become the hard core of a larger structure of South American extent. Technically, such thing is feasible. If achieved, Mercosur -without leaving behind the goals of its members- would forward the political objectives of South American scope to UNASUR.

When considering this last scenario of complementation, we should take into account that the two initiatives, Mercosur and UNASUR, have in common the fact that both aim for the governance of the South American region. Brazil, the country with the most relative weight in the area, is an active participant in both of them. Both have an economic purpose but unquestionable political goals as well, since they are concerned with the power relations between the nations that share this geographic space. Both organizations involve the strategies for international insertion of each country and aspire to generate regional public assets to help neutralize eventual tendencies towards fragmentation.

In this context, the complementation between UNASUR and Mercosur could contribute to the predominance of the logic of integration in the South American space. Such complementation is indeed possible. However, it will require a collective leadership in which all the countries of the region participate and, especially, those who value a regional environment of peace and political stability.

## **VI. Mercosur, its problems and its future**

In March 2011 Mercosur celebrated its twentieth anniversary. But it is far yet from having fully reached its original objectives. These might not be fulfilled in a foreseeable future either. It is still a work in progress. It is not based on any previous model a fact that as already mentioned may be considered a plus. Its existential dimension remains valid, even in the new global scenario. This entails the development, from within the South of South America, of a strategic project that can be regarded as essential for the governance of the regional space, for the productive transformation of its member countries within a framework of democracy and social cohesiveness, and for facilitating the projection of each one of them into the new global context, taking advantage of the opportunities that are opening up for relevant and active participation.

Looking into the future, it is in the methodological dimension where the focus should be placed. This requires a continuous development of the multiple aspects of its agenda, not limiting it only to trade. It also involves placing the emphasis on productive and social integration and perfecting its institutional mechanisms, including those which facilitate the effective participation of citizenship as a condition for its efficiency and social legitimacy, and those which help strengthen the role of the Mercosur Parliament. Likewise, it implies advancing international trade negotiations with a broad



number of relevant players of the global economic competition - not necessarily regarding tariff preferences or just with the European Union -, as well as improving the ability to give voice to the region through global mechanisms such as, for example, the G20 in which Argentina and Brazil participate..

The needed methodological renewal of Mercosur would be made easier as well by a substantial update of the conceptual framework employed in the systematic approach of the issue of integration of regional geographic spaces. These approach demands an interdisciplinary focus that includes the full complexity of processes that, as is being shown today by the economic crisis and especially that of the euro in the European Union, cannot be fully understood if they are viewed solely through a single disciplinary outlook as would be for example, the economic one.

The two decades experience gives an opportunity to reflect on its future development. On this regard, there are three main considerations to give thought to.

The first is related with the significant changes in circumstances and needs that have taken place since the Treaty of Asuncion was signed on March 26, 1991. At the beginning of the nineties the situation was a result, among other factors, of the multiple impacts derived from the end of the Cold War, of the US initiative to promote a hemispheric free trade area and of the relative stagnation of the bilateral integration methodology between Argentina and Brazil. The most important needs at the time were to compete against the Eastern European countries to attract productive investments, to gather the sufficient negotiating critical mass to face the US decision of having a strong trade presence in South America, and to strengthen the strategic alliance crafted in 1985 by Presidents Raúl Alfonsín (Argentina) and José Sarney (Brazil). Additionally, these circumstances and needs should be viewed in the perspective of the complex internal political and economic situation that characterized the realities of Argentina and Brazil at the time.

Nowadays, circumstances and needs are quite different. As mentioned before the world has become increasingly multipolar and all countries - including those of Mercosur, whatever their economic dimension- have multiple options for their insertion in global economic competition. The focus of attention is no longer placed only in Washington or certain European capitals. The shifts in relative economic power between nations and the growing relevance of Asian countries –especially China- in global trade and in international investments open up a scenario of great opportunities but also of great challenges for Mercosur countries. These possess -among many other qualities that make them attractive- an enormous potential for the production of food, even for those dubbed "smart" or "green" foods. The current needs involve profiting from such opportunities by crafting a grid of cross alliances and variable geometry with all the possible countries and by developing production and distribution networks of regional and global scope.

The second consideration relates to the validity of the strategic idea that drives the construction of Mercosur. This is grounded in a hard core quality bilateral relation between Argentina and Brazil. It is based in mutual trust, with a particular emphasis on nuclear cooperation. Its scope is neither exclusive nor excluding, though it does have a South American projection. It implies predictable economic preferences that motivate a productive integration for the mutual gain and a weave of different kinds of trans-border social networks that, due to their density, generate in actual fact solidarities that could be difficult to untie. It constitutes a strategic idea that, in its essence, continues to be valid for governments and citizens. Or that at the very least reflects a consciousness on the lack of other feasible alternative strategies between nations that share a same regional geographic space, particularly taking into account the possible political costs.

Finally, the third consideration refers to the methodology for working together between the member countries. Much has been learnt in terms of cooperation at the different levels during the last years. The results have been plenty. It would now be convenient to capitalize on the experiences and

accumulated assets. The stock of trade preferences and the network of cross interests are not facts to be overlooked. The car industry sector offers but one example of this.

Moving forward, there are three relevant methodological aspects to be considered. The first would be to get rid of rigid formulas inspired in theories or in models from other regions. In the gradual construction of the customs union, the main factors to take into account are WTO regulations and the respective national interests. The second aspect would be to favor the idea of having few rules that are effectively observed and that are flexible enough to be adapted to the changing realities. The third aspect would be to strengthen decision-making mechanisms that enable to reach real commitments for productive integration, to effectively and pragmatically tackle negotiations with third countries and to face the multiple social effects of the commitments resulting from integration.

What are the accumulated assets to be preserved for example in the case of Mercosur?

Firstly, the acknowledgement of the integration process as an essential factor for governance in terms of the prevalence of peace and political stability of a given regional or sub-regional geographic space. As mentioned before, this imply to preserve and to continuously strengthen the political and economic quality of the Argentina-Brazil bilateral relations.

Secondly, the stock of economic and trade preferences already agreed and that today influence the reciprocal flows of trade and investment. In the case of Mercosur, such stock accounts for many of the productive investments of the last decades, either by multinationals based in third countries or by the so called *multi-latinas*. This has enabled the development of a weave of trans-border productive chains of growing density –even if not yet comparable to those of the Asian region –, especially in certain industrial sectors of which the automotive is probably the most relevant example.

Thirdly is the value of certain "brands" for the international image of a group of countries. The "Mercosur" brand had its heyday when the region was shaken by the effects of the Asian crisis during the second half of the 1990s. The fact that it is still a distinct name in the national personal identification documents, including the passports of the citizens of the countries that are full members, is not something to be overlooked.

Which are the adaptations in the strategies, objectives and methods of an integration process such as Mercosur that can result from the new international scenario and, especially, of its most probable future evolution?

The first refers to the reinforcement of flexible methodologies that combine variable geometries, multiple speeds and sectorial approaches. As mentioned before, these will not always fit the models of other regions nor follow text-book theories. However, they may work out and be compatible with the flexible regulations of the GATT-WTO legal system.

The second involves institutions and ground rules. In order to organize clearly defined national interests between countries with different dimensions and degrees of development, it would seem essential to place the stress on the ability to formulate common visions and interests through bodies that have certain degree of technical independence from the respective governments. These not necessarily need to neither follow the model of the kind of supranational institutions originated by the European experience nor be complex or expensive. On this regard, the functions of the WTO Director-General could represent a precedent more attuned with the national sensibilities of the Mercosur nations.

Finally, the third adaptation is related with the importance of having in each country a minimum group of businesses with offensive interests in the markets of the region or sub-region, which implies the capability to delineate business internationalization strategies even at a global scale. This is a necessary condition in order to move forward in a relatively balanced way towards the ever valued objective of productive integration.

It is still difficult to anticipate if the adaptation scenario will take place in the near future of Mercosur and other Latin American integration processes that have suffered in the last years an erosion of their effectiveness, efficacy and social legitimacy. However, the path of the last fifty years, with its progresses and its disappointments, anticipates that regional integration will continue to be valued by the countries and their respective public opinions.

At least there seems to be certain consensus that the costs of non-integration could be too high. This helps to predict that there will still be a sinuous progress, with advancements and setbacks, unorthodox but persistent, towards a greater degree of integration at every level -not just the economic- between the countries of the region and of its different sub-regions. On this regard, it is even possible to imagine a greater resemblance to what has been the Asian experience during the last years and, eventually, the future evolution of European integration after the actual euro crisis. By this we mean integration that is propelled from the bottom-up by the effect of the growing social and business networks that are evidence of the increasingly dense web of crossed interests facilitated by factors such as a greater physical connectedness, the integration of productive chains and the perception of common external challenges.

## **VII. Some final conclusions**

Within the actual world dynamic and unpredictable context, developing a climate of mutual trust between the countries of the region and, at the same time, promoting a renewed regional integration, especially one that enables to connect the economic systems and encourage the proliferation of transnational production chains, would seem to be two priority courses of action that the current circumstances impose upon Latin America and, in particular, the South American space. Both courses of action are interrelated: one feeds the other generating a virtuous cycle between mutual trust and the density of the network of cross interests of all kinds.

But if mutual trust is a necessary condition for regional governance, there seems to be a consensus in that it is not enough to achieve peace, democracy and political stability in the South American geographic space.

Concretely, the new world context will demand a greater regional cooperation, both to control the eventual effects of the financial and economic crisis and to develop an assertive strategy for the insertion in global markets of all that the countries have to offer in terms of competitive goods and services with the greatest added value.

ECLAC has published a diagnostic report<sup>6</sup> on the impact of the international reality on Latin American countries, including an agenda of issues that require concerted action. Some roadmaps may be extracted from this analysis to guide the concerted actions required to face the current economic and financial crisis and, in general, the new realities of global economic competition. These are actions that fall within the domain and possible agendas of the regional institutions referred to above.

In conclusion: external circumstances that pose a clear need for concerted action among countries of the region; existing regional institutions that may be put to good use; diagnostic reports prepared by prestigious institutions. So, all indicates that the necessary elements have been gathered together in order to encourage an effective coordination of all future regional efforts.

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<sup>6</sup> Cf. CEPAL, “*Panorama de la Inserción Internacional de América Latina y el Caribe 2010-2011. La región en la década de las economías emergentes*”, Santiago de Chile, Agosto 2011, en: [http://www.eclac.org/evaluacion/default.asp?url=/publicaciones/xml/9/44349/La\\_region\\_en\\_la\\_decada\\_de\\_las\\_economia\\_s\\_emergentes\\_PANINSAL\\_2011.pdf&id\\_doc=89637&id\\_not\\_pf\\_con=44349&idioma=ES](http://www.eclac.org/evaluacion/default.asp?url=/publicaciones/xml/9/44349/La_region_en_la_decada_de_las_economia_s_emergentes_PANINSAL_2011.pdf&id_doc=89637&id_not_pf_con=44349&idioma=ES).

