

Whither Regionalism in the Americas?

31. The post-Second World War period saw the first concerted attempt to put the Bolivarian vision into practise. The projects of Latin American integration initiated in the 1960s and 1970s envisaged the attainment of sustained economic development and greater autonomy from the United States and the "first world" as a whole. The project was based on an inward-looking, import-substituting industrialisation model.

32. These integration initiatives foundered with the collapse of import-substituting industrialisation and the breakdown of democratic rule. The crisis of legitimacy suffered by the authoritarian regimes as well as the onset of the debt crisis and the "lost decade" of the 1980s, contributed to a shift in regional perspectives on how to achieve sustained economic development, political stability and a new relationship with the international system. Latin America struggled to recover the foundations of democratic governance and accepted the discipline of structural adjustment imposed by international financial institutions to regain macroeconomic stability.

33. By the beginning of the 1990s, the re-establishment of democratic rule and macroeconomic stability had been achieved by almost all of the countries in the region. Four new challenges emerged: consolidating democracy, promoting social justice, ensuring competitive integration into a world economy and participation in a post-Cold War world system torn between the need for multilateralism and the potential for a return to "power politics" and unilateralism.

34. Latin America responded to these challenges with a return to regional integration, only this time of a much more pragmatic and flexible nature, and with the reinforcement of its historical attachment to multilateralism. Unlike in the past, integration was no longer seen as a defensive strategy to protect the region from the ravages of open competition. Rather, it was the preferred means for increasing competitive capacities to participate fully in a world economy tending towards global free trade and for preserving democratic governance and peaceful relations among neighbouring countries.

The Mercosul: Credibility and Legitimacy

35. The Mercosul has been foremost among integration projects emerging in the 1990s. In only seven years, it has become the most successful expression of open integration in Latin America. It has created an almost complete customs

union and generated unprecedented levels of intra-regional trade and investment. The competitive capacity of its members has increased through the development of regional infrastructures and an incipient process of productive conversion. A widened common market, macroeconomic and political stability and the privatisation of strategic industries and sectors have created an attractive and friendly environment for foreign investors.

36. The Mercosul has shown a political vocation to go beyond trade, affirming its democratic commitment. It has adopted a "democratic clause" and it actively defended democracy against an authoritarian challenge from sectors of the Paraguayan military in April 1996. It has created a Forum for Political Coordination that includes associate members Bolivia and Chile and has met regularly to discuss issues such as democracy and regional security. It has promoted the participation of parliaments and civil society actors. Provincial, municipal as well as various social actors have found arenas through which to exert their influence over the integration process and are thus re-defining the boundaries of sovereignty within the Mercosul. The countries of the Mercosul also cooperate in the realm of security, undertaking joint exercises along their frontiers and in the South Atlantic, participating in UN-related activities and in others linked to the control of airspace and related technologies.

37. The inter-governmental management of the Mercosul has been successful to date. There is no common foreign policy but common diplomatic attitudes and actions have evolved. A Parliamentary Commission and an Economic and Social Consultation Forum have institutionalised the participation of the national legislatures and business and labour actors in the integration process. The speedy and concerted reaction to the Asian financial crisis has shown how it can collectively respond to exogenous shocks.

38. That the Mercosul has the strongest political and economic "pull" of all integration schemes in the region testifies to its success. It has established association agreements with Bolivia and Chile and is negotiating a similar agreement with the Andean Community and the Central American Common Market.

39. The expressed intent of the Mercosul is to proceed with deep integration even as it widens to include new members. It does not see itself merely as an area for the establishment of free trade, a platform for globalisation or a sub-regional adaptation to an US-determined hemispheric free trade agenda. It is working towards the development of an institutionalised collective discipline and the affirmation of a specific economic and political identity.

The creation of a single currency has been aired as a possibility, although there is as yet no political consensus to work towards monetary convergence. However, in the wake of various financial crises, the Mercosul is aware that it must adopt measures that will allow the economies and monetary systems of its members to withstand the potentially devastating impact of capital flight and international monetary crises. Thus, the Mercosul aims to achieve a coherent position within international institutions to defend its interests in the economic and political realms.

40. The Mercosul does not reject hemispheric free trade; it aims to combine the former with a deeper economic and political project. The harmonisation of both is not an easy matter, however, and this is one of the greatest challenges it faces today.

The Challenge of Hemispheric Free Trade

41. The FTAA has been seen as part of the US strategy to affirm its global political and trading position and deep integration projects are viewed with suspicion as a form of trade diversion and protectionism, countering the path towards free trade. The FTAA has been viewed in the United States as a project that will to some extent neutralise the Mercosul, ensure US predominance in the region, and prevent Brazil from challenging its political leadership. Indeed, the Mercosul has been seen as an attempt by Brazil to gain greater autonomy from the United States. It is a country seen to compete with the United States in the forging of an alternative project in the region. While this view of the Mercosul is the one with the greatest potential for tensions between the United States and the integration scheme, it is also the one that may most galvanise the United States into action in the Southern Cone.

42. Despite initial pessimism regarding the future of the FTAA following US Congressional rejection of "fast track" in 1997, it has become clear that negotiations will move ahead regardless. Participation in the creation of the FTAA is forcing the Mercosul to think about how to affirm its separate identity as an integration project. How can it reconcile active participation in the FTAA with the desire to proceed with deep integration? Can it assert itself as a cohesive actor, or will deep integration be diluted by hemispheric free trade?

43. Initially, Mercosul seemed to be facing an "either or" question, an irreconcilable choice between hemispheric free trade under the aegis of the United States, and an integration project which made sub-regional development a priority. It has become apparent, however, that it is possible to ensure a positive – albeit not

entirely tension-free – relationship between the two projects, essentially because the timing of the FTAA has been slowed down. US presidential authority to negotiate free trade was dramatically curtailed by the failure of fast track. Many congressional members of the Democratic Party believe that NAFTA has been a failure. Trade unions and environmental lobbies are also opposed to NAFTA as they fear job losses in the United States and the lowering of hard-won labour and environmental standards, as US companies shift their operations to countries with lower standards to increase profit margins.

44. Without fast track, the Mercosul has more time to consolidate itself before it is forced to take hemispheric free trade on board. The unity of the Mercosul on the occasion of President Clinton's visit to Argentina and Brazil in October 1997, forced the United States to recognise that it was confronted with the reality rather than the rhetoric of integration. The strong position adopted with regard to FTAA negotiations obliged US negotiators to recognise that the pace of these will be shaped by the determination of the Mercosul to proceed with deepening.

45. The FTAA negotiations also allowed the Mercosul to strengthen its sense of collective identity and group power. Negotiators have been forced to adopt a common position in advance of meetings and have realised the benefits of collective action in terms of shaping the negotiating agenda.

46. Mercosul participation has also been facilitated by the fact that FTAA negotiations are based on consensual decision-making. The San José Declaration indicates that the FTAA can co-exist with bilateral or sub-regional agreements or arrangements. Furthermore, the Second Summit of the Americas held in Santiago on 18-19 April 1998 expressed political and social concerns similar to those held by integration projects: education, the elimination of poverty and discrimination against more vulnerable social groups, the promotion of social justice, and the consolidation of democracy. Furthermore, in areas that have traditionally generated tensions, namely drugs and security, the summit declaration adopted a very cooperative tone, advocating a multilateral formulation of responses to the drug trade and terrorism.

47. The absence of fast-track authority does not mean the death of the FTAA. Negotiations may be slowed down but free trade remains on the agenda. Indeed, a de facto dynamic of hemispheric free trade is evolving, as entrepreneurial groups in the United States and Latin America continue to jointly prepare for free trade, regardless of the postures adopted by their governments. The Latin American Business and Latin American Industrial associations, the Argentine Industrial Union,

the National Confederation of Industries of Brazil, as well as US business sectors have all intensified activities in preparation for the FTAA.

48. The FTAA is also being taken seriously by social actors, both in the Mercosul and in the United States. It was at the top of the agenda at the most recent meeting of the Economic and Social Consultation Forum and is mobilising labour and other non-governmental actors concerned with the environment and labour standards in the United States.

49. Canada, Chile and Mexico will influence the links between the FTAA and the Mercosul. Canada's multilateral vocation has contributed to an open dialogue among equals. This vocation as well as its commitment to human rights, democracy and social justice in regional and international spheres may facilitate linkages between the Mercosul and the FTAA.

50. Chile is ambiguously poised between the attractions of integration and continental trade liberalisation, establishing links with the Mercosul and participating both in the FTAA process as well as in the promotion of a network of bilateral free trade agreements. If it chooses to join the Mercosul, it can hope to act as a bridge, albeit not an exclusive one, between integration and hemispheric free trade.

51. Mexico tends to favour the extension of the FTAA based on NAFTA. However, it is also actively engaged in the promotion and negotiation of free trade agreements with various Latin American countries and regional groupings, as it does not view its relationship with the United States or NAFTA as exclusive. Despite the difference in strategies, a strong Mercosul could be a positive development for Mexico insofar as it contributes to creating a greater balance within the Americas and presenting credible alternative development and integration policies.

Collective Discipline, Democracy and Enlargement

52. As the Mercosul negotiates enlargement to the Andean Community, it is faced with two very serious challenges. How much can it widen without deepening and what criteria should be adopted for inclusion or exclusion for membership keeping in mind that the "democratic vocation" is central to the legitimacy of the project?

53. Negotiations between the Andean Community and the Mercosul in Montevideo in December 1997 failed. In February 1998, however, both sides agreed to substantially revise negotiating procedures in order to arrive at an

agreement, a commitment reaffirmed by the X Andean Community Presidential Council in Guayaquil, Ecuador, on 6 April 1998.

54. In April 1998, the Mercosul signed an agreement with the Andean Community for the creation of a free trade area by the year 2000. The aim is to negotiate trade liberalisation between 1 October 1998 and 31 December 1999. Were this to happen, all of South America, with the exception of Suriname and Guyana, would become a free trade area before the FTAA is in place.

55. There are doubts regarding the ability of both sides to achieve this objective. Although the Andean Community underwent a period of revival towards the end of the 1980s and beginning of the 1990s, its members have found it extremely difficult to negotiate as a bloc and most countries have preferred to negotiate agreements bilaterally.

56. The constitution of a South American free trade area based on the extension of the Mercosul is another possibility, with agreements signed with individual countries of the Andean Community. There is indeed a *de facto* process of trade liberalisation, as the Mercosul has signed free trade agreements with many of its neighbours as well as other countries of the region. However, this process is part of a wider dynamic taking place among the Latin American countries as a whole. This raises the question of whether a *de facto* Latin American free trade area will become a reality before the FTAA process is formally finalised.

57. The Mercosul will be faced with the question of how to widen to the Andean Community without diluting its economic and political *acquis*, given that some members of the Andean Community are among those with the greatest political and social problems in Latin America. Can the Mercosul unquestioningly absorb these countries into an integration project which has "sold" itself as a defender of democratic values and human rights?

58. The answer varies from one country to another. Clearly, however, it will be difficult to absorb the countries that suffer from a serious democratic deficit, a weak state apparatus, widespread corruption, human rights violations and political violence, if democratic identity of the Mercosul and its international legitimacy is to be maintained and consolidated. Under current circumstances, widening to all the members of the Andean Community would not be possible for political reasons. Furthermore, beyond the specific difficulties presented by an association with the Andean Community, the Mercosul cannot afford to lose sight of the primary importance of the many political, social and economic problems that constitute the greatest threat to democratic consolidation in the region.

59. Perhaps the most critical issue for the Mercosul as it faces the challenge of the FTAA and enlargement, is ensuring the project's institutionalisation and collective discipline. If similar benefits can be gained from association without economic discipline, the project will not survive, particularly as the FTAA process gains impetus. It cannot afford to play a waiting game where institutionalisation, collective discipline and deepening are concerned. The Mercosul must consolidate the gains it has already made and deepen the integration in order that it can link up with other partners without suffering dilution.

60. *Consolidate the customs union.* Too fast an opening without a consolidation of macroeconomic policies within the group would be a threat to the sustainability of the project. It must overcome internal asymmetries and work towards approximating the monetary regimes in Argentina and Brazil. Indeed, while macroeconomic convergence has proceeded positively there is currently a lack of financial convergence. The Mercosul must also widen the range of liberalisation and common policies, particularly in services and government procurement.

61. *Prepare for the WTO Millennium Round.* Agriculture and services will be negotiated and Mercosul trade barriers with regard to third countries and changes to its Common External Tariff will come under scrutiny by the WTO committee on regional agreements. The fact that, like most other countries in the region, the Mercosul has engaged in the negotiation of free trade agreements has strengthened the presence and legitimacy of the WTO as an actor in the region. This is a positive feature that can be built upon.

62. *Reaffirm its political identity.* The Mercosul must consolidate itself as an open integration project, based on democratic rule and respect for human rights. This means taking on board the problems posed by Paraguay, and the challenge of promoting equitable economic development and social justice as an essential element of the legitimacy of the integration process.