Preferences and Effectiveness in Regional Economic Integration: the case of Mercosur

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Abstract

Mercosur, created in 1991 and one of the largest regional economic blocs in the world, has been in a state of deep crisis for at least 20 years. This work engages with academic debates about the origins of crisis. Mercosur’s crisis reflects the historical trajectory of the bloc’s effectiveness in fulfilling its tasks and accomplishing its objectives. Symbolizing the crisis is the sharp decline, experienced during the late 1990s, in the bloc’s intra-regional trade rates. Previous interpretations tend to identify either the institutional structure of Mercosur or domestic political changes in member states as the driver of crisis. While to a good extent aligned with the domestic politics approach, the present study attempts to contribute to the literature by suggesting an emphasis on the history of state preferences. Through a systematic process analysis, it identifies substantive shifts in the processes of preference formation in Argentina and Brazil (the bloc’s major states) that would decisively compromise the effectiveness of Mercosur in the long-term. By abandoning agendas that prioritized the interests of domestic manufacturing sectors, Argentinian and Brazilian administrations throughout the 1990s have challenged the bloc’s ability to fulfil its foundational tasks and accomplish its central objectives.
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1 Introduction

Created in 1991 through the Asunción Treaty, the Common Southern Market (Mercosur) stands as the institutional culmination of extensive efforts to reconcile the interests of South America's largest economies, Argentina and Brazil\(^1\) (Vigevani et al. 2008). The primary goal of Mercosur’s inception was to cultivate economic competitiveness by establishing a cooperative economic framework among Argentina, Brazil, Paraguay, and Uruguay (Tratado de Asunción 1991). Subsequently, in 2005 and 2015, Venezuela and Bolivia received formal invitations to join as members\(^2\).

Mercosur’s strategic objectives encompass a range of initiatives, including the facilitation of intra-regional trade expansion, the encouragement of productive—largely industrial—complementation, the safeguarding of emerging democratic transitions, and the fostering of regional peace (Tratado de Asunción 1991).

While agreements like the North American Free Trade Agreement (NAFTA)\(^3\) focused primarily on trade and tariffs, Mercosur’s establishment aimed for a deeper integration—envisioning a communitarian space in South America akin to the regional economic integration witnessed in 1950s Europe (Mattli 2012). In mirroring the experience of the European Economic Community (EEC), the founding members of Mercosur recognized the pivotal role of policy coordination in constructing and sustaining the common market (Tratado de Asunción 1991).

During its inaugural decade, Mercosur predominantly focused on economic matters (Bernal-Meza 1999). However, the 2000s marked a notable expansion in the bloc’s agenda, encompassing a broader array of concerns such as human rights, environmental protection, welfare, and cultural issues (Bianculli 2016). Additionally, an initiative to deepen democratic

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\(^1\) Between 1985 and 1990, pivotal groundwork for the common market project was established through the signing of four foundational documents by the administrations of Argentina and Brazil. These documents delineated the content, expectations, and objectives that ultimately underpinned the institutionalization of the project in 1991. The quartet of crucial documents comprises: The Iguazú Declaration (November 1985), The Argentina-Brazil Integration Act (July 1986), The Treaty for Integration, Cooperation, and Development (November 1988), and The Buenos Aires Act (July 1990).

\(^2\) Despite the admission of Venezuela and Bolivia as new member states, MERCOSUR faced challenges in its endeavour of enlargement. Venezuela’s participation was suspended in 2017 due to severe socio-political crises, while Bolivia’s formal acceptance by all member states in 2015 has yet to materialize owing to pending approval from the Brazilian congress.

\(^3\) Created in 1994 as NAFTA, the agreement was renamed in 2018 as United States-Mexico-Canada Free Trade Agreement (USMCA).
processes led to the establishment of the Parliament of Mercosur (PARLASUR) in 2005 (Protocolo Constitutivo PARLASUR 2005; Medeiros, Mota, and Meunier 2016).

While instrumental in supporting regime transitions, advocating democratic principles, and ensuring regional stability, Mercosur has grappled with a profound and enduring crisis spanning at least two decades (Malamud 2005; Nolte and Weiffen 2021; Oelsner 2013; Malamud and Castro 2007). Its struggle to fulfill foundational objectives has underscored a persistent state of ineffectiveness (Burges 2005). Intra-regional trade rates (as a percentage of total – i.e., intra- and extra-regional – exports and imports involving member states), a cornerstone of Mercosur’s aspirations, initially surged in the bloc’s early years but sharply declined between 1998 and 20024 (Inter-American Development Bank 2023; Malamud and Castro 2007).

Although experiencing a modest resurgence between 2002 and 2004, intra-Mercosur trade participation remained relatively stagnant for nearly a decade (Zelicovich 2015). However, starting from 2010, these rates regressed to pre-1991 levels (see Figure 1 below) (Inter-American Development Bank 2023; WITS/World Bank 2023).

While the examples of Asia, Europe, and North America indicate a progress of regional governance institutions in terms of policy implementation and effectiveness5, in Mercosur the opposite seems to have become the norm (González et al. 2021; Caetano and Hernández Nilson 2022). Public discontent and pessimism among state officials from Mercosur member nations have been evident. In 2015, Brazilian Minister of Strategic Affairs, Roberto Mangabeira Unger, labelled Mercosur as a ‘spiritless body’ and advocated for Brazil to prioritize relations with the United States (Oliveira 2015). Similarly, Uruguayan President Luis Lacalle Pou has been vocal in criticizing the bloc’s decision-making capabilities, casting doubt on its relevance, and even entertaining the possibility of Uruguay seeking agreements beyond the confines of the bloc (Werner 2022). In 2023, prominent diplomat and former Brazilian Minister of Foreign Affairs, Rubens Ricupero stated that ‘Mercosur has been in a state of deep crisis for at least 20 years’

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5 In the case of the EU, the economic crisis at the beginning of the 2010s led to a movement towards greater policy coordination (Webber 2014; 2018). In the case of the Association of Southeast Asian Nations (ASEAN), both the responses to the financial crises of the early 2000s (Click and Plummer 2005) and 2008 (Sangsubhan and Basri 2012), as well as the regional policies for containing the coronavirus (Djalante et al. 2020), have highlighted the capacities of the bloc. Strictly in economic terms, NAFTA has been marked, since its inception in 1994, by consistent effectiveness in promoting intra-regional material fluxes and interdependencies (Lederman, Maloney, and Servén 2005).
Accordingly, recently elected ultra-liberal Argentinian president Javier Milei once said that ‘Mercosur serves no purpose’ (Viga Gaier 2023).

The present work addresses the process leading to crisis in Mercosur.

1.1 Research Gap

Scholarly discourse commonly attributes Mercosur’s challenges to the perceived ‘weak institutionalization’ of decision-making processes (Burges 2005; Malamud and Castro 2007; Caetano and Hernández Nilson 2022; Arnold 2017; Doctor 2013). Several works have advanced the argument that member states’ exaggerated emphasis on sovereignty concerns has challenged the fulfilment of Mercosur’s core objectives. However, empirical evidence, particularly from the Measuring International Authority (MIA) dataset, presents a divergent narrative (MIA-Authority Dataset 2023). The MIA index, developed by Hooghe, Lenz and Marks (2019), derives institutionalization scores by assessing the decision-making processes of international organization. This evaluation involves categorizing decision-making procedures based on the level of authority delegation or pooling (Hooghe, Lenz, and Marks 2019; Hooghe et al. 2017).

Data from the index reveals that Mercosur’s political authority peaked in 2004 and remained relatively stable thereafter (see Figure 1 below) (MIA-Authority 2023). Intriguingly, the decline in Mercosur’s effectiveness, symbolized by declining intra-regional trade rates since the late 1990s, does not align with the widely asserted ‘weak institutionalization’ hypothesis. Notably, this decline commenced in 1998, a period when Mercosur’s institutionalization score was still advancing. This incongruity prompts further investigation: beyond institutional weaknesses, an exploration into additional dynamics contributing to Mercosur’s diminishing effectiveness, particularly concerning intra-regional trade rates, becomes imperative. Figure 1 visually illustrates this discrepancy.

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6 The MIA-Authority Dataset is available at https://garymarks.web.unc.edu/data/international-authority/.
7 Delegation pertains to instances where member states transfer formal political authority to supranational bodies. The extent of functions, scope, and binding nature determines the delegation score. Conversely, pooling occurs when authority is collectively shared among member states, with the highest ‘pooling’ score assigned to decision-making processes employing absolute majoritarian voting schemes. Notably, within MERCOSUR, all decision-making procedures mandate consensus as a prerequisite.
Another frequently explored viewpoint in research focuses on the problems Mercosur encountered when centre-left coalitions came into power in the early 2000s (Malamud and Gardini 2012; Saraiva 2010; Almeida 2011). Malnight and Solingen (2014), for instance, assert that the new administrations in Argentina and Brazil were politically sustained by ‘inward-looking coalitions’, prioritizing ‘statism, economic protectionism, self-sufficiency, and nationalism’ (Malnight and Solingen 2014, 289).

Equally prevalent in this literature is the recognition of the emergence, particularly during the early 2000s, of a ‘post-hegemonic’ conceptualization of regional integration8 (Riggirozzi and Tussie 2012). This shift is perceived as being catalysed by the ascent of centre-left coalitions in various South American countries, supplanting the ‘open regionalism’ characteristic of the 1990s (Phillips 2003). As a result, the argument suggests that Mercosur’s course was negatively affected by the emergence of national administrations with varying conceptions of regional economic integration compared to the prevailing views in the 1990s (Briceño Ruiz and Gomes Saraiva 2010).

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8 Other labels for the new kind of regionalism were suggested, such as post-liberal (Cienfuegos Mateo and Sanahuja 2010; Sanahuja 2008; Veiga and Rios 2007) or strategic (Briceño Ruiz 2007).
Perspectives highlighting the influence of centre-left governments present an intriguing path for research. By emphasizing the significance of domestic politics, these studies widen the analytical scope, particularly when contrasted with solely institutionalist explanations. However, explanations attributing the historical origins of Mercosur’s crisis to the emergence of centre-left governments appear somewhat limited in providing fully convincing accounts. Similar to interpretations focusing on the institutional dimension, these studies pinpoint the historical genesis of the crisis to a period when the crisis was already unfolding (see Figure 1 above). Both the tenures of Lula da Silva and Néstor Kirchner commenced in 2003, five years after the onset of the crisis. Thus, while these explanations provide valuable insights and highlight domestic politics as an intriguing dimension for exploration, they fall short in providing consistent explanations for the early indications of ineffectiveness observed in Mercosur during the 1990s.
1.2 Research Aim and Question

While acknowledging the significance of interpretations centred on ‘weak institutionalization’, this study adopts a ‘domestic politics’ perspective, aiming to delve deeper into this line of approach and refine the explanatory framework. Rather than focusing on apparent ideological and rhetorical cleavages, this work shifts the analytical focus to processes of preference formation.

The research project seeks to contribute to the ongoing debate by examining the effectiveness of Mercosur through a systematic historical analysis of the influence exerted by shifts in domestic processes on national preference formation. Drawing inspiration from Andrew Moravcsik’s theoretical insights on economic integration in Europe, this study perceives national preferences as shaped by the functional (mainly economic) demands of specific domestic interest groups (Moravcsik 1998). The governmental prioritization of certain interests, to the detriment of others, is considered a crucial factor influencing the outcomes of regional interstate cooperation.

This research investigates the scope and mechanisms through which the evolution of national preferences has shaped the emergence of crises within Mercosur. It does so by historically analysing the processes of national preference formation in the pivotal founding and major member states of the bloc, namely Argentina and Brazil. Consequently, the central research question is:

*To what degree and through what channels have changes in Argentinian and Brazilian processes of national preference formation influenced the effectiveness of Mercosur?*

1.3 Structure

Section 2 thoroughly reviews alternative explanations in the literature, exploring their core theoretical foundations, discussing limitations, and advocating for a focus on national preferences. Section 3 presents the study’s theoretical framework and outlines the hypothesized causal mechanism. Section 4 details the comparative historical analysis (CHA) methodology, justifying period selection, geographic focus on Argentina and Brazil, and the choice of the systematic process analysis method to conduct the within-case research. Section 5 presents the results from the historical analysis. Section 6 discusses findings and study limitations.
independently. Finally, Section 7 concludes the dissertation, summarizing key points and suggesting paths for further research.
2 Literature Review

The study of crisis in Mercosur has led to two divergent explanations in scholarly discourse. The predominant view attributes Mercosur’s low effectiveness to weak institutionalization. Another explored perspective suggests that the observed crisis might stem from specific developments in the domestic politics of member states.

These contrasting arguments, along with their respective explanatory boundaries, are individually discussed below. This review of existing literature not only outlines prevailing explanations but also sets the stage for the present work’s contribution. Together with the theoretical framework presented in Section 3, this literature review lays the foundation for formulating the hypothesized causal mechanism to be explored in the subsequent historical analysis.

2.1 Weak Institutionalization

Explanations attributing Mercosur’s ineffectiveness to weak institutionalization largely align with functionalist theories of regional integration (Haas 1961; Mattli 1999). These theories draw heavily from the study of European integration, proposing assumptions that form the basis for explaining outcomes in regional interstate cooperation. Central to these interpretations is a core assumption: the distribution of ideas and information plays a pivotal role in shaping negotiation outcomes among states (Koremenos, Lipson, and Snidal 2001; Voeten 2019).

Access to knowledge and expertise stands as a pivotal aspect in international cooperation, crucial to reduce uncertainties and transaction costs (Sweet and Sandholtz 1997; Pollack 2003; Keohane 2005). In the realm of regional policymaking, economic integration’s effectiveness is anticipated to rise with an equitable generation and dissemination of knowledge. Underpinning the ‘weak institutionalization’ hypothesis is the assumption that the costs for states in generating and disseminating information are typically excessive, thus undermining integration effectiveness (Haas 1961; Moravcsik 1998). In essence, the expenses related to producing and circulating vital information and expertise among national governments are expected to outweigh the benefits derived from integration. Consequently, supranational actors are
perceived to possess a comparative advantage in the generation and dissemination of such information (Mattli 1999; 2012).

Centralized decision-making bodies endowed with autonomy and substantial authority are anticipated to wield a pivotal and beneficial role in the establishment of regional economic integration (Mattli 1999; 2012; Moravcsik 1998). These entities are perceived as better equipped to generate, disseminate high-quality knowledge, and efficiently coordinate regional policies. Discussions on the crisis within Mercosur often underscore the member states’ failure to establish independent supranational bodies capable of devising, executing, and enforcing regional policies (Malamud and Gardini 2012). Notably, analyses attributing Mercosur’s ineffectiveness to weak institutionalization stress the criticality of a dedicated secretariat exclusively committed to advancing the regional agenda (Arnold 2017; Doctor 2013).

For instance, Vigevani et al. (2008) and Doctor (2013) assert that Mercosur’s trajectory heavily relies on the political will and consensus among member state administrations. This dependence is evidenced by the absence of a permanent bureaucracy acting on behalf of Mercosur. Andrés Malamud characterizes this scenario as ‘presidential diplomacy’ (Malamud 2005). Executive bodies within Mercosur comprise officials representing national governments exclusively\(^9\). Consequently, Mercosur’s institutional structure fosters decision-making heavily reliant on the individual preferences of each member state. This structure, as argued by Nolte and Weiffen (2020) and González et al. (2021), hampers Mercosur’s overall ability to consistently achieve positive outcomes.

The institutional structure established in 1991 through the Asunción Treaty – and ratified in 1994 through the Ouro Preto Protocol – is perceived as the fundamental impediment to achieving the bloc’s formally outlined objectives. As Arnold (2017) and Arnold and Rittberger (2013) note, despite a growing emphasis on promoting democracy and involving civil society during the 2000s, Mercosur’s power structure and decision-making processes have remained unchanged. Medeiros et al. (2016) emphasize that despite the official establishment of the

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\(^9\) The two major executive bodies of Mercosur are the Council of the Common Market (Consejo del Mercado Común) and the Common Market Group (Grupo Mercado Común). The Council is composed by the Ministers of Finance and Foreign Affairs of each member state, while the Group is exclusively coordinated by the Ministries of Foreign Affairs (Tratado de Asunción 1991; Protocolo de Ouro Preto 1994).
Parliament of Mercosur (PARLASUR) in 2005, it has persisted merely as a consultative body without substantive legislative powers.

As highlighted in the introduction, the 2000s witnessed an expansion of the bloc’s policy scope, reflecting a socially oriented agenda encompassing welfare, environment, health, education, and culture (Bianculli 2016). This shift signalled a move towards ‘social regional governance’ (Van der Vleuten 2016). However, despite this broadening scope, there was a lack of corresponding institutional capability at an autonomous and effective level to advance this new agenda (Nolte and Weiffen 2020; González et al. 2021).

While explanations emphasizing weak institutionalization have significantly enhanced the general understanding of regional integration outcomes, the Mercosur case reveals their explanatory limitations. The absence of autonomous decision-making bodies indeed mirrors the overall ineffectiveness of Mercosur. The ambitious objectives outlined in the Argentina-Brazil pacts and the subsequent Asunción Treaty undeniably necessitate a certain level of centralization. Effective coordination of macroeconomic policies is improbable without clearly defined enforcement and compliance mechanisms (Mattli 2012). However, while these explanations offer valuable insights into Mercosur’s trajectory, they appear insufficient in providing a compelling explanation for the genesis of the bloc’s crisis.

Within the premises guiding the ‘weak institutionalization’ hypothesis, one would anticipate observing a direct causation in Mercosur’s trajectory: a positive causal relationship between the levels of political authority vested in Mercosur institutions and the rates of intra-regional trade within the bloc. In essence, increased institutionalization should coincide with heightened effectiveness. These perspectives depart from a causal mechanism wherein the effectiveness of international organizations serves as the dependent variable, while ‘strong institutionalization’ is positioned as the independent variable.

However, the Mercosur case presents a paradox where a pronounced decline in effectiveness (measured by intra-regional trade rates) occurs while the bloc’s level of political authority continues to increase, as depicted in Figure 1 above. Notably, Mercosur’s institutionalization continued evolving until 2004, yet intra-Mercosur trade rates experienced a steep decline between 1998 and 2002 (Inter-American Development Bank 2023; MIA-Authority Dataset 2023).
Furthermore, studies on regional integration in Europe and empirical findings in South American interstate cooperation prompt additional inquiries into the genuine impact of institutionalization. Bickerton, Hodson, and Puetter (2015) demonstrate, in their study on the ‘New Intergovernmentalism’, that post-1992, EU member states tended to prioritize intergovernmental solutions. Despite refraining from enhancing supranational institutions, the EU has maintained high effectiveness in achieving its objectives (Bickerton, Hodson, and Puetter 2015; Moravcsik 2018).

Andrew Moravcsik’s work on the construction of the European Economic Community challenges the dominant functionalist perspective, asserting that national preferences, not institutions, shaped the European integration process (Moravcsik 1998). Additionally, a noteworthy point is the significant success in South American interstate cooperation, particularly in the automobile industry, stemming not from a multilateral, strongly institutionalized agreement, but rather from strictly bilateral negotiations between Argentina and Brazil (Caetano and Hernández Nilson 2022; WITS/World Bank 2023).

### 2.2 Domestic Politics

A second line of explanation highlights the impacts of domestic politics on Mercosur’s trajectory. Specifically, these explanations emphasize the challenges posed by centre-left coalitions that rose to power in the early 2000s. These interpretations trace a shift in regional integration following Hugo Chávez’s victory in Venezuela in 1998 (Dabène 2009; Saraiva 2010; Riggirozzi and Tussie 2012; Rivarola Puntigliano and Briceño-Ruiz 2013). This literature characterizes this period as witnessing a radical re-conceptualization of regional integration in Latin America. Moreover, it commonly situates Mercosur within the context of the ‘open regionalism’ wave prevalent in the 1990s.

Open regionalism embodies the adoption of widespread guidelines advocated by the Washington Consensus and the IMF by national governments. These guidelines

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10 The 2000s in Latin America witnessed a period often termed the ‘pink tide’, characterized by the rise of progressive governments. Notably, Lula da Silva and Néstor Kirchner assumed presidencies in Brazil and Argentina in 2003, followed by Tabaré Vázquez and Evo Morales, who took office in Uruguay and Bolivia in 2005, respectively. Rafael Correa’s presidency commenced in Ecuador in 2007. Occasionally included in this roster are the administrations of Michele Bachelet in Chile and Fernando Lugo in Paraguay.

11 Washington Consensus refers to an agenda advocated by American orthodox economists in the late 1980s. The term was first coined by John Williamson in a 1989 conference convened by the Institute for International Economics (Williamson 2009). Convinced of the exhaustion of previous models of economic...
recommended strategies of adaptation to globalization, advocating for de-regulatory economic agendas. Alongside Mercosur, other Latin American examples of open regionalism would include the Central American Integration System (SICA) and the Andean Community (CAN) (Bianculli 2016). These regionalist initiatives reflected a model of integration rooted in economic orthodoxy and commitment to liberal democratic values. Their primary objective was to facilitate competitive insertion into global markets and bolster member states’ negotiation leverage with external parties (Solingen 1998). The overarching aim was to solidify re-approximation and align with the principles of liberal democracy in the Western world.

Throughout the 1980s and (mainly) the 1990s, echoing the principles of open regionalism and the Washington Consensus, a virtually every Latin American government subscribed to the ‘comparative advantage’ theory of economic development (Siddiqui 2018). This theory advocated for peripheral, non-industrialized countries to capitalize on sectors where they possessed established global competitiveness, primarily centred around extractive and agricultural activities. Consequently, instead of fostering industrialization and the diversification of national production networks, nearly every government endorsed widespread privatization programs and implemented policies that diminished protection for domestic industries – i.e., conventional orthodox agendas (Bresser-Pereira 2007).

The ‘open’ model of regional integration was anticipated to speed up and enhance these development plans, as its creators and supporters suggested. However, Hugo Chavez’s victory in Venezuela’s 1998 presidential elections is widely seen as a turning point in Latin America’s regionalism history, notably impacting Mercosur (Sanahuja 2012). Even though Venezuela wasn’t initially a member (it was formally accepted in 2005 and gained permanent status in 2012), Hugo Chavez’s ideas significantly influenced the foreign policy approaches of Argentina and Brazil. As briefly mentioned above, particularly after the rise of centre-left coalitions led by Néstor Kirchner in Argentina and Lula da Silva in Brazil in 2003, there was a shift from the open regionalism of the 1990s to a ‘post-hegemonic’ vision of regional integration12 (Riggirozzi and Tussie 2012).

\[development\text{in} \text{Latin} \text{America,} \text{Chicago} \text{School-inspired} \text{economists} \text{developed} \text{sets} \text{of} \text{policy} \text{guidelines} \text{for} \text{governments} \text{in} \text{the} \text{region.}\]

\[12 \text{As sayd in Note 8 above, other labels for the new kind of regionalism were suggested, such as post-liberal (Clenfuegos Mateo and Sanahuja 2010; Sanahuja 2008; Veiga and Rios 2007) or strategic (Bricelio Ruiz 2007).}\]
An alternative to the American-supported ideals that drove open regionalism, the ‘post-hegemonic’ agenda focused on sovereignty and social justice. Instead of prioritizing closer ties with developed Western nations, governments adopting the post-hegemonic agenda favoured South-South relations, fostering connections with emerging powers such as China and Iran (Malamud 2011; Serbin 2016; Soares De Lima and Hirst 2006; Saraiva 2010). These shifts, often linked to the outcomes of crisis and ineffectiveness, are frequently cited in connection with the establishment of the Union of South American Nations (UNASUR) in 2008, as an indication of Mercosur’s marginalization (Sanahuja 2012).

Malnight and Solingen (2015) argue that the genesis of Mercosur in the early 1990s stemmed from domestic ruling coalitions aiming to fortify ‘their emerging open-economy democracies’ (Malnight and Solingen 2014, 281). However, the presidencies of Lula da Silva and Néstor Kirchner are viewed as a shift towards internal focuses, contributing to Mercosur’s profound crisis. These new ruling coalitions are depicted as emblematic of the ‘statist-nationalist’ coalition, contrasting with the more regionalist-friendly ‘internationalist’ coalitions (Solingen 1998, 3).

While interpretations emphasizing shifts in domestic politics and the rise of ‘post-hegemonic’ regionalism during the 2000s offer valuable insights into Mercosur’s overall trajectory, they fall short in consistently explaining the origin of crisis in the bloc. Although the agendas pursued by the Kirchner and Silva’s administrations in Argentina and Brazil might have contributed to the persistence of ineffectiveness, attributing them as the primary catalysts for Mercosur’s crisis seems empirically unsupported. As previously illustrated, the trajectory of Mercosur displayed evident signs of ineffectiveness in the late 1990s, notably marked by a steep decline in intra-regional trade rates - plummeting from over 23% in 1998 to 15% in 2002 (see Figure 1) (Inter-American Development Bank 2023). This decline predates the tenure of the centre-left administrations, suggesting that the crisis had emerged earlier.

Contrary to these interpretations’ suggestions, the governments of both Argentina and Brazil at the onset of the crisis in 1998 were clearly aligned with the open regionalism agenda and were not reflective of the ‘inward-looking’ coalitions outlined by Malnight and Solingen (2014). The administrations of Carlos Menem (1989-1999) and Fernando de la Rúa (1999-2001) in

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**UNASUR**, championed by Hugo Chávez and Lula da Silva, emerged as the foremost symbol of ‘post-liberal’ regionalism in South America (Sanahuja 2012). The organization included ambitious objectives, such as the construction of a joint defense South American alliance and regional monetary union.
Argentina, as well as Fernando Henrique Cardoso (1995-2002) in Brazil, were characterized by strong adherence to the Washington Consensus and the ‘comparative advantage’ thesis in economic development (Siddiqui 2018; Bresser-Pereira 2007).

Furthermore, especially in the Brazilian case, the centre-left governments of the 2000s did not promote drastic changes, as proposed by the ‘domestic politics’ hypothesis (Grugel and Ruggirozzi 2009). The Brazilian case is particularly elucidative. Lula da Silva’s administrations (2003-2006 and 2007-2010) remained committed to fiscal responsibility and a continued emphasis on raw material exports. The major reforms focused on boosting public investment in higher education, enhancing access to bank credit, and prioritizing income redistribution and poverty reduction (Singer 2012). Thus, while assuming rhetorical positions close to his Argentinian and Venezuelan counterparts, the Brazilian administration under da Silva was not one of radical reforms and deep structural changes.

Although these explanations provide insights and highlight domestic politics as an intriguing aspect for examination, they lack consistent explanations for the early indications of ineffectiveness witnessed in Mercosur during the 1990s. This literature, while emphasizing rhetorical and ideological distinctions between the 1990s and 2000s, overlooks a crucial aspect in interstate cooperation—the nature and formation of preferences. Therefore, this study aims to contribute by highlighting specific shifts in preference formation processes within Argentina and Brazil during the late 1980s and throughout the 1990s. These identified shifts are proposed as pivotal factors driving the crisis in Mercosur.

This study posits that examining the specific sectoral economic interests prioritized by state officials is pivotal for explaining outcomes of interstate cooperation and regional economic integration. The prioritization of certain sectoral interests shapes the preferences governments seek to advance in interstate cooperation (Moravcsik 2013). Consequently, the prioritization of particular domestic interest groups plays a crucial role in determining the effectiveness of regional integration. The upcoming section introduces a theoretical framework for the study of Mercosur’s crisis, emphasizing the fundamental role of preference formation processes and the economic interests being prioritized by national governments.
3 Theoretical Framework

This section delimits a theoretical framework for the study of Mercosur, focusing on how domestic processes of preference formation influence the outcomes of regional interstate cooperation and the effectiveness of regional economic integration (Section 3.1). In Section 3.2, the study’s hypothesis is formulated. Finally, section 3.3 brings the operationalization of key terms for the subsequent empirical analysis.

3.1 Preference Formation and Outcomes in Regional Economic Integration

The framework presented here operates on the premise that states act as unitary entities seeking to advance national preferences through international cooperation (Moravcsik 1997; 1998; 2018). While exploring cultural cleavages, social class, or the impact of ideas on preference formation could enrich the study, the research project maintains a narrower focus. Its specific goal is to contribute to academic knowledge by pinpointing the historical roots of Mercosur’s crisis, primarily within the processes of preference formation during the 1980s and 1990s. Sufficient for these purposes is the identification of shifts in governmental priorities. Therefore, the framework adopted here, in conjunction to the comparative historical analysis methodological framework (Section 4), aligns appropriately with these specific research objectives.

The premises on which this study is based hold that both the institutional outcomes and the effectiveness of regional economic integration are intimately linked to the processes of preference formation within national states (Moravcsik 1998). In the framework suggested here, sectoral economic interests dominate such processes. According to theories of regional integration influenced by intergovernmentalism, the intensity and extent to which sectoral interests shape national preferences is driven by the level of societal organization these interests manage to achieve (Schimmelfennig 2018).

On the other hand, the theoretical framework suggested here focuses on the ‘supply’ side of the equation. While preferences are shaped by specific sectoral demands, state engagement in international cooperation depends on the governmental decision to prioritize or not these...
demands (Wiener, Börzel, and Risse 2019; Börzel and Risse 2019). That is, this study focuses specifically on the political economy dimension of preference formation in the sense that it centres on the governmental prioritization of certain domestic interests to the detriment of others (Moravcsik 1998).

Theoretically, these processes follow a particular logical sequence (Moravcsik and Schimmelfennig 2018). Primarily, the preferences national governments seek to advance through international cooperation reflect the interests of specific societal groups. These interests transmit the functional demands of certain domestic economic sectors. Thus, preferences are shaped through the competition of a series of societal groups seeking to have their demands accommodated by governmental action. On the other hand, state officials are compelled to identify and prioritize specific sectoral demands. The decision to prioritize certain domestic interests to the detriment of others is essential in establishing the preferences a government will advance through international cooperation.

This political economy framework suggests that national governments engage in regional economic integration to bolster sectors with limited global competitiveness but strong regional potential (Gomes and Tavares 1998; Moravcsik 1998). Therefore, regionally competitive sectors are expected to demand governmental action toward integration. Regional economic integration is predicted to expand intra-regional material fluxes and protect the region from external competition. On the political side, interstate cooperation is expected to result in integration when state officials prioritize these regionally competitive sectors. When that is the case, governments are expected to engage in regional interstate cooperation to accommodate the demands of these domestic groups. The establishment of intra-regional trade liberalization and external protection via formal treaties and protocols reflect governmental efforts to secure greater profitability for domestic sectors vulnerable to global competition from third countries.\footnote{Examining the European example from the 1950s and 1960s, German industrialists demonstrated high competitiveness within the region but faced increasing challenges on a global scale. Conversely, French farmers were relatively vulnerable to external competition but thrived within the regional market. Consequently, as highlighted by Moravcsik (1998), the European economic integration process was significantly driven by the profit-maximizing needs of German industrialists and French farmers. In this context, policies of intra-regional trade liberalization and external protection were implemented to safeguard and augment the profit margins of domestic sectors that were competitive regionally but struggled to compete at a global level or were less competitive.}
Simply put, the process leading to institutional outcomes in regional interstate cooperation can be formulated as a three-stage model (Moravcsik 1998; 2018; Moravcsik and Schimmelfennig 2018). Initially, national preferences crystallize as specific sectoral demands are prioritized. Subsequently, governments engage in regional interstate cooperation, aiming regional institutional solutions to bolster the capital accumulation of these sectors—regionally competitive but globally uncompetitive. Finally, successful negotiations often lead to the establishment of regional institutions designed to cater to the profit-centric needs of these regionally competitive economic groups.

These theoretical remarks serve as a foundational basis for understanding outcomes in regional cooperation. However, to effectively apply these propositions to the study of Mercosur’s crisis, it is crucial to expand the framework to address another pivotal aspect of regional economic integration: its effectiveness. Gutner and Thompson (2010) provide valuable theoretical insights into differentiating between effectiveness and performance. The latter encompasses a broader spectrum of factors, concerning not only specific outcomes but also decision-making procedures and how goals are pursued. Conversely, effectiveness refers to the ability to execute tasks and achieve the initially set objectives (Gutner and Thompson 2010).

The crisis within Mercosur manifests as the bloc’s significant underachievement, particularly in its foundational goal of augmenting intra-regional trade (Caetano and Hernández Nilson 2022; Burges 2005). This crisis indicates Mercosur’s inability to realize most, if any, of its fundamental objectives. Thus, in this context, ‘crisis’ in this study refers to the observed ineffectiveness in Mercosur’s trajectory.

Expanding the aforementioned framework, effectiveness in regional economic integration is contingent upon domestic processes of preference formation. As Moravcsik’s theory of European integration suggests, the institutionalization of regional integration projects emerges from the governmental prioritization of sectoral demands from regionally competitive economic groups (Moravcsik 1998). Although on different bases, the same rationale is present in Latin American structuralist theories from the 1950s and 1960s. Thinkers from the United Nations Economic Commission for Latin America (CEPAL) systematized models of regional

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15 Scholarship on the performance of international organizations offers interesting insights to the study of regional economic integration. However, these studies tend to emphasize institutional design and policy output (i.e., volume and nature of the official releases) (Tallberg et al. 2016; Sommerer et al. 2022). Given its central interest on the specific dimension of effectiveness (intra-regional trade rates), this theoretical framework is restricted to the ability to execute tasks and achieve specific outcomes.
integration based on the construction of extensive, complex chains of production (Gomes and Tavares 1998; Prebisch 1986). The general principle guiding these models, also evident in the formulation of Mercosur, is that regional integration serves as a fundamental instrument in industrialization and modernization processes.

Sectoral demands are thus essential in shaping the tasks and goals laid out within the institutional outcomes of regional interstate cooperation. Consequently, the enduring effectiveness of institutionalized schemes of regional integration hinges on the long-term compromise of governments with these particular demands. This highlights the importance of governments that prioritize, in the long-term, the interests shaping the establishment of regional integration institutions. Therefore, achieving effectiveness in these regional integration projects relies on maintaining some level of continuity in these very processes of preference formation.

3.2 Hypothesized Causal Mechanism

The propositions advanced by this theoretical framework suggest the following hypothesized causal mechanism, covering the processes leading to the creation of Mercosur and the outbreak of crisis in the bloc.

The creation of Mercosur in 1991 is the institutional outcome of interstate cooperation between the Argentinian and Brazilian governments. During the years leading to the Asunción Treaty, governments were seeking to advance national preferences, which were shaped by the prioritization of specific economic interests. The specific societal demands advanced by state preferences are expected to represent the interests of domestic economic sectors that are competitive at the regional level but globally uncompetitive. Therefore, these sectors demand protection against global competition and expanded access to regional markets through trade liberalization.

The effectiveness of Mercosur throughout its trajectory is expected to be a function of the existence of state preferences aligned with the foundational tasks and objectives laid out in the Asunción Treaty. Effectiveness is thus anticipated to increase when the interests shaping national preferences converge with the specific interests influencing the creation of Mercosur in 1991. Concretely, the governmental prioritization of regionally competitive but globally uncompetitive sectors should persist. Specifically in the case of Mercosur, as previously mentioned, the expansion of intra-regional trade constitutes the paramount task. As in other
instances of regional economic integration, for example North America and Europe, the implementation of policies that privilege intra-regional trade is crucial for effectiveness.

### 3.3 Operationalization

The operationalization of the theorized causal mechanism involves defining empirical measures for the study’s causal variables, namely state preferences. Crucial to this is defining how governments aim to enhance profitability for domestic sectors vulnerable to global competition from third countries. This includes measuring the extent to which governments have aligned with the goals set during Mercosur’s creation.

Within the Mercosur context, successful outcomes hinge on state preferences that mirror domestic manufacturing interests. Therefore, gauging continuity with the preferences outlined in Mercosur’s foundational treaty involves assessing the level of priority given to domestic industrial sectors by national governments. Conversely, deviation from these preferences can be gauged by the degree of marginalization these sectors face. Degrees of prioritization and marginalization can be assessed through a within-case analysis of the textual content of major reforms, policy programs, and legislation. Heterodox, developmentalist, and structuralist macroeconomic policy agendas tend to promote higher levels of intervention and thus privilege the protection of domestic manufacturing, i.e., active industrial policies (Bresser-Pereira and Gala 2010). On the other hand, reforms inspired by economic orthodoxy are expected to promote de-regulation and facilitate the entrance of foreign capital, thus increasing the vulnerability of national industry (Cano 2012). As Nobel laureate Gary Becker once put it, ‘the best industrial policy is none at all’ (cited in Wade 2015, 67).

It is important to emphasize that this work is exclusively concerned with the governmental prioritization of economic interest groups. A comprehensive account of domestic socio-political processes, while relevant, falls beyond this analysis’s scope. Here, emphasis is placed on elucidating how the prioritization of certain sectoral demands influences outcomes of regional interstate cooperation and the effectiveness of regional economic integration. The study concentrates on identifying pivotal elements within the theorized causal chain.

Therefore, the narrow focus on industrial policy certainly shadows other potentially relevant aspects of preference formation. Nonetheless, given the time and space constraints of a masters’ dissertation, an exclusive emphasis on governmental prioritization of certain sectoral demands
is understood to effectively cover the research purposes. The limitations due to marginalizing relevant socio-historical dimensions, such as political structures, party formation, cultural differences, and challenges in democratic transition processes, are critically discussed in Section 6.

The subsequent section, on the methodological framework informing the study, further details how the empirical analysis of the processes of state preference formation will proceed.
4 Methodology

In general terms, the present inquiry is informed and inspired by the comparative historical tradition (Anderson 2013a; 2013b; Skocpol 1979; 2000; Moravcsik 1998; Wallerstein 2011). More specifically, the study is influenced by the research agenda of Comparative Historical Analysis (CHA) as systematized by Mahoney and Rueschemeyer (2003). Such agenda is designed to unravel the causal mechanisms behind significant social and political outcomes and its underlying analytical premise is ‘a commitment to offering historically grounded explanations’ (Mahoney and Rueschemeyer 2003, 4).

The specific method employed in the study can be identified as the systematic process analysis of observable empirical manifestations stemming from the hypothesized causal mechanism (Hall 2003; 2006). The causal mechanism in this study links preference formation to outcomes in regional economic integration. Thus, the analysis focuses on elements within this hypothesized causal chain that generate the outcomes of interest: the creation of Mercosur, its initial effectiveness, and the emergence and persistence of crises.

Given the study’s concern with causality, employing multivariate regression analysis wouldn’t be appropriate. If compared to quantitative research, systematic process analysis shifts the analytical focus from correlation to process (Hall 2006). On the other hand, the decision to concentrate on a single case—specifically, Mercosur—is driven by practical considerations and the pursuit of quality. Given the contextual demands arising from the historical analysis of causal mechanisms and considering the constraints of a masters’ thesis timeframe, conducting in-depth analyses of multiple cases would be unattainable. By narrowing the study to a single case, it enhances the potential for acquiring more substantial insights and providing a convincing answer to the research question.

This section is structured as follows. Section 4.1 motivates the definition of the geographic scope of the analysis (Argentina and Brazil). Section 4.2 further details the systematic process analysis method as outlined by Peter A. Hall (2003; 2006) and the rationale behind the division of the analysis into time periods. Section 4.3 discusses the types of materials and sources being used.
4.1 Geographic Scope

The decision to limit the study’s geographical scope to Argentina and Brazil stems from two separate yet interconnected reasons. First, it is crucial to emphasize that the establishment of Mercosur in 1991 was the institutional outcome of years of re-approximation between these two countries (Vigevani et al. 2008). Since 1985, the governments of Argentina and Brazil have actively pursued closer ties, a process that followed years of military rule in both nations.

The period between 1985 and 1991 was characterized by ongoing negotiations between these governments aimed at promoting and solidifying integration schemes. This progress is evident in the successive signing of documents that reinforced their commitment to constructing a common regional economic space. The Buenos Aires Act, signed between Argentina and Brazil in July 1990, outlined the guidelines, tasks, and objectives for constructing the common market (Acta de Buenos Aires 1990). Notably, it was only during the final round of negotiations preceding the signing of the Tratado de Asunción (1991) that the Paraguayan and Uruguayan governments were officially included.

The second reason for focusing on Argentina and Brazil is economic. Among the four founding members, Argentina and Brazil collectively account to over 95% of the bloc’s GDP (World Bank 2023). Additionally, trade relations exclusively involving these two countries constitute more than 75% of total intra-Mercosur trade rates (WITS/World Bank 2023). Consequently, by narrowing the empirical analysis to the processes of national preference formation in Argentina and Brazil, a comprehensive understanding can be attained on the process leading to crisis in Mercosur.

4.2 Systematic Process Analysis and Periodization

Driven by theory, systematic process analysis is a method particularly suited for cases marked by ‘contention among competing theoretical explanations about what kinds of causal factors matter to a given outcome’ (Hall 2006, 25). The crisis in Mercosur is precisely such a

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16 Between 1985 and 1990, pivotal groundwork for the common market project was established through the signing of four foundational documents by the administrations of Argentina and Brazil. These documents delineated the content, expectations, and objectives that ultimately underpinned the institutionalization of the project in 1991. The quartet of crucial documents comprises: The Iguazú Declaration (November 1985), The Argentina-Brazil Integration Act (July 1986), The Treaty for Integration, Cooperation, and Development (November 1988), and The Buenos Aires Act (July 1990).
contentious case, and the research gap this study aims to fill is located within the debates involving explanatory frameworks grounded in functionalist premises and approaches focused on the domestic politics dimension. This work aims to contribute to the ongoing debate by proposing a theory-driven comparative mode of explanation centred on the domestic formation of state preferences.

Comparative studies often involve investigating multiple distinct territorial or institutional cases. However, this work can be defined as a single-case study employing within-case comparisons between outcomes observed in two distinct periods (Haydu 1998). In essence, the focus here is on Mercosur, divided into two separate temporal cases. Rather than comparing different countries, this study utilizes historical empirical evidence from Argentina and Brazil to contrast two periods within the same case, each yielding different outcomes.

Building on the hypothesized causal mechanism proposed in section 3.3, the theoretical expectation here is to identify a significant shift in the processes of preference formation in Argentina and Brazil leading up to the outbreak of crisis in 1998. Such expectation stems from the assumption that certain elements crucial for the emergence of the crisis were either absent or less entrenched in previous periods. This assumption, in turn, arises from the active re-approximation between the Argentinian and Brazilian governments in the years preceding 1991 and the effectiveness witnessed during the initial years of Mercosur’s trajectory (1991-1998). In sum, the theorized hypothesis predicts that certain elements present in the process leading to the creation and early effectiveness of Mercosur were not present (or less present) in the process leading to the outbreak of crisis in 1998.

The empirical analysis is structured to reflect the pronounced shifts observed in these outcomes. The first period/outcome spans from 1991 to 1998, encompassing the creation of Mercosur and the effectiveness witnessed during its initial years. Conversely, the second period comprises the years characterized by Mercosur’s decline in effectiveness and persistent stagnation, extending through the 2010s. These periods are defined by their outcomes, and this study aims to shed light on the processes leading to these distinctive outcomes. Thus, while the delimitation of periods mirrors the two substantial distinct outcomes observed throughout its trajectory, this study analyses the process leading to these outcomes. To accomplish this, the process leading to each period’s outcomes undergo systematic analysis. This method involves identifying pivotal elements within the causal chain that generate the specific outcomes and elucidating how these elements exert significant effects.
The study’s timeframe is confined to the period starting in 1985. This methodological choice is driven by two key factors. First, 1985 marked a pivotal turning point in the relationship between Argentina and Brazil. The transition from years of military rule to civilian governments under Raúl Alfonsín and José Sarney prioritized re-approximation as a crucial national objective (Vigevani et al. 2008). Second, and closely tied to the first reason, empirical evidence from dictatorship years is both scant and unreliable. Therefore, the exclusion of evidence predating 1985 is due to both historical and practical considerations.

4.3 Selection of Materials and Evidence Collection

Influenced by the methodological foundations of Moravcsik’s ‘Choice for Europe’ (1998, 77-85), emphasis is placed on source reliability, defined as ‘a function of the extent to which the activity it (the source) documents is one in which it is costly to manipulate or misstate the truth’ (Moravcsik 1998, 82). Consequently, the prioritization of reliability shapes the decision to select official texts encompassing major macroeconomic reforms and policy programs as primary sources for the empirical analysis.

Key laws, decrees, and official guidelines released over the years are expected to accurately represent the key sectoral demands shaping state preferences. Within the content of these texts, policymakers are less likely to ‘manipulate truth’, given the practical and objective consequences associated with these official documents. Relying on these historical institutional documents aims to offer profound insights into the sectoral demands governments privilege and accommodate. Evidence derived from significant macroeconomic reforms and policies is anticipated to illuminate the societal groups receiving preferential treatment from the government. These documents are publicly accessible through Argentinian and Brazilian governmental online pages. The whole set of official texts was written in Spanish (Argentina) or Portuguese (Brazil) and translated to English independently for this work.

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17 All legislations analyzed from Argentinian political history come from the following two platforms: argentina.gob.ar and infoleg.gob.ar. On the Brazilian side, all material was collected from gov.br/planalto. In the Argentinian case, the texts of four laws, including two major monetary reforms, are analyzed: “Ley 23.686 Reforma Monetaria (Plan Austral)”, signed June 17, 1985; “Ley 23.696 Reforma del Estado”, sanctioned August 17, 1989; Ley 23.697 Emergencia Económica”, sanctioned September 1989. For Brazil, also four laws, including two monetary reforms, and a governmental publication with directives for industrial policy are analyzed: “Decreto-Lei 2.283 Plano Cruzado”, signed February 27, 1986; “Lei 7.489 Plano Nacional de Desenvolvimento (PND)”, sanctioned June 6, 1986; “Lei 8.031 Programa Nacional de Desestatização”, sanctioned April 12, 1990; “Portaria MEFP 365 Diretrizes
While the primary focus of the analysis revolves around textual evidence from major macroeconomic reforms and policies, additional qualitative data will support and bolster the study. The texts of electoral political platforms from winning coalitions are anticipated to provide crucial insights into the prioritized sectoral interests during their tenure\textsuperscript{18}. These documents capture a coalition’s perspectives and strategies for fostering economic development, as well as the place occupied by regional economic integration.

Conversely, to assess the tangible impacts of reforms and policies (conveyed through laws, decrees, and official guidelines), quantitative macroeconomic indicators play a pivotal role. The proposed causal mechanism implies that the processes of preference formation (accessible via the analysis of official documents and electoral platforms) exert causal effects on Mercosur’s effectiveness, measured by intra-regional trade rates. Specifically, within the operationalization of the theoretical framework, it has been indicated that pivotal economic activities fostering intra-regional trade are predominantly within the manufacturing sector. Hence, the macroeconomic indicators of primary interest revolve around manufacturing’s participation in each country’s GDP and exports composition\textsuperscript{19}. Finally, secondary sources are used to substantiate the analysis. Academic works that provide important contextual historical knowledge about political processes in both countries, as well as studies in political economy, support the enhancement of the study’s quality.

It is important to acknowledge, however, the limitations generated by the empirical evidence the study used to conduct the analysis. While the prioritization of certain sectoral economic interests can be deduced from institutional texts, electoral platforms, economic indicators, and specialized literature, the true motivations and objectives underlying national preferences remain uncovered. It is hardly feasible to claim that, by analysing the content from these texts,
one could derive extremely solid conclusions on why certain governments acted the way they did, thus influencing the effectiveness of Mercosur. Rather, such an inquiry would require a much closer investigation of state action and governmental priority formation. Moravcsik’s study, for instance, counts with over a hundred elite interviews in which the author directly addresses state officials (Moravcsik 1998, 77-85). This study attempts to remediate such shortcomings by providing as rigorous as possible accounts of relevant political history events and processes.

Further limitations of the general methodological framework informing the study are critically discussed in Section 6.
5 Historical Analysis

From the 1940s to the 1970s, Argentina and Brazil adhered to a dominant economic paradigm centred on intensive industrialization through import substitution (Bresser-Pereira 2010). The governments of both countries, whether military or civilian, were significantly influenced by the preferences of an emerging industrial national bourgeoisie. This period, spanning nearly fifty years, witnessed consistent growth and modernization (Furtado 1990). However, the economies of Argentina, Brazil, and much of Latin America faced a profound upheaval due to an unprecedented external debt crisis in the late 1970s (Frieden 1991; Bulmer-Thomas 2003). While the governmental responses in Argentina and Brazil shared similar content, their intensities varied.

The Argentine military dictatorship (1976-1983) brought about a notable shift in state officials’ priorities. Following decades of policy agendas crafted to meet the demands of national industrialists, a new alliance emerged. During General Jorge Videla’s government (1976-1981), Argentine state preferences were driven by the interests of traditional agrarian sectors and strong transnational pressure for financial liberalization and market deregulation (Heredia 2006). This period saw extensive implementation of orthodox macroeconomic policies under the Argentine dictatorship. Similarly, in Brazil, a comparable albeit less pronounced process unfolded. President João Figueiredo’s tenure (1979-1985) aimed to foster liberalization and address soaring external debts (Nobre 2013).

5.1 Process leading to the creation and initial years of Mercosur

Unable to restore growth and stability, the early 1980s prevalence of deregulatory agendas in both countries was short-lived (Macarini 2009). The period of re-democratization and the elections of Raúl Alfonsín (1983-1989) and José Sarney (1985-1990) aimed to reassert the interests of domestic industrialists among the nation’s top priorities (Bresser-Pereira 2010). Once again, the finance ministries in both countries saw the predominance of structuralist economists. However, unlike classical figures like Raúl Prebisch (1901-1986) and Aldo Ferrer (1927-2016), the new generation of economists was characterized by its ‘technicality’. For these new thinkers, technical tools took precedence over a normative vision of the state-society
relationship and Argentina’s global positioning, marking a shift where ‘intellectual content’ waned in favour of increasing attention to ‘technical aspects’ (Heredia 2006, 29). In his electoral platform, Alfonsín outlined measures indicating the sectors his government aimed to prioritize20.

In the promulgation text of the Austral Plan through National Decree 1.096 (Reforma Monetaria 1985), Alfonsín highlighted the shortcomings of orthodox, liberalizing approaches in combating inflation21. The Austral Plan constituted a monetary reform wherein the government implemented direct economic intervention and price controls. This reform aimed to combat inflation without inducing recessionary impacts typically associated with orthodox measures. Emphasizing the protection of national production and a significant reduction in inflation rates, the Alfonsín administration (1983-1989) primarily sought to blend traditional structuralist strategies of industrial promotion and protection with monetarist policies to address inflation (Heredia 2006).

In Brazil, 1985 witnessed the emergence of heterodox strategies to combat inflation. Following years of orthodox measures, President Sarney instigated a substantial shift within the Finance Ministry and the Brazilian Central Bank (BCB) in August 1985. The government replaced ultra-orthodox economists with influential proponents of heterodox formulas (Macarini 2009, 17).

Symbolically, in November of the same year, the governments of Argentina and Brazil signed their first declaration expressing a ‘firm desire’ to promote integration. Aligned with the interests influencing national preferences, the document emphasized the establishment of an integration commission, focusing particularly on ‘industrial complementation’ and ‘scientific-technical development’ (Declaración de Iguazú 1985).

In 1986, two significant events solidified the agenda of the Sarney administration. In February, a heterodox monetary reform, the Cruzado Plan, was enacted through the Decree-Law 2.283 (Plano Cruzado 1986). To some extent, it mirrored Argentina’s Austral Plan of 1985, aiming to

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20 Excerpt from the electoral platform of Unión Cívica Radical (1983): ‘Restoring national production through an effective exchange policy that incentivizes exports and discourages substitute imports.’; ‘Implementing a tariff regime to ensure effective protection for manufactured products, never falling below that of inputs.’

21 Excerpt from National Decree 1.096: ‘Our history and the experience of other countries demonstrate the limitations of so-called orthodox mechanisms of anti-inflationary policy in contexts such as the present, due to their economic and social costs and their insufficiency to break the inertia derived from prolonged inflation.’
combat inflation without incurring the ‘economic and social costs’ typically associated with orthodox measures (Macarini 2009; Bresser-Pereira 2010).

Brazil’s first major economic plan under democracy, the National Development Plan (PND), was sanctioned through Law 7.486 (Programa Nacional de Desenvolvimento 1986). The plan prioritized preserving national industrial production while underscoring the urgency of reducing public spending to counter inflation. It delineated economic directives and priorities for the 1986-1989 period, specifying activities exempt from spending cuts. Furthermore, outlining the recovery strategy from recession, the government emphasized industrial growth and the role of state intervention in expanding the domestic market.

The implementation of heterodox, structuralist policies that prioritized the protection of national industrial sectors while also tracing strategies to combat inflation was reflected in intensified efforts by both governments to hasten regional economic integration (Vigevani et al. 2008). In July 1986, a new compromise was signed which articulated specific tasks, guidelines, and objectives involved in the integrationist project (Acta para la Integración Argentino-Brasileña 1986).

Between 1986 and 1988, both countries made heterodox attempts to stabilize inflation. In Brazil, the inefficacy of Cruzado Plan led to the formulation of Cruzado Plan II. Subsequent failures led to Bresser Plan in July 1987 (Nobre 2013). In Argentina, the inability of the Austral Plan to curb inflation became apparent with the introduction of the Primavera Plan in August 1988 (Heredia 2006). These plans underscored resistance to radical deregulatory stabilization advocated by IMF economists, prevalent in Chile at the time (Bresser-Pereira 2006). The strategy of to curb inflation along heterodox macroeconomic pillars reflected the persistent

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22 Excerpt from Law 7.486: “Investments complementary to private initiative aimed at activating the productive sector through ventures focused on economic infrastructure will not be compromised.”

23 Excerpt from Law 7.486: “The industrial sector, most affected by the recent recession, is crucial for economic growth. The goal of the I National Development Plan of the New Republic is to achieve a minimum annual sector growth rate of 7%; “To foster industry recovery, the government aims to decrease interest rates and increase the availability of long-term financial resources.”; “The industry's recovery will benefit from a growing domestic market due to increased real wages. Additionally, heightened government spending on social infrastructure will generate derived demand for the industrial sector.”

24 As Vigevani et al. (2010, 7-8) notes, the efforts towards integration ‘corresponded to a developmentalist logic, aimed at stimulating entrepreneurial emulation for modernization and competitive insertion into the international economic system.’

25 Excerpt from the Acta para la Integración Argentino-Brasileña (1986, 4): ‘The Program will maintain balanced economic specialization, stimulate intra-sectorial integration, and pursue progressive quantitative and qualitative trade balance within major sectors through expanded trade.’
government prioritization of vulnerable manufacturing sectors amidst potential general deregulation and economic opening. In November 1988, the integration project was further delineated in the Treaty of Integration, Cooperation, and Development, establishing new tasks and guidelines (Tratado de Integración, Cooperación y Desarrollo entre Argentina y Brasil 1988).

Despite fostering closer ties between Argentina and Brazil, both the Alfonsín and Sarney governments grappled with uncontrollable inflation. In April 1989, Alfonsín moved the elections forward from October to May in an attempt to alleviate the crisis, which backfired, plunging Argentina into hyperinflation (Heredia 2006). This year, hosting the first direct presidential elections since 1964, was spoiled by increasing instability in Brazil (Nobre 2013). The pursuit of solutions to the decade-long economic crisis dominated electoral processes in both countries.

The 1989 elections of Carlos Menem in Argentina and Fernando Collor de Mello in Brazil had profound and enduring effects on regional economic integration between the two nations. Major policies enacted during these administrations would directly undermine Mercosur’s effectiveness in the long term. However (and paradoxically), examination of winning coalition political platforms and policies, particularly during Collor de Mello’s administration (1990-92), reveals a prioritization of regionally competitive sectors. While marking a rupture with heterodox recipes, the This aligns with the theoretical causal mechanism guiding this work, emphasizing the demands of globally uncompetitive yet regionally competitive sectors as pivotal drivers of regional economic integration.

Carlos Menem’s extensive 70-page electoral platform, ‘Productive Revolution: From Speculative Argentina to Productive Argentina’, outlined sectors targeted for prioritization by his government (La Revolución Productiva: de la Argentina Especuladora a la Argentina del Trabajo 1989). He observed that the deregulatory policies during the dictatorship (1976-1983) had damaged national industry and criticized the so-called Chicago Boys (‘academics of the developed world’), who formulated orthodox programmes to be implemented in Argentina.

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26 Excerpt from the Tratado de Integración, Cooperación y Desarrollo entre Argentina y Brasil (1988, 2): ‘Gradual removal of all tariff and non-tariff trade barriers between the territories of the two Member States within a maximum ten-year period.’

27 Criticizing the responses to crisis formulated during the dictatorship years, Menem’s platform states that ‘economic openness was easily embraced, along with delayed exchange rates, leading to an unbalanced lack of protection for a vulnerable local market facing international competition’ (La Revolución Productiva 1989, 15).
(‘enormously dangerous for the survival of the Argentine productive universe’)\textsuperscript{28}. Intriguingly, Menem’s platform signalled the simultaneous prioritization of agricultural and industrial sectors, envisioning an economic program in which the demands of both globally competitive (agriculture) and uncompetitive (industry) sectors would be accommodated.

Menem’s platform aimed to dissolve the ‘agriculture versus industry’ dichotomy and advocated a ‘return to agriculture to support industry’, emphasizing a symbiotic relationship between the two. His campaign targeted privileges held by transnational ‘speculative’ sectors, criticizing financialization and advocating a shift toward prioritizing production and labour over financial interests. While Menem’s formal prioritization of ‘productive sectors’ and ‘reindustrialization’ supported efforts to construct a regional common market, concrete reforms and policies during his administration (1989-1999) increasingly marginalized domestic manufacturing interests, a trend explored further in the subsequent analysis.

On the other hand, Collor de Mello’s administration was marked by an emphasis in opening the Brazilian economy to foreign capital and privatizing state-owned enterprises. Curiously, the electoral platform prioritized protection for globally uncompetitive sectors of the Brazilian economy, particularly technology-intensive industries (Sallum Jr 2011). The program, under the ‘competitive integration’ paradigm, aimed to enhance Brazilian exports by incentivizing technological advancement within Brazilian industries\textsuperscript{29} (Projeto Brasil Novo 1989). Consequently, there was a strong emphasis on investing in scientific research to expand Brazilian markets, especially within Latin America through regional integration\textsuperscript{30}.

While reflecting a shift in the processes of national preference formation, the elections of Menem and Collor de Mello didn’t obstruct previous administrations’ efforts to hasten regional

\textsuperscript{28} Excerpt from the electoral platform \textit{La Revolución Productiva} (1989, 15): ‘The academics from the developed world managed to introduce enormously dangerous ideas and assessments for the survival of the Argentine productive universe. (...) For them, everything was bad. The inefficient national entrepreneurs were bad, overprotected, and infantilized by a state that tended to consolidate its supposed irrationality. Unionism was bad because the labour market didn’t appear transparent, and the workers were politicized. Officials were bad because their venality hindered development. The macrocephaly of the State obstructed productive forces, yet it continued to be indebted and oversized.’

\textsuperscript{29} Excerpt from the electoral platform \textit{Projeto Brasil Novo} (1989, 111): ‘Development hinges on overcoming the growing technological gap separating us from the developed world. Without this, profitable global market competition remains elusive due to increasing restrictions and protectionist practices.; ‘We can't solely rely on exporting raw or outdated goods; we need to evolve beyond that in the global market.’

\textsuperscript{30} Excerpt from the electoral platform \textit{Projeto Brasil Novo} (1989, 111-112): ‘We must harness science for development, addressing our deficiencies, adapting to markets, and conquering them through service, technique, and knowledge exports.; ‘Hence, we must not abandon efforts towards Latin American integration.’
economic integration\textsuperscript{31} (Casarões 2012). Instead, through the Buenos Aires Act in July 1990, the presidents reiterated their commitment to prior agreements. This act essentially contained the content that a year later, in 1991, formalized the Asunción Treaty, establishing the foundations of Mercosur. The treaty’s signing formalized years of negotiation and cooperation between Argentina and Brazil, now incorporating Paraguay and Uruguay.

The formation and initial effectiveness of Mercosur appear to have been largely shaped by domestic processes of national preference formation in Argentina and Brazil. More specifically, data on commerce between member states indicates the relevance of Brazilian capital goods industry. As anticipated by the hypothesized causal mechanism, the institutional outcomes and the early effectiveness of Mercosur seem to have been driven by the (perhaps paradoxical) governmental prioritization of regionally competitive domestic sectors.

Intra-regional trade rates surged from 13\% in 1991 to 19\% in 1994 and 23\% in 1998 (Inter-American Development Bank 2023). However, contrary to the expected causal mechanism, the substantial increase in intra-regional trade immediately post-Mercosur seemed primarily driven by Brazilian industrial policy. Almost 70\% of Mercosur’s trade relies on Argentina-Brazil commerce alone (Inter-American Development Bank 2023). Notably, Brazilian exports to Argentina soared from 1.66\% of total Brazilian exports in 1989 to 13.20\% in 1998 (WITS/World Bank 2023), indicating a significant shift driven by the protection of Brazilian industry. As an example, capital goods industry, which comprised less than 15\% of Brazilian exports to Argentina in 1989, surged to nearly 40\% in 1998 (see Figure 2 below) (WITS/World Bank 2023).

\textsuperscript{31} In his study on Brazilian foreign policy during Collor de Mello’s administration, Guilherme Casarões (2012) notes that the ruling coalition’s role in determining Brazilian foreign policy preferences was, in the early 1990s, considerably affected by longstanding ideas held by professional diplomats in the Ministry of Foreign Affairs (i.e., Itamaraty). Fernando Rezek (2011), Brazilian Minister of Foreign Affairs at the time of MERCOSUR’s creation, claims that: “The Mercosur (...) was a process that had already been brewing within the Brazilian chancellery, in alignment with the other chancelleries of Argentina, Uruguay, and Paraguay. Finally, when Collor assumed office, all the presidents were deeply committed to this endeavor (...) Let’s proceed in this direction and let’s do it swiftly. And indeed, it happened swiftly (...). In truth, there is no retrospective criticism of the experience that constituted the foundation of Mercosur” (cited in Casarões 2012, 139).
During Menem’s administration in Argentina, the prevailing preferences notably sidelined the interests of national industrialists. As the subsequent analysis will delve into, the reforms under Menem’s government contributed significantly to a drastic decline in Argentina’s manufacturing sector’s contribution to the GDP. Consequently, the effectiveness of Mercosur in its initial phase was strongly reliant on the resilience of Brazil’s capital goods industry in the early 1990s.

The official release of the General Directives for Industrial and International Trade Policies, by Finance Minister Zélia Cardoso de Mello, underscored the prioritization of domestic industrial demands (Diretrizes Gerais para a Política Industrial e de Comércio Exterior 1991). The emphasis on technological empowerment and fortifying Brazil’s most regionally competitive sectors, particularly the capital goods industry, can also be exemplified by Law 8.248, which introduced a range of incentives for the informatics and automation sectors, specifically...

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Some of the highlighted strategies outlined in these directives were: ‘Competitive restructuring of the industry through coordination and mobilization mechanisms, credit support instruments, and strengthening of technological infrastructure.’; ‘Planned exposure of the Brazilian industry to international competition, facilitating more favourable integration of the Brazilian economy into the external market, progressive enhancement of quality and price standards in the domestic market, and increased competition in oligopolized industrial segments.’; ‘Technological empowerment of national companies, involving the capacity to select, absorb, improve, or develop technologies, through selective tariff protection of segments in high-tech industries and support for the diffusion of innovations across various economic sectors’ (Diretrizes 1991).
targeting technological advancement (Lei de Capacitação e Competitividade do Setor de Informática e Automação 1991).

5.2 Process leading to the outbreak of crisis in Mercosur (and its persistence)

5.2.1 Outbreak of Crisis

The formation and initial success of Mercosur were significantly influenced by governments prioritizing globally uncompetitive yet regionally competitive economic sectors. In Brazil, administrations under José Sarney (1985-90) and Fernando Collor de Mello (1990-92) devised macroeconomic policies, catering to domestic industrial demands to varying extents. However, as this analysis indicates, changes in the formation of national preferences in both countries have subsequently undermined the enduring effectiveness of Mercosur.

Curiously, this paradox emerged during the tenures of Menem and Collor de Mello. Despite championing the importance of national industries in their electoral campaigns and their involvement in the signing of the Asunción Treaty in 1991, their actions upon assuming office took an unexpected turn. The Menem administration, in particular, implemented stringent limitations on national industrial production, contradicting earlier assertions.

Two presidential decrees transformed into laws, one in August and the other in September 1989, set forth a series of profound measures with enduring implications for the Argentine economy. Law 23.696 announced a state of emergency and listed numerous state-owned enterprises for privatization (Ley de Reforma del Estado 1989). The legislation also addressed the state’s insolvency, stressing the imperative to significantly reduce its size. Subsequently, Law 23.697, enacted a month later, suspended various state incentives intended for national industrial production, encompassing subsidies, grants, and any analogous ‘commitments directly or indirectly impacting the National Treasury’s resources or the accounts of the Central

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33 Excerpt from Law 23.697: ‘Article 1 - DECLARATION. The provision of public services, the execution of contracts under the responsibility of the public sector, and the economic and financial situation of the centralized and decentralized National Public Administration, self-governing entities, state-owned enterprises, majority State-owned joint-stock companies, mixed economy companies, Special Account Services, Social Security Institutions of the Public Sector, banks, and official national and/or municipal financial entities, and any other entity in which the National State or its decentralized entities have total or majority capital participation or influence in decision-making are declared in a state of emergency.’
Bank of the Argentine Republic”\(^{34}\) (Ley de Emergencia Económica 1989). Additionally, regimes supporting industrial promotion and the purchasing of domestic products by the state were also halted\(^{35}\).

The causal chain highlighted in preceding sections implies that policies favouring extensive privatization programs and economic deregulation tend to align with the preferences of foreign capitalists. Conversely, these policies are anticipated to adversely impact domestic industrial activities. As indicated by World Bank data, Menem’s administration witnessed a decline in manufacturing’s contribution to Argentina’s GDP, dropping from 31% in 1989 to 17% in 1999 (World Bank 2023).

In 1991, Argentine Finance Minister Domingo Cavallo announced Law 23.928, instituting a one-to-one parity between the Argentinian peso and the American dollar\(^{36}\) (Ley de Convertibilidad del Austral 1991). This move aimed to stabilize the economy and combat inflation but significantly impacted domestic industrial production. The policy not only accelerated deindustrialization in Argentina but also eased the entry of foreign capital, rendering Argentinian enterprises more susceptible to external competition\(^{37}\).

This series of deregulatory measures during the early years of Menem’s administration represented a significant departure from Alfonsín’s focus on domestic industries. Of special relevance for the purposes of the present work, the policies adopted by Menem undermined

\(^{34}\) Excerpt from Law 23.697: “Subsidies, grants, and any other commitments of a similar nature that directly or indirectly affect the resources of the National Treasury and/or the accounts of the Central Bank of the Argentine Republic, as well as the financial equation of public service companies of any legal nature, are hereby suspended for a period of one hundred and eighty (180) days from the enactment of this law.”

\(^{35}\) Compre Nacional was a legislation sanctioned in 1970 (Law 18.875) that established that: ‘The National Public Administration, its dependencies, agencies, self-governing or decentralized entities, state-owned enterprises, and companies providing public services under concession must (...) acquire materials, goods, and products of national origin (...).’

\(^{36}\) The new Peso Convertible (valid from January 1, 1992) had a unit value of 10.000 Australes, which, in turn, was equivalent to one American dollar: ‘ARTICLE 1 - The convertibility of the Austral to the United States Dollar is declared from April 1, 1991, at a rate of TEN THOUSAND AUSTRALS (at 10,000) per DOLLAR for sale, under the conditions established by this law.’

\(^{37}\) In the words of Minister Cavallo himself, at the 1995 Annual World Bank Conference on Development Economies, The program rested on four pillars: opening of the economy, deregulation and reform of the tax code, privatization, and elimination of other forms of government interference in resource allocation, and stabilization of inflation and the crucial relative prices. The program is popularly known as “the convertibility plan” thanks to its most notorious and innovative feature: the introduction of a bimonetary currency board’ and ‘(...) although macroeconomic stabilization was an important determinant of growth, other factors must have been operating to produce the healthy recent growth rate in total factor productivity. These factors probably include privatization, deregulation, the opening of the economy, and the substantial drop in the relative price of capital goods.” (World Bank 1996).
globally uncompetitive sectors (i.e., manufacturing activities), vital for regional economic integration. The integration project aimed to foster the activities of regionally competitive sectors through trade liberalization and protection from external competition. However, Menem’s deregulatory measures, favouring foreign capital and products, posed a decisive challenge to the effectiveness of integration.

In Brazil, the shifts initiated by Collor de Mello’s administration were less drastic compared to Menem’s policies in Argentina, yet they significantly impacted Mercosur’s trajectory. As previously discussed, numerous policies implemented during Collor de Mello’s tenure demonstrated a clear emphasis on bolstering the national industry. Aligned with the proposed causal chain in this analysis, these policies contributed to a brief resurgence in Brazilian industrial activities, a pivotal factor in Mercosur’s initial effectiveness (refer to the figure below). Conversely, the enactment of Law 8.031 established the National Program of Destatization (Lei do Programa Nacional de Desestatização 1991). While its immediate impacts fell short of expectations, this program laid the groundwork for subsequent privatizations, notably during Fernando Henrique Cardoso’s administrations (1995-2002).

During Itamar Franco’s presidency (December 1992 to December 1994), Brazil underwent strategic privatizations of key state enterprises like the National Steel Company (Companhia Siderúrgica Nacional, CSN) and the Brazilian Aeronautics Company (Empresa Brasileira de Aeronáutica, EMBRAER). Franco’s tenure focused on combating high inflation, culminating in the enactment of Law 8.880 - a substantive program of stabilization and the introduction of a new currency, the Real (Lei 8.880 Programa de Estabilização Econômica e Instituição do Real 1994). Finance Minister Fernando Henrique Cardoso, the driving force behind the stabilization plan, won the presidential elections of 1994 for the 1995-1998 term and secured re-election in 1998 for the subsequent 1999-2002 tenure.

Franco and Cardoso’s stabilization plan mirrored the priorities seen in Menem and Cavallo’s agenda in Argentina. Their macroeconomic strategy rested on three key orthodox principles: stringent fiscal measures, precise inflation targeting, and a strengthened currency value. The industrial policies in Brazil from 1985 to 1993 aimed to adapt to and shield against the inevitable forces of globalization. However, under Franco and notably Cardoso’s administrations, there was a definitive shift in Brazil’s national preference formation. Cardoso
highlighted the urgency to overhaul the state in his 1994 political platform for the electoral campaign\textsuperscript{38} (Mãos à Obra Brasil 1994).

During Cardoso’s presidency, the enactment of Law 9.491 brought significant changes to the National Program of De-statization initiated during Collor’s term (Lei de Alteração do Programa Nacional de Desestatização 1997). Strategic Brazilian companies, particularly in telecommunications, electricity, transportation, and mining sectors, underwent privatization. This revamped program outlined directives aimed at boosting capital flow and encouraging investments in the Brazilian economy. Notably, from 1993 to 2000, foreign direct investments (FDI) as a share of Brazilian GDP surged from 0.3% to 5% (World Bank 2023).

Similar to the Argentine situation, as anticipated by the hypothesis guiding this analysis, the strengthened value of the new Brazilian currency played a pivotal role in driving deindustrialization. Over its initial five-year span (1994-1998), the Brazilian real remained virtually pegged to the American dollar at a one-to-one rate (World Bank 2023). This parity significantly reduced the competitiveness of Brazilian businesses. Additionally, the persistently high interest rates, averaging above 25% until 2002 (BCB 2023), had adverse effects on investments in the industrial sector. Consequently, the contribution of manufacturing to Brazilian GDP declined from 26% in 1993 to 12% in 2002 (see Figure 3 below) (World Bank 2023).

\textsuperscript{38} Excerpt from the electoral platform Mãos à Obra Brasil (1994): ’The State has lost its capacity to invest and, as a result, has ceased to promote development, justice, and well-being. The deterioration of public services in security, education, and healthcare is the most evident aspect of the state's bankruptcy (...). State reform is indispensable for economic stability, sustained development, correcting social and regional inequalities. It will make it more competent and oriented towards social innovation. It will also strengthen it against the pressures of political clientelism and the particular interests of groups or corporations. Without the reconstruction of the State, it will also not be possible to create the instruments through which the inevitable rearticulation between the country and the outside world will effectively occur in accordance with national interests.’
The dramatic shifts in Argentina and Brazil’s processes of national preference formation significantly impacted Mercosur’s effectiveness. This analysis illustrates how Mercosur’s inception was deeply intertwined with the prioritization of national industrial interests by governments. Moreover, the initial success of Mercosur closely paralleled Brazil’s industrial policy implementation, aided by the absence of extensive deregulation during Collor de Mello’s administration. Conversely, the absence of robust industrial policies during Menem’s tenure in Argentina and Cardoso’s in Brazil critically undermined the sustainability of regional economic integration.

The sharp decline in intra-Mercosur trade rates from 1998 to 2002 can be predominantly attributed to the shifts in preference formation processes within Argentina and Brazil during the 1990s. In 1998, Argentinian exports to Brazil constituted over 30% of Argentina’s total exports, plummeting to approximately 18% by 2002 (WITS/World Bank 2023). Similarly, Brazilian exports to Argentina mirrored this decline, dropping from 13% to 4% during the same period (WITS/World Bank 2023). Consequently, aligning with the anticipated causal mechanism, these alterations in national preferences directly impacted the onset of the crisis within Mercosur.
A concise comparison between the two periods analysed so far can elucidate the findings. In the process leading to the creation and early years of Mercosur – marked by effectiveness –, the formation of national preferences was influenced by regionally competitive but globally uncompetitive domestic economic sectors. On the other hand, the causal process leading to ineffectiveness and crisis in the subsequent period saw a drastic alteration in the substance of state preferences. This shift became evident during Carlos Menem’s administration in Argentina (1989) and Fernando Henrique Cardoso’s in Brazil (1995), reflected in significant governmental policies that sidelined domestic manufacturing demands.

The following part of this analysis delves into the persistent crisis that continued to afflict Mercosur in the subsequent years. While the primary factors contributing to the crisis outbreak have been identified, this section aims to explore how these elements manifested themselves, if at all, in the ensuing years.

**5.2.2 Persistence of Crisis**

The Mercosur crisis unfolded amidst escalating instability in the region. Following a period of controlled inflation rates and relative macroeconomic stability, Argentina went through one of modern capitalism’s most severe financial depressions (Bresser-Pereira and Theuer 2012). As an indicative, the country experienced four consecutive years of negative GDP growth from 1999 to 2002 (World Bank 2023). While not as severe as Argentina’s crisis, the Brazilian economy also experienced a slowdown and stagnation in 1998, primarily attributable to the 1997 financial crisis in Asia (Nobre 2013).

The crisis and subsequent governmental responses had profound social and political implications, setting the stage for the presidential elections of 2002 (Brazil) and 2003 (Argentina). With the victories of Lula da Silva in Brazil and Néstor Kirchner in Argentina, regional economic integration appeared to gain fresh momentum (Bianculli 2016). Kirchner’s

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39 In the Argentinian case, the succession of Carlos Menem (1989-1998) by Fernando de la Rúa (1999-2001) was marked by economic depression and the return, in 2001, of the main figure behind the Convertibility Plan of 1991, Domingo Cavallo, as Finance Minister. The latter was responsible for the establishment of a controversial measure called “corralito” which froze all bank accounts and limited the amount of cash withdrawals by account holders. These measures resulted in the outbreak of generalized civil unrest and rioting and the resignation of President De La Rúa on December 21. Between de la Rúa’s resignation and the beginning of Eduardo Duhalde’s administration on January 2, Argentina was officially governed by five different presidents. Between de la Rúa’s resignation and the beginning of Eduardo Duhalde’s administration on January 2, Argentina was officially governed by five different presidents.

40 The so-called “relaunching” of MERCOSUR reflected a shift in the formation of state preferences in both countries, characterized now by an emphasis on social justice and inclusive growth, as well as on the importance of deepening democracy – i.e., improving the quality of the overall democratic process.
ascension to power signalled a resurgence in prioritizing the demands of national industrialists within Argentina’s agenda (Wylde 2011). After a decade marked by orthodox policies and significant deindustrialization, Argentina witnessed, between 2003 and 2007, a resurgence of heterodox, developmentalist strategies. Néstor Kirchner’s political platform for the 2003 electoral campaign notably outlined the new administration’s direction (Frente para la Victoria 2003).

Kirchner’s electoral manifesto notably stressed the imperative of prioritizing social justice, viewing ‘society’ as the ultimate goal of state, economic, and political endeavours. The government plan outlined high-priority strategies encompassing food, labour, education, health, and security defence. A significant focus was placed on reforming the healthcare system, particularly emphasizing enhancements within public hospitals (Frente para la Victoria 2003).

The 2002 presidential elections in Brazil signified, to a significant degree, a continuation of the orthodox principles influencing prior administrations. However, the winning coalition led by Lula da Silva’s political platform showcased an amplified focus on income redistribution and alleviating poverty. While not explicitly steering towards heterodoxy or Neo-Keynesianism akin to Kirchner’s approach, the macroeconomic program under the new Brazilian administration harmonized orthodox principles with an emphasis on social justice.

Even with successful initiatives in advancing social agendas and, allegedly, enhancing the democratic processes within Mercosur through the establishment of PARLASUR, the shift in Argentine and Brazilian state preferences during the mid-2000s failed to restore the efficacy

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41 Excerpt from the electoral platform Frente Para La Victoría (2003), emphasizing the macroeconomic priorities of the eventual new administration: ‘Neo-Keynesian public works plan that generates a strong and immediate increase in employment and production levels focusing on the construction of housing, potable water networks, and roads. (…) Program for exports and national production with tax and financial incentives. Infrastructure projects will be carried out to define the productive profile of the country through the development of the food industry, tourism, energy, mining, software industry, and new technologies as main drivers. Encouragement for the reopening of factories, cooperativization, and micro-enterprises. (…) Reorganization of public banking and strengthening of controls to combat smuggling, tax evasion, and dumping.’

42 In his Carta ao Povo Brasileiro (2002), months before the elections, Lula da Silva, in an attempt to tranquilize transnational finance, reaffirmed his ‘historic commitment to combating inflation, but coupled with growth, job creation, and income distribution, building a more supportive and fraternal Brazil, a Brazil for all’, and the intention to ‘preserve the primary surplus as much as necessary to prevent the internal debt from increasing and undermining confidence in the government’s ability to honour its commitments’.
witnessed in the early 1990s. While there was a recovery from the sharp decline of 1998-2002, intra-bloc trade rates plateaued throughout the period spanning 2003-2016 (Inter-American Development Bank 2023; WITS/World Bank 2023).

During da Silva’s two terms (2003-2010), Brazil experienced a shift in its export composition, notably witnessing a rise in the share of raw materials from 25.5% to 42.21% of the total exports by 2010 (WITS/World Bank 2023). Parallel to that, mirroring the trajectory set by the macroeconomic policies during the Franco and Cardoso administrations, the export rates of capital goods continued their decline (see Figure 4 below).

Figure 4: Brazilian Export Products – Capital Goods and Raw Materials (% of total Brazilian exports), from 2003 to 2016


The decisions made during this period need to be understood within the broader context of the international economy. The 2000s witnessed an unforeseen surge in global commodity prices, including crude oil, soybeans, wheat, and iron ore, driven mainly by soaring demands from the rapidly expanding Chinese economy (Singer 2012; 2018). This surge in prices was a common phenomenon across South American commodity-exporting nations like Bolivia and Venezuela. Government officials perceived these circumstances as pivotal, enabling more ambitious goals in income redistribution and poverty alleviation (Grugel and Riggirozzi 2012). Inflows of cash from commodity sales were thus channelled into funding extensive and impactful social policies. This ‘favourable’ global scenario significantly influenced the preferences of South American state officials, emphasizing the prioritization of agricultural and extractive sectors.
Conversely, during Néstor (2003-2007) and his successor Cristina Kirchner’s (2007-2015) administrations, Argentina pursued a macroeconomic policy aimed at re-industrialization, incentivizing national production. The proportion of Argentine capital goods exports saw a notable shift, starting at 6.72% in 2003 and peaking in 2013, accounting for 11.73% of total exports that year (WITS/World Bank 2023). However, influenced by the global economic landscape, the emphasis on re-industrialization was somewhat overshadowed by the growing prominence of food products, particularly cereals, in Argentina’s export composition (WITS/World Bank 2023).

In the 2010 Brazilian presidential elections, Dilma Rousseff was elected to succeed Lula da Silva. During Rousseff’s first term (2011-2014), efforts were made to revive industrial investments (Singer 2018). Despite achieving a historic low in interest rates at 7.1% in November 2012 and introducing fiscal incentives for domestic enterprises, the contribution of the capital goods industry to Brazil’s economy did not increase (BCB 2023). Instead, the manufacturing sector’s share of Brazilian GDP hit an all-time low in 2014, standing at 10.3% (World Bank 2023).

During her second term (2015-2016), Rousseff faced severe economic recession and escalating political instability. To stabilize the market and ease opposition pressure, she implemented a stringent fiscal policy. However, the deepening economic and political crises in 2015 led to the dissolution of the governing coalition. This upheaval culminated in the initiation of Rousseff’s impeachment process, orchestrated by Vice-President Michel Temer and the President of the Chamber of Representatives, Eduardo Cunha (Singer 2018). On August 31, 2016, Rousseff left office, and Temer assumed the presidency.

Through the systematic analysis of these periods, it was possible to observe that the emergence of centre-left coalitions had little to do with the outbreak of crisis in Mercosur. Contrasting to previous works that highlighted the ‘inwardness’ characterizing the Lula da Silva administration, quantitative economic indicators expose that, to a large extent, it reflected continuity with policy agenda of the 1990s. Accordingly, the start of the process underlying the sharp shift in the formation of national preferences in Argentina and Brazil was identified in political events of the late 1980s and early 1990s. Most specifically, the elections of Menem and Collor in 1989 and the election of Cardoso in 1994 have generated substantive shifts in the governmental prioritization of sectoral demands. This work’s comparative analysis attempted to illustrate how shifts in governmental priorities influence outcomes and effectiveness in
regional economic integration. The systematic process analysis of two periods explored the causal mechanism through which, after decades of economic models designed to protect and incentivize industrialization (1940s-1970s), shifts in the formation of Argentinian and Brazilian state preferences culminated in the crisis of Mercosur – a regional economic integration scheme designed to foster the competitiveness of these countries’ national industries.

Next section provides a critical reflection on these findings and on the limitations of the general methodology informing the study.
6 Discussion of Findings and Critical Reflections

The systematic analysis of the processes leading to the ineffectiveness observed throughout Mercosur’s trajectory indicate the central role played by governmental prioritization of sectoral demands. Works pointing to either weak institutionalization or centre-left administrations as the drivers of crisis have shed light on essential aspects of Mercosur’s trajectory and limitations. Nevertheless, as anticipated by the theorized causal mechanism, it is possible to identify, in earlier processes of state preference formation, the origins of crisis in the bloc.

These findings support the hypothesis while also raising some questions. The research question this study attempted to answer could have been explored in various ways, all of which containing strengths and weaknesses. Methodological choices framing the study, such as the use of systematic process analysis and the decision to adopt a narrow political economic focus on state preferences, have proven appropriate to shed light on essential aspects. The empirical analysis provides an elucidation of key political history processes in Argentina and Brazil that have decisively contributed to the outbreak of crisis in the trajectory of Mercosur.

By focusing on one single aspect of national preferences’ formation – i.e., the governmental prioritization of sectoral interests –, it was possible to analyse closely the ways governmental choices have substantially compromised the sustainability of the common market. Nonetheless, while these aspects certainly play a central role in the history, significant gaps remain to be explored.

While appropriate to cover the narrow purposes of this study, the theoretical-methodological decision to restrict the analysis to governmental economic priorities has implications. Substantial political and cultural dimensions of Argentinian and Brazilian socio-historical realities are left virtually untouched. Politically, each country has specificities that, if considered, would certainly enlighten the study. For instance, the processes of re-democratization, although sharing (mainly temporal) similarities, were diametrically distinct in certain aspects. While in Argentina hundreds of military officials that took part in criminal activities during the dictatorship were persecuted and sentenced to prison, in Brazil the army was probably the central articulator of the democratic transition (Anderson 2019). In the
Argentinian case the transition process was led by civilian political parties and leaders, while in Brazil it was driven by a party created during and by the dictatorship (MDB).

Additionally, regional integration has never been a truly salient topic in political debates. Throughout the 1980s and 1990s, virtually all efforts were concentrated on the consolidation of domestic democratization and, most importantly, inflation control. These restrictions imposed by the domestic scenario may have created a paradox for the horizon of integration. While the latter was seen as strategic within mostly developmentalist political and economic circuits, governments that attempted to prioritize national industrial interests were struggling to achieve stabilization. The Alfonsín and Sarney administrations, central in the 1980s re-approximation between Argentina and Brazil, were marked by repeated failed attempts to control inflation.

Restricted almost exclusively to formal textual evidence from official documents, the analysis abdicates from interpreting more rigorously important dimensions of the problem. The empirical evidence collected from major macroeconomic reforms was sufficient to identify, in the comparison between the two periods being analysed, substantial shifts in the processes of national preference formation. These documents provide the research with textual material that evidences which sectoral economic interests are being prioritized or marginalized. In sum, it informs which demands are being accommodated by governments.

On the other hand, the social class and systemic dimensions of these dynamics are virtually left untouched. The decision of governments to prioritize certain interests to the detriment of others is unlikely to emerge from thin air. Rather, it reflects the extent and ways in which class interests are politically mobilized, organized, and articulated. It reflects the political articulations responsible for sustaining certain hegemonic discourses and marginalizing others (Arrighi 2005). The deregulatory wave of the 1990s, for instance, cannot be consistently understood without class analysis and an investigation of the crisis of the Left in the late 20th century (Streeck 2017).

As in the European examples of François Mitterrand and Felipe González, the governments of Carlos Menem and Fernando Henrique Cardoso reflected the global ‘re-branding’ of the Left (Nobre 2013; Anderson 2019). Menem’s platform was constructed on the historical legacy of Peronism and Cardoso’s Party of the Brazilian Social Democracy (PSDB) was the Brazilian

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43 As Perry Anderson (2019) puts it, Brazilian social formation is characterized by the peculiar feature of 'self-containment'. Events and news from abroad, but strikingly from South American neighbours, are virtually absent from the daily life of Brazilians.
version of Eurosocialism. These political constructions from the 1980s and 1990s, while claiming to bring globalization and commitments to social justice and progressive agendas, advanced macroeconomic agendas with few, if any, resemblances to traditional Peronism or classical social democracy. In contrast to the latter, the Argentinian and Brazilian administrations, as this work demonstrated, prioritized societal demands that largely contributed to sharp processes of deindustrialization in these countries.

Although narrowly focused on the shaping of national preferences by sectoral economic interests, this study serves the purpose of suggesting a research path that privileges history. By adopting a long-term scope, it aimed to shed light on historical processes that have been marginalized by most existing interpretations of the outbreak of crisis in Mercosur. For instance, levels of institutionalization are certainly a relevant dimension of regional integration, in particular, and international cooperation, in general. Nonetheless, the systematic process analysis of the Mercosur experience shows how, rather than causing ineffectiveness, the inability to strengthen institutions seems to have been a consequence of the bloc’s crisis and stagnation. The latter, in turn, reflect historical shifts in the processes of preference formation in Argentina and Brazil, which have been traced back to the late 1980s.
7 Concluding Remarks

This work has engaged with academic debates about the crisis of Mercosur, one of the largest regional economic blocs in the world. Mercosur’s crisis reflects the historical trajectory of the bloc’s effectiveness in fulfilling its tasks and accomplishing its objectives. Symbolizing the crisis is the sharp decline, experienced in the late 1990s, in the intra-regional trade rates. Previous interpretations tend to identify either the institutional structure of Mercosur or domestic political changes in member states as the driver of crisis. While to a good extent aligned with the domestic politics approach, the present study attempted to contribute to the literature by suggesting an emphasis on the history of state preferences. Through a systematic process analysis, it identified, in the processes of preference formation in Argentina and Brazil (the bloc’s major states), substantive shifts that would decisively compromise the effectiveness of Mercosur in the long-term.

By abandoning agendas that prioritized the interests of domestic manufacturing sectors, Argentinian and Brazilian administrations throughout the 1990s have challenged the bloc’s ability to fulfil its foundational tasks and accomplish its central objectives. Symbolically, after experiencing a considerable increase in the years immediately following the creation of Mercosur, intra-regional trade rates witnessed a sharp decline between 1998 and 2002.

Conscious of its limitations, the study attempted to demonstrate key political dynamics in the historical process leading to the outbreak of crisis in Mercosur. Hopefully, these results contribute to the broader study of regional integration in Latin America, but also to other experiences across the globe. While consolidated theories of regional integration have certainly deepened existing academic knowledge, this literature might benefit from wider concern with long-term historical processes.
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Institutional Outcomes of Regional Interstate Cooperation


Institutional Texts (Argentina and Brazil)


News or Magazine Articles


Online Databases and Sources


Electoral Platforms (Argentina and Brazil)


