The internal agenda of Mercosur: interdependence, leadership and institutionalization

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Abstract

There are three sets of conditions for a process of regional integration to develop: demand, supply and inertial conditions. Demand conditions grow out of higher levels of regional interdependence, as transnational transactors perceive that cross-border activities are too costly and request national or supranational authorities to lower transactions costs through cooperation, coordination and, eventually, integration. Supply conditions refer to regional leadership, understood as the capacity and will of one or more actors either to pay a disproportionate share of the costs required by the regional undertaking (usually member states) or to provide monitoring, enforcement and regional coordination (usually supranational agencies). Inertial conditions take the form of demand or supply conditions that become institutionalized, locking in previous agreements and creating path-dependent effects –which may protect the integration process in times of declining demand or supply conditions, but may also turn it too rigid. In Mercosur, demand conditions are low, supply conditions are mostly inactive and very few inertial conditions have been created. This paper evaluates the current state and likely prospects of the bloc by singling out the areas in which these conditions are more likely to develop –or contract. The conclusion stresses the role of direct presidential involvement in deepening, enlarging and institutionalizing Mercosur –or failing to do so– and calls attention to the changing balance between fostering and administering interdependence.

Keywords: economic integration, Common Market, regionalism, institutionalism, globalization, European Union, Mercosur.

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For the statesman, eager to increase the number of people marching beneath his banner, vague words with broad appeal are useful. For the analyst, such vagueness is the path to a swamp of confusion.
Keohane and Nye (2001: 5)

The Common Market of the South (Mercosur) is a trading bloc founded in 1991 by Argentina, Brazil, Paraguay and Uruguay. It reached early successes by tripling intraregional trade flows in its first seven years, while also increasing extra-regional trade and attracting larger shares of direct foreign investment. Afterwards, however, its performance stalled, its operation was hindered and its very subsistence allegedly jeopardized by periodical crises, both regional and domestic to its member countries (Carranza, 2003; Gomez Mera, 2005).

Whether the focus of analysis is on success or failure, the experience of Mercosur does not fit mainstream theories of regional integration. The two major contemporary currents, namely liberal inter-governmentalism (Moravcsik, 1998) and supranational governance (Sandholtz and Stone Sweet, 1998), regard society as the point of departure for integration, as transnational transactors increase their exchanges and subsequently call on national or transnational authorities to adjust regulations and policies to the new situation. These approaches draw on evidence mostly collected from one single case, the European Union (EU). Mercosur, however, arose from the political will of national governments, and only thereafter generated public demand for further integration (Malamud, 2003). This path is more consistent with a supply-side approach to integration, which is best grasped by the work of Mattli (1999) (cf. also Perales, 2003). He advanced two sets of conditions for a process of regional integration to develop: demand and supply. I will add a third one to account for path dependency and sunk costs and will call it inertia.

Let us first define regional integration as the process of "how and why (national states) voluntarily mingle, merge and mix with their neighbors so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflicts among themselves" (Haas, 1971: 6), provided that "they do so by creating common and permanent institutions capable of making decisions binding on all members" (Malamud and

Schmitter, 2007: 16). Demand conditions for integration grow out of higher levels of regional interdependence, as transnational transactors perceive that cross-border activities are too costly and request national or supranational authorities to lower transactions costs through cooperation, coordination and, eventually, integration. Supply conditions refer to regional leadership, understood as the capacity and will of one or more actors either to pay a disproportionate share of the costs required by the regional undertaking (usually member states) or to provide monitoring, enforcement and regional coordination (usually supranational agencies). Inertial conditions take the form of demand or supply conditions that become institutionalized, locking in previous agreements and creating path dependency effects –which may protect the integration process in times of declining demand or supply conditions, but may also turn it too rigid.

In Mercosur, demand conditions are low, supply conditions are mostly inactive and very few inertial conditions have been created. However, both conventional political discourse and mainstream scholarly work uncritically depict it as a success story. This has been called "a case of cognitive dissonance" (Malamud, 2005b: 422), in which discourse reflects the expectations or interests of its speakers rather than the real world. Lest that "applying the wrong image and the wrong rhetoric to problems will lead to erroneous analysis and bad policy" (Keohane and Nye, 2001: 7), this paper scrutinizes the current state and likely prospects of the bloc by singling out the areas in which these conditions are more likely to develop –or contract. There is a caveat though: I deal exclusively with Mercosur's internal agenda. For that reason, issues pertaining to the external agenda such as interregional negotiations are not explored. In the conclusion I stress the role of direct presidential involvement in deepening, enlarging and institutionalizing Mercosur –or failing to do so— and call attention to the changing balance between fostering and administering interdependence.

Demand conditions (interdependence)[1]

Formal trade arrangements are neither a necessary nor a sufficient condition for fostering interdependence: although removing barriers to trade is *ceteris paribus* bound to have a positive effect on trade, this might be offset by other factors generating even more trade in different directions (complementarities, economies of scale and scope, comparative advantages, creation of infrastructure, changes in tastes, demographics, income and so on). For instance, the Mercosur countries experienced an increase in interdependence in the years prior to 1999, and a decrease or stagnation of interdependence since then. At the same time their interdependence with China has grown: this country represented about 2 percent of the external trade of Mercosur by 1993, a proportion that has grown up to 7 percent during 2005, in spite of the absence of commercial arrangements between China and the Mercosur countries.

Latin American countries export similar products that are demanded mostly elsewhere in the world as raw materials: two-thirds of all South and Central American exports are either agricultural or fuel and mining products. Although host to roughly 7 percent of the world population and 5.4 percent of the world economy, this region only accounts for 3.1 percent of the world exports and 2.9 percent of the world imports (WTO, 2005). Therefore, the prospects for further regional integration are very limited by a relatively small market size and a relatively narrow export base (Burges, 2005).

Trade interdependence with the United States and other NAFTA countries is high for several South American countries, especially the CAN-5 ones. In spite of all their flaming rhetoric against the US and the Free Trade Agreement of the Americas (FTAA) process, both Bolivia and Venezuela rely on hemispheric rather than intra-bloc trade. This is also the case for Peru, Ecuador and Colombia. NAFTA countries are also

1 This section contains fragments drawn from Malamud and Castro (2007) from the chapter "Prospects for economic integration in Latin America": on line: http://www.eui.eu/Personal/Researchers/malamud/Iberoamericana37-1(Malamud-Castro).pdf.
I am grateful to Pablo Castro for allowing me to reproduce them here.

important for Brazil and Argentina as trade partners, and even more for the smaller Mercosur members (see Table 1).

Table 1
Foreign trade of South American countries: Western Hemisphere

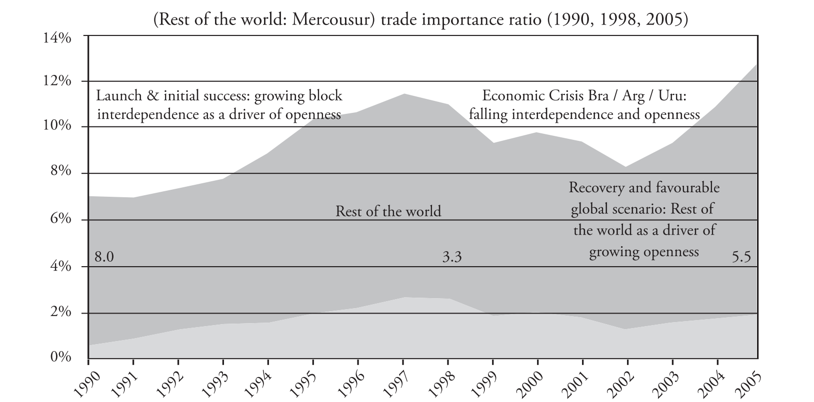
Regional Bloc	Country	Trade with Regional Bloc as % of total trade, 2004	Trade with FTAA countries as % of total trade, 2004
Mercosur-4	Brazil	9.6%	29.9%
	Argentina	26.0%	53.0%
	Uruguay	35.6%	56.7%
	Paraguay	55.3%	62.8%
CAN-5	Bolivia	17.4%	79.0%
	Peru	13.5%	53.4%
	Ecuador	18.8%	61.0%
	Venezuela	7.8%	59.4%
	Colombia	15.4%	61.2%

Source: CEI / IMF data. Made by: Autors.

The good economic performance of Chile under social-democratic governments has contributed to the belief among several Latin American governments that pragmatism rather than ideological premises should be the starting point when negotiating trade arrangements. The rationale for FTAA for Latin American countries was to increase market access for their producers to the richer North American consumers. After the collapse of the FTAA negotiations, Colombia and Peru have ratified free trade agreements with the US, following the path of Chile and the Central American countries. Ecuador may follow suit in the coming years, and something similar could happen in Paraguay and even Uruguay, where the idea has been publicly discussed. Greater interdependence with the rest of the world is also likely to come from new trade agreements with countries outside the western hemisphere, particularly in Asia. Chile has already signed treaties with South Korea, China, Japan and other Asian countries, while some governments in the region have expressed their interest in doing alike. The development of more and more bilateral arrangements with the rest of the world, and with NAFTA or Asian countries in particular, is expected to lead to greater trade interdependence with these regions, and therefore, to weaken the prospects of greater relative regional interdependence.

Mercosur is a comparatively closed economic bloc, although it is becoming less so. Still, trade as share of the economy is very small. The period 1991-98 may in the future be called the "Golden Age" of Mercosur. Total trade of member countries grew from 7 percent of GDP to represent more than 11 percent (see Figure 1). Mercosur underpinned this increasing openness of its members' economies: trade between Mercosur-4 and the rest of the world was about 8 times that between the bloc's members in 1990. By 1998, this ratio had dropped to 3.3. With the advent of economic crisis, first in Brazil and later in Argentina and Uruguay, both openness and interdependence fell between 1998 and 2002. Between 2002 and 2006, an unusually benign international environment –with record cheap credit for emerging markets and record high prices for the commodities they export– has enabled Mercosur economies to grow again. Openness has increased and reached new heights, but this time it is the rest of the world what underpins this trend. As a result, trade with the rest of the world grew to be 5.5 times intra-bloc trade during 2005.

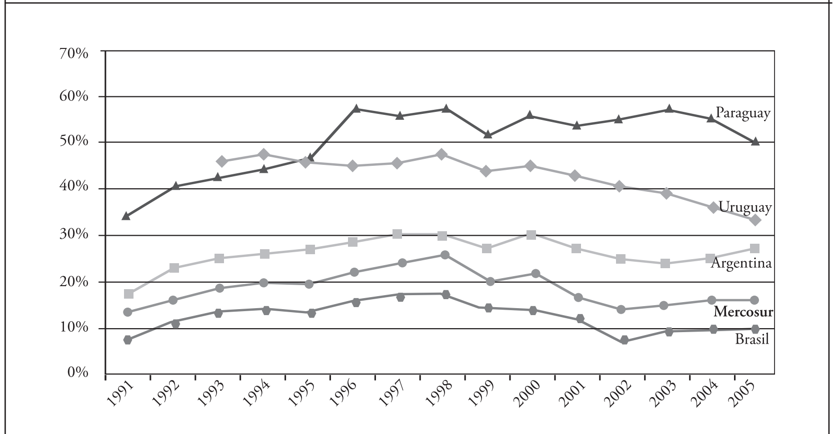
Figure 1 - **Trade interdependence in Mercosur-4 countries**
(Trade by partner as a % of GDP, Mercosur-4, 1990-2005)



Source: CEI / IMF data. Made by: Autors.

As pointed above, after more than a decade the tendency for interdependence is far from being consolidated towards an ever closer union, at least in the commercial realm. What does the picture at country level look like? For Uruguay, trade interdependence with the Mercosur-4 bloc peaked in 1998 and then fell consistently. No wonder then, that the country is considering signing agreements with the US and other countries outside the region. In the case of Brazil, trade with Mercosur countries represents today a similar proportion as before the founding treaty was signed. Mercosur has indeed become a more important trade partner for Paraguay and Argentina since the inception of the bloc, but as shown in Figure 2 the tendency seems far from consolidated. In fact, Paraguay may now be following the pattern Uruguay has exhibited since 1998.

Figure 2 - **Trade interdependence:**
Mercosur-4 as a percentage of total bloc and member countries trade, 1991-2005



Source: CEI statistics.

Demand for further integration increases as higher levels of regional interdependence are reached. As transnational transactors perceive that growing cross-border activities have significant costs, they request to national or regional authorities to lower them through the harmonization of domestic rules and the establishment of common regulations. By the same token, stagnating or even decreasing interdependence does not bode well for the prospects of integration.

Supply conditions (leadership)

The literature on regional integration analyzes supply conditions in two different lights. Some authors underline brokering, understood as the capacity of some actors –usually supranational agencies or entrepreneurs– to help strike deals among governments that would otherwise have not been reached. The most comprehensive approach of this kind is supranational bargaining theory (Sandholtz and Stone Sweet, 1998). Other authors stress paymastering, understood as the capacity and will of one or more actors (usually member states) to pay a disproportionate share of the costs required by the regional undertaking. Mattli's (1999) political economy approach lays emphasis on this mechanism. I will argue that brokering and paymastering are two out of four possible subtypes of leadership, i.e. the capacity to get and influence followers. Whereas the former rests on institutional capacities located at the regional level, the latter depends on monetary resources rooted at the national level.[2] By disaggregating these components, leadership roles can be classified according to two dimensions: the main resource at work, i.e. institutional or monetary, and the level at which the leader is grounded, i.e. domestic or regional.[3] Hence, a four-cell table is shaped (see Table 2). In the northeastern cell, paymaster means a state that pays a disproportionate share of the integration costs. This is the well known case of Germany in the European Union, but also of an extra-regional power such as the United States in the early years of Central American integration. In the southeastern cell, regional funds are a budgetary means to redistribute wealth among mem-

2 Laursen (2007) has attempted an analogous distinction, but his contrast between leadership and institutions fails to clarify the relation of each of these concepts with Mattli's paymaster.

3 The institutional forms of leadership, especially brokering, include as a subtype the "intellectual and moral" kind of leadership that, drawing on Antonio Gramsci, Robert W. Cox (1986) has skillfully applied to international relations.

ber countries. Although this mechanism may be based on the presence of one or more paymasters, its operation is handled at the regional not national level, thus allowing for strategies and goals to be collectively defined and pursued. In the southwestern cell, supranational entrepreneurship is an institutional means to enhance communications, broker agreements, and provide monitoring at the regional level. Regional institutions such as an executive commission and a parliament may perform this role, as the European experience testifies. Finally, in the northwestern cell intergovernmental diplomacy is a mostly informal institution, consistent of direct negotiations carried out by top national officials (in some cases, chief executives themselves) to make decisions and settle conflicts.

Table 2
Types of regional leadership

		Resource of leadership	
		Institutions	Money
Level of leadership	Domestic	**Intergovernmental diplomacy**	**Paymaster (hegemon)**
	Regional (supranational entrepreneurship)	**Broker**	**Regional funds**

Let us now analyze the prospects for each type of leadership in Mercosur. Brazil, which features the largest economy in the bloc and accounts for 80 percent of its population, appears as the only possible regional paymaster. The situation, however, is more complicated than in Europe, as total wealth and wealth per capita do not overlap but intersect across countries. Hence, Brazil's GNP per capita is lower than Argentina's and Uruguay's and its poverty and inequality rates are much higher. It is consequently difficult for the Brazilian authorities to legitimize domestically what could be seen as a subsidy to richer countries. Compare the net contribution of \$60 million that Brazil is doing to Mercosur's Fund for Structural Convergence (FOCEM) in 2008 with the €8,000 million of Germany to the redistributive funds of the EU annual budget: while the former represents 0.007 percent of Brazilian GNI, the latter accounts for 0.39 percent of Germany's. Such a shortage of positive incentives for integration is matched by an equivalent lack of negative incentives, as Brazil's stance as a soft power inhibits it from applying coercion to further its goals. This state of affairs has been referred to as "without sticks or carrots" (Burges, 2004) and impairs the paymaster type of leadership. External paymasters may further hinder integration as their contribution go to individual countries, which remain therefore indebted to extra-regional powers. This is the case of Uruguay, which received large amounts of money from the United States after the 2001 crisis, and Paraguay, a recipient of significant Taiwanese funds. Plausibly, Venezuelan petro-politics could be currently adding more lumber to the fire.

As to regional funds, the difference between both regions is even greater. The EU annual budget exceeds €100,000 million, while Mercosur has no budget. True, it has recently created the FOCEM, a regional endowment that will reach $100 million in 2008. Yet, it is striking to compare FOCEM's modest figures to the redistributive funds of the EU budget (i.e., the combination of the structural and cohesion funds and the Common Agricultural Policy), that made up about €86,000 million in 2006. The magnitude gap eloquently displays that regional payoffs in Mercosur look little promising as an engine for integration.

Once examined the two types of leadership that rest on economic resources, we now turn to the two institutional subtypes. Supranational entrepreneurship, as defined by supranational governance theory, emphasizes personal charisma and negotiating skills but within an institutional context. In other words, the Single European Act was to a large extent a product of Jacques Delors' enlightened activism; yet, Delors was not a personal filibuster but the head of a formalized organization that provided him with plenty of resources, material and symbolic, to carry out his vision. Likewise, deeper integration through judicial activism was achieved by merit of individual judges, but they occupied institutional positions and were backed by formal proceedings and a widely legitimized rule of law. The institutions that allowed these individuals to change the course of European integration were the Commission and the Court; however, these institutions are of a different kind. The former is a political body able to provide leadership through steering capacities and

decision-making authority, whereas the latter is a jurisdictional organ that interpret and enforce rather than make decisions. Institutional leadership encompasses bodies of the first kind, including politically loaded ones such as parliaments, but not jurisdictional and bureaucratic institutions that enforce commitments –as opposed to making them. Tribunals and civil service institutions perform maintenance rather than steering functions and are thus dealt with in the next section, corresponding to inertial conditions.

But for name, nothing resembling the European Commission or the European Parliament exists in Mercosur. As regards executive authority, it has never had anything other than intergovernmental organs. An Administrative Secretariat was established in Montevideo in 1991 and was turned in 2003 into a Technical Secretariat, but it enjoys neither steering autonomy nor political leverage. The Council of Ministers is made up of the foreign and economy ministers of the member countries. Its decisions are made by unanimity, thus turning evident that no guardian of any putative community interests exists. In presidential systems such as those in place in all Mercosur countries, the ministers are not members of a collective body –as they are in a parliamentary system— but assistants to the president. For that reason, political direction is routinely set by presidential summits, which take place twice a year along with the Council meetings. As regards legislative authority, a putative parliament has superseded in 2006 the Joint Parliamentary Commission (JPC), which had existed since 1991. The regional parliament has been established with the aim of enhancing legitimacy and addressing an alleged democratic deficit, and it is expected to foster popular participation and citizen representation.[4] However, it is still in an embryonic stage and faces two daunting challenges: to design a composition acceptable to all member states and to define what –if any– decision-making powers confer to it. Its installation is to be processed along two

4 The democratic deficit argument has been questioned elsewhere from two different perspectives (see Dahl 1999 and Moravcsik 2002, 2006). In addition, as Moravcsik (2006: 221) argues, "there is simply no empirical reason to believe […] that opportunities to participate generate greater participation and deliberation, or that participation and deliberation generate political legitimacy."

transitional periods. In the first one, a body similar to the JPC (the only difference being that every country would send 18 instead of 16 parliamentarians) will replace its institutional ancestor. For the second period, direct elections are mandated to take place in 2011.

The first elections after the two-stage transition period should be held simultaneously in all member countries in 2014. The decision stopped short of prescribing the final composition of the body, as sharp population asymmetries make up a difficult puzzle to solve. Brazil has roughly 80 percent of the bloc's population, so any distribution that allocates to it less than 50 percent of seats will be perceived as undemocratically biased and will, at any rate, face resistance from Brazilians motivated by considerations of national interest. And yet, giving Brazil more than 50 percent of seats means that this country would hold a permanent majority, thus making such a formula unacceptable for the remaining member states. On the other hand, the Council did establish the competences of the Parliament. They were both extensive and explicit: to watch over, to elaborate (reports), to request (information), to invite, to receive, to hold (meetings), to examine, to convey, to issue (declarations and recommendations), to propose (studies and projects), to develop (actions), to maintain (institutional relations), to celebrate (agreements) and to foment (values). Surprisingly or not, to make rules was not among them. Consequently, the most likely outcome will be a toothless parliament, a deliberative forum rather than a decision-making body. Previous Latin American experiences at parliamentarizing regional blocs do not feed hopes that this may change: the Andean Community and the Central American Integration System have both established supranational parliaments, but comparative studies show that their performance has been disappointing to the point of irrelevance (Malamud and Sousa, 2007). Neither regional precedent nor current situation leads to believe that this parliament could act as a powerhouse for integration.

The fourth type of leadership is intergovernmental diplomacy. Since Mercosur stands as a power-oriented rather than rule-oriented organization, two-party diplomacy rather than three-party juridical procedures have become the main instrument for decision-making and dispute-settlement. To be sure, diplomacy also plays a significant role in the operation of the EU; however, in Mercosur it does not only operate at intergovernmental conferences or critical junctures but routinely, on a daily basis. In addition, more frequently than not it involves summit, not professional diplomacy. State-led, presidential-driven integration have become a persistent feature of Mercosur dynamics, a feature that has been called "interpresidentialism" (Malamud, 2003). As shown in Malamud (2005a: 158), direct "presidential intervention boosted the process of integration and shaped its outcome, with presidents acting not only as decision-makers but also as dispute-settlers and guarantors of commitments. The presidents were perceived to be efficient problem solvers because they had popular legitimacy and the determination to intervene. However, the tasks they performed were not merely based on charismatic leadership but also on institutional capabilities." The bad news is that interpresidentialism went into crisis after the Brazilian devaluation of 1999 and virtually collapsed in the wake of the Argentine crisis of 2001. Presidential rhetoric never ceased to support regional integration in general and Mercosur in particular, but after that date presidential action did not follow suit.

To sum up, in the EU transnational transactors and national governments demanded institutions and rules, which were supplied by national governments, the European Commission, and the European Court. In Mercosur, transnational transactors were few and weak and neither a Commission nor a Court was in place. National governments were the only actor left to support integration, and so they did until adverse circumstances dramatically limited their room for maneuver. Given the shortage of demand and supply conditions for integration, the only driving force that could keep the process ticking was inertia, created by previous movement and freezing institutions. To them we turn now.

Inertial conditions (institutions)

Mercosur has never developed any kind of autonomous regional bureaucracy. Instead, it depends exclusively on the national governments for enforcement, compliance and, in most cases, adjudication. On paper, however, Mercosur has partially replicated the institutions of the European Union: it features a committee of permanent representatives resembling the COREPER, a judicial structure that includes a recently created court of appeals, and an *acquis communautaire* made up of the whole body of regional regulations. Arguably, in times of turmoil or stagnation these institutions could have worked as a reservoir of integrative momentum. However, they have not.

The Committee of Permanent Representatives is made up of one diplomatic representative from each member country. Yet, its president is nominated by unanimity of the governments and does not represent the state of which he is a citizen. The position was created in 2003 as a golden parachute for former Argentine president Eduardo Duhalde and has never enjoyed any decision-making or implementation powers. It has three competences: to assist the Council of Ministers, to submit initiatives and to strengthen economic, social and parliamentary relations within Mercosur. The president may also be asked by the Council to represent the bloc before external actors. The current president, Carlos Álvarez, succeeded Duhalde in 2005 and suffers from the same constraints: his budget and room for maneuver depends, more or less informally but effectively, on the discretion of his nominator, the Argentine president.

As for judicial procedures, Mercosur has had an ad-hoc dispute-settlement mechanism since its inception. It provides for a three-stage process of direct negotiations, mediation by an intergovernmental organ (the Common Market Group), and arbitration by an ad-hoc tribunal. A main limitation is that, unlike in the EU, only states can be parties to a dispute, so that the mechanism is more like those found in the World Trade Organization (WTO) than in the EU. The net result is appalling: not only citizens have been denied access to regional courts, but judicial activity –and therefore judicial activism— has been negligible. Only rarely have Mercosur member states resorted to the dispute-settlement mechanism: whereas the European Court has produced hundreds of rulings every year always since its creation, the Mercosur dispute-settlement mechanism has been used only 10 times in 15 years. True, a permanent appeals court was set up in Asunción and started functioning in 2005.

However, it is not entitled to adjudicate in a conflict in which a part opts for appealing to WTO proceedings: its services are optional, and in its first two years of existence it has issued just two rulings. To make prospects cloudier, even if a supreme tribunal were finally established, the non-existence of Mercosur common law (since most pieces of legislation must be transposed into national legislation by all four members to enter into force) would render inconsequential any increase in judicial activism.

As regards Mercosur *acquis communautaire*, it is illuminating to analyze how regional law is adjudicated and the low extent to which it penetrates reality, i.e. whether approved regulations are in force in the first place, and how effective they are in the second place. As previously mentioned, most pieces of legislation that are passed by the regional bodies must be transposed into the national legislation of all four members before it enters into force. This requirement opens the door for a bizarre situation, in which a regulation approved by the Council has been approved by a national parliament but is not in force in any of the member countries, not even the one that has just passed it, until the fourth national parliament has also done so. As a result, half of Mercosur regulations that require transposition are not in force (556 of 1119 in March 2006; see Table 3 for more detail). Another striking occurrence is that more than half of Mercosur norms also contain confidential annexes (235 of 382 between 2003 and 2005),[5] turning its proceedings opaque in addition to cumbersome. As regards effectiveness, the most thorough diagnosis on Mercosur's operation to date points out that "the intensive use of diplomatic resources to move regional integration forward was accompanied by poor implementation mechanisms. Consequently, even in those areas with agreed regional rules, implementation weaknesses proved functional to the subsistence of national discretion" (Bouzas *et al.,* 2002: 147).

5 The source of these data is a confidential minute addressed to the Mercosur Secretariat that, to the best of my knowledge, remains unpublished.)

Table 3 - **Mercosur:**
norm transposition and enforcement according to type, 1991-March 2006

	Approved norms(1)	Do not require transposition(2)	Require transposition			In force (6=2+4)
			Total (3=1-2)	Transposed (4=3-5)	Not transposed (5)	
Decisions	426	209	217	86	131	295
Resolutions	1130	346	784	404	380	750
Directives	156	38	118	73	45	111
Four member states	**1712**	**593**	**1119**	**563**	**556**	**1156**
	100%	34.60%	65.40%	32.90%	32.50%	67.50%

Source: *Informe Mercosur* Nº 11, Enero 2007, INTAL.

The questionable status of Mercosur community law given the absence of direct effect and mutual recognition (Bouzas *et al.*, 2002) make impracticable that regional regulations have primacy over domestic regulations, thus rendering regional institutions unable to advance integration autonomously. Henceforth, past investment on Mercosur bodies have not created inertial effects that push the project forward when demand and supply conditions are dim.

Conclusions

The main driving forces of European integration have been transnational transactors, the national governments, the European Commission, and the European Court of Justice (Sandholtz and Stone Sweet, 1998), some both an engine and a product of integration. In Mercosur transnational transactors are weak because interdependence is low and there are no supranational actors such as the European Commission or the Court; therefore, national governments are the only driving force left. In this context, demand for and supply of further integration only emerged from the national chief executives, and even this was sporadic. The consequence is that spillover in crucial areas has not taken place, as there is neither dele-

gation nor pooling of decision-making that could enlarge the scope or increase the level of the mutual commitments. In the absence of spillover, the joint political will of the national presidents kept Mercosur going during its early years but declined thereafter. While it was functional while interdependence was at its lowest and needed to be fostered, it proved less versatile when interdependence rose –albeit not much– and needed to be administered. In the end, the mixture of normative inflation, implementation gaps and ineffective integration mechanisms exposed the limits of inter-presidentialism for handling an increasingly complex regional organization. A realistic agenda should therefore deal with alternative mechanisms to steer the process and face the mounting challenges.

As just pointed out, a critical weakness of Mercosur has to do with effective implementation. A widespread view is that more participation and representation of social interests could be a positive asset, but –for example– the creation of a regional parliament is not the right way to foster this objective –again, at this stage. One of the main liabilities of Mercosur is, rather than the democratic deficit, the implementation gap: lack of compliance adds up to the transposition lag making of Mercosur an association in which rules rarely get out from paper. One of the causes of this liability is the lacking of a bureaucracy able to monitor and enforce regional norms. It is up to the national bureaucracies to do so, but they do not have incentives to perform such a role. A prudent warning would thus be not to let form trump function: as appealing as it may be, to set up new institutions does not guarantee that the job is done. Some necessary tasks are to be performed, but the way to do it may vary across areas and over time. For example, monetary coordination may be desirable, but a common currency is not indispensable –and could even be counterproductive– before the common market is in place. A similar reasoning can be applied to such sensitive issue as democratization: proposing that the citizens control electorally an intergovernmental –as opposed to supranational– organization is contradictory at its best, as they already elect the principals of the organization. For those who advocate deeper integration, transparency rather than democracy is a more potentially rewarding first step. The rationale is that the integration process will be enhanced if the initial tasks and initial delegation of authority get to attract the attention of non-state interests and to provide incentives for them to form transnational interest associations or social movements, which will in subsequent stages demand better access to regional deliberation and decision-making.

Mercosur was initially a realistic process that sought gradually and pragmatically to overcome the integration fiction syndrome and the rhetoric that had hitherto predominated in Latin America (Campbell, 1999). As interdependence increased and economic growth lubricated the process, a pragmatic approach prevailed. After the completion of the schedule of automatic tariff reduction, however, the onset of economic crises ignited intra-regional conflicts and national leaders opted to up the rhetorical ante. Deepening, enlargement and institutional upgrading became obsessive topics as trade controversies multiplied and temporary barriers were erected and taken down time and again. The gap between those that defended the bloc for existential or identity reasons and those that understood it as a means to other ends became increasingly wider. Elsewhere, these groups have been termed existentialists and instrumentalists (Malamud and Castro, 2007). Whereas the former talked of establishing supranational institutions, a single currency and a common external policy, the latter advocated the need to promote the liberalization of services and government procurement, to facilitate the internalization of regional rules, and improve macroeconomic coordination without necessarily going supranational. Although there are areas of agreement between the two camps (such as the need to invest in physical integration and to negotiate in multilateral trade fora as a bloc), disagreements far exceed points of consensus. Cognitive dissonance may be a common dysfunction in large processes of regional integration, as the recent attempt to constitutionalize the EU shows. In Latin America, however, the phenomenon is aggravated by a historical propensity towards magical realism and high rhetoric. Even though Mercosur was created to mitigate such tendencies, it has been lately drifting back again towards magical realism.

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