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28. Global Order: Historical Perspective or Fiction?

Panel 3: The Role of Economic Crises in Shaping Global Order

**FINANCIAL CRISIS: OBSTACLE OR NEW IMPULSE FOR
INTEGRATION IN SOUTHERN CONE**

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Abstract

My paper analyses the consequences of the current financial crisis for the integration process in Latin America. I will focus on Mercosur countries, mainly Brazil and Argentina. Can we perceive any effort of joint action against crisis as Western countries do or is there still something similar to the situation in years of Great Depression – each state fighting against crisis on their own account and often in a way that discriminates the other states? For analysis of impact of the current economic crisis is also important to discover in which phase the Mercosur integration is. Obviously, economically based integration is more vulnerable by financial crisis than integration on political base. Can we identify parallels to the situation during 1997 financial crisis when Mercosur integration process decelerated due to Argentinean government's economically based point of view or not? In my paper, I would like to find satisfactory answers to above-mentioned questions by studying macroeconomic data, key actors attitudes and affected governments actions.

Introduction

Mainly from the beginning of 20th century we can perceive effects of increasing interdependence between national economies across the world, so-called economic globalization. Consequences of this process were not always only positive. The most important negative impact of economic globalization is vulnerability of the global economic system for the distribution of local economic crises through the world and the emergence of a global economic crisis.

In my opinion, evidence of global economic crisis requires global political action or rather coordination of national anti-crisis measures on global level. Globalized economy requires globalized policy and I suppose that cooperation in time of crisis is more important than cooperation in time of prosperity and welfare. Nevertheless politicians all around the world pursue different interests and can occur to different conclusions.

One of the main reasons for the reluctance of politicians to cooperate with foreign governments is the size of their electorate. The fact that politicians are elected only by citizens of their states may discourage potential cooperation with other countries, especially if in times of crisis voters feel threatened from abroad.

In the first half of 20th century Great Depression demonstrated inability of world leaders to respond to global economic crisis applying global economic politics. Measures applied by particular states such as protectionism led to serious disruption of world trade. Also the influence of nationalist movements in different countries can be revealed as important originator of this situation.

By contrast, in the early 21st century we can trace the efforts of particular governments, especially from Western countries (U.S. and EU) to cooperate in the fight against the current financial crisis. Evaluation of the results and benefits of this cooperation is not an objective of my paper, but I think that the mere pursuit of a common course of action against financial crisis is appreciable.

In my paper I am analysing how governments of Mercosur countries, particularly Argentina and Brazil, are responding to the current financial crisis. Are they continuing with cooperation and integration efforts or they focus on their own problems and integration process stagnates? Are they applying common policies or particular policies, which can even damage economies of other Mercosur countries? Finding satisfactory answers to these questions is the aim of this work.

Mercosur at the turn of the millennium

Mercosur (MERcado Común del SUR – Southern Common Market) was founded on 26 March 1991 by Treaty of Asunción¹ as a result of negotiations between Argentinean and Brazilian government in the late eighties of 20th century. The treaty was also signed by Uruguay and Paraguay. On 17 December 1994 Treaty of Asunción was amended and updated by the Protocol of Ouro Preto².

Creation of Mercosur was the result of political decision more than an economic need due to lack of macroeconomic convergence or high trade exchange. Also, a weak private sector involvement in the process and almost no lobby for or against integration process is an argument for this statement.³

I think that one of the main reasons for the emergence of Mercosur was an attempt by national governments to stabilize the democratic regimes through the integration, since all original member countries of Mercosur have had recent experience with military regimes. This opinion is supported by evidence of Presidential Declaration on Democratic Commitment in Mercosur⁴, signed on 25 June 1996.

Early nineties were marked by economic growth and relative prosperity in member countries, so economic situation was favourable to the integration process. But in December 1994 collapsed Mexican peso and following economic crisis had also impact on the Mercosur countries (the so-called Tequila Effect). The situation was aggravated with 1997 crisis in Southeast Asia and consecutive 1998 Russian crisis.

In January 1999 Brazilian government was forced to devalue Brazilian currency. This was a critical point to the integration process in Southern Cone and consecutive period 1999-2002 is marked by stagnation of integration process. Carranza⁵ cited as examples of Mercosur crisis parallel talks of Brazil with Andean Community in April 1999 about separate free trade agreement and announcement of suspension of all negotiations with Argentina in July 1999. According to Carranza Brazilian government even threatened to dissolve Mercosur.

Devaluation of the Brazilian Real damaged economies of other Mercosur countries due to loss of competitiveness of goods from these countries. In this time Brazil's share on Argentinean export amounted to 30 percent, to 35 percent in Uruguayan case and 40 percent

¹ Tratado para la Constitución de un Mercado Común (Tratado de Asunción) enters in force on 29 November 1991, available at www.mercosur.int.

² Protocolo Adicional al Tratado de Asunción sobre la Estructura Institucional del MERCOSUR (Protocolo de Ouro Preto) enters in force between 15 December 1995 and 16 February 1996, available at www.mercosur.int.

³ JENICKOVA, p. 33.

⁴ Declaración Presidencial sobre Compromiso Democrático en el MERCOSUR, available at www.mercosur.int.

⁵ CARRANZA (2003), p. 83.

on Paraguayan export. This situation intensified controversies between Argentina and Brazil. Under pressure from local industrial associations Argentinean government imposed between April and September 1999 several restrictions on goods of Brazilian origin.⁶

Devaluation of the Brazilian Real may be neutralized by the Argentinean currency devaluation. But this step was unacceptable for Argentinean government, because Argentinean inhabitants were so obsessed with their parity 1:1 (1 Argentinean peso equals 1 US Dollar). The political costs of devaluation were enormous unlike the political costs of stagnant integration. So the overvalued Argentinean peso was not devalued until January 2002 after the collapse of the Argentinean economy in December 2001.

Lessons from the years of crisis

According to Carranza⁷ there were two basic lessons from the years of crisis: The need to establish an effective mechanism for resolving trade disputes and the need to take serious steps to harmonize the macroeconomic policies of Argentina and Brazil. As I have explained above, Brazilian unilateral devaluation of local currency was the main reason for stagnation in the integration process.

As a solution to the first problem Olivos Protocol for the Settlement of Disputes in MERCOSUR⁸, signed on 18 February 2002, established Permanent Review Tribunal (TPR) as a principal organ of the Mercosur Dispute Settlement System. TPR serves as an appeal body against the judgments of Ad Hoc Arbitration Courts (TAHM). Verdicts of TAHM and TPR are obligatory for all member states of Mercosur.⁹

Since 2002, there is a recurrence of the integration process, which can be evidenced also by adoption of the Agreement on Residence for Nationals of Member States of Mercosur¹⁰. This agreement facilitates the free movement of persons between member states and their stay on the territory of other member states. This is another step towards the four freedoms, which are characteristic for the single market¹¹ and this step also opens up the possibility of future citizenship of Mercosur.

⁶ CARRANZA (2003), p.82-83.

⁷ CARRANZA (2003), p.86-87.

⁸ Protocolo de Olivos para la Solución de Controversias en el MERCOSUR enters in force on 1 January 2004, available at www.mercosur.int.

⁹ More information about the Mercosur Dispute Settlement System can be found on http://www.mercosur.int/t_generic.jsp?contentid=374&site=1&channel=secretaria&seccion=6 (in Spanish).

¹⁰ Acuerdo sobre Residencia para Nacionales de los Estados Partes del MERCOSUR enters in force on 28 July 2009, available at www.mercosur.int.

¹¹ Free movement of goods, capital, services and people.

Also domestic political situation in key member states - Argentina and Brazil - became favourable for the restoration of integration process. In the first half of 2003, new presidents get into office in both countries. On 1 January was inaugurated incumbent President of Brazil Luiz Inácio Lula da Silva and on 25 May was inaugurated as President of Argentina Néstor Carlos Kirchner, currently serving as Secretary General of the Union of South American Nations¹².

Similar - left-wing - political orientation of both presidents was certainly helpful for further development of the integration process. Above that the Argentinean government has left the policy of „automatic alignment with the United States“ that had characterized Argentinean foreign policy since the accession of Carlos Saúl Menem in 1989. Instead, Kirchner preferred cooperation within Mercosur and he also built strong relationships with other Latin American leaders such as Bolivian president Juan Evo Morales Ayma, Venezuelan president Hugo Rafael Chávez Frías or even with Fidel Alejandro Castro Ruz.

Strong relations between Lula, Kirchner and Chávez resulted in adhesion of Venezuela to Mercosur on 4 July 2006.¹³ From March 2005 also Uruguay has leftist president, Tabaré Ramón Vázquez Rosas in that moment. But final ratification of Venezuelan adhesion is stalled in the Paraguayan Parliament because of disagreements between the president and opposition deputies.¹⁴

With Venezuela towards new Mercosur?

In June 2007 Venezuelan president Hugo Chávez said in an interview with Spanish government agency EFE that “Venezuela is interested in becoming a member of a “new Mercosur” but if there's no clear change willingness we're not interested in the old Mercosur”.¹⁵ What is the difference between “old“ and “new” Mercosur? Is there really “new Mercosur” or it is just Chavez's wish?

Mercosur was found in early nineties when neoliberal economic paradigm ruled the world. Although the establishment of Mercosur was a political decision, it was primarily created as economic group. At the beginning of the new millennium Mercosur is getting increasingly

¹² Union of South American Nations (UNASUR) is an intergovernmental union integrating Mercosur, Andean Community of Nations, Chile and also two member states of CARICOM – Surinam and Guyana. Foundation of UNASUR was announced in Cusco Declaration on 8 December 2004 and realized by Constitutive Treaty on 23 May 2008.

¹³ Analysis of the reasons of Argentina and Brazil to include Venezuela in the Mercosur can be found for example in CARLI, E. J. La disputa por el liderazgo regional en América del Sur: Las razones de la Argentina y Brasil para incluir a Venezuela en el MERCOSUR.

¹⁴ “Lugo calls Congress to vote for Venezuela’s Mercosur incorporation” available at MercoPress.com.

¹⁵ „Venezuela interested in a “new Mercosur”, if not forget it“ available at MercoPress.com.

political character. It is largely a result of a political shift to the left in Latin America. According to Carranza¹⁶ “the Bush administration’s disastrous policy toward Latin America“ was also one of the reasons for the politicization of the bloc.

It is important to say that Lula and Kirchner do not take extremist position as Chávez or Morales, which can be seen on the argument for Venezuela’s full incorporation „that it’s better to have President Chávez ‘inside’ and partially under control that ‘outside’ making outer regional alliances”¹⁷. This is case of ALBA (Bolivarian Alternative for America) promoted by Chávez and Castro.

Nevertheless they represent anti-north American current of Latin American leaders, for which United States of America is the rival from North and not a partner. I think is very significant that summit, where Venezuela joined Mercosur, was the last public appearance of Fidel Castro before his resignation.

Mercosur deal with the crisis

On 27 October 2008 was convened by Brazil the seventh extraordinary meeting of Council of Common Market with only one item on the agenda: Defining mechanisms for responding to the global crisis. On the meeting in Brasilia participated Foreign ministers, Finance ministers and Heads of Central Banks of member states and associate states (Bolivia, Colombia, Chile, Ecuador and Peru).¹⁸

Argentina came with proposals of protectionist measures to cover the commercial impact of the devaluation of the Real. Situation of Argentina was quite schizophrenic because on the one hand Argentinean government try to protect Argentinean industry, but on the other hand they wanted cooperate with Brazil in facing the crisis. This was a clear shift from the previous crisis.

Foreign and Economic ministers of the Mercosur agreed that the international financial crisis can be mitigated with more regional trade which can offset losses due to reduction of exports to USA and EU, but were disagreed about restriction of imports from countries outside Mercosur as proposed by Argentina. Apart from increase of Common External Tariff, Argentina suggested creation of “Commission for trade monitoring”. Task of this commission

¹⁶ CARRANZA (2010), p.9.

¹⁷ Quoted from “Lugo calls Congress to vote for Venezuela’s Mercosur incorporation” available at MercoPress.com.

¹⁸ “Mercosur: buscan acordar acciones ante la crisis financiera global.” available at LaNación.com.ar.

would be “control of trade flows and determination whether they are affecting or not production and employment levels”.¹⁹

Also adoption of mechanism of financial integration and use of local currencies for trade exchange were discussed as an anti-crisis measures. Appeared requirement of immediate implementation of existing “Banco del Sur” project and Venezuelan minister of foreign affairs proposed creation of “South financial system” including common South American currency and fund for administration of foreign exchange reserves. Nevertheless meeting ended without the adoption of concrete measures.²⁰

New Mercosur: Focusing on Social Policy

Rise of “political Mercosur” was not the only consequence of Latin American “turn left”. Apart from the economic issues, Mercosur started focus also on social policies. With the outbreak of the crisis this topic became the subject of importance. This implicates possible use of “Keynesian” politics to combat the crisis. Idea of expanding investment in the social area, in order to boost consumption and enhance the production of goods really appeared in the ministers of social affairs on 17 November 2008.²¹

On 15 December 2008 was convened the thirty-six ordinary meeting of Council of Common Market to Costa de Sauípe en Brazil.

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Conclusion

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¹⁹ “Mercosur, dividido ante la opción proteccionista contra la crisis financiera.” available at starMedia.com.

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²¹ “Mercosur recomienda fortalecer la inversión social frente a crisis financiera,” available at hoy.com.ec.

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