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## ***Mercosur's Open Regionalism and Regulation: Focusing on the Petrochemicals and Steel Sectors***

[Claudia Sanchez Bajo](#)

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### Introduction

Regionalism, in the 1990s, appears worldwide to be an outward oriented political-economy phenomenon [1](#) (Mittelman, 1996), and a permanent feature affecting global trade (Hugues Hallet *et al.*, 1994; De Melo *et al.*, 1993). Nonetheless, when it comes to the case of Mercosur [2](#), the effects of such policy-driven efforts and free trade stand have been seriously questioned (Yeats, 1997 [3](#)). Some have described this regional integration arrangement as having weak business-state coalitions and protectionist business strategies, remnants from the ISI era (Pastor and Wise, 1995). Instead, for Payne and Bartell, who wrote in the same period, Latin American business leaders behave differently from the past, even though they are still theorised as “*a monolithic group of weak political and economic actors who depend on an authoritarian state to protect their rent-seeking ventures. These old stereotypes do not reflect the significant political and economic changes that have occurred over the last two decades in Latin America*” (Payne *et al.*, 1995: 257). The transformation of business behaviour is reflected through the indicator of intra-regional Mercosur investment flows, which “*have acquired remarkable dynamism*” [4](#).

Against all critiques, Mercosur has been perceived as the most successful regional integration arrangement formed by less developed countries. In a very short period, it has attained a near-complete customs union status while its trade (both intra and extra-regional) has shown impressive growth, thus appearing to exhibit both trends of regionalism and global openness simultaneously. Accordingly, Argentina has experienced drastic structural policy changes towards unilateral liberalisation, privatisation and deregulation since 1990, while Brazil has engaged in unilateralism since 1988 through ups and downs. Both countries, which had initiated a bilateral attempt at regionalism in 1986 (the Argentine-Brazilian Integration Programme –ABEIP), form the axis of Mercosur in economic [5](#) as well as in political terms. Therefore, this paper focuses exclusively on them.

The above mentioned contradictory assessments of Mercosur as well as business actors' behaviour regarding regionalism beg for some clarification. To what extent did business people, the other key actors besides government officials, pursue the path of regionalism in the region? To what extent and in which manner were they associated with the regulatory process involved in regionalism? If they were, what reasons led business actors to engage in regionalism policy making in the first place?

The argument of the paper is as follows. In its very conceptual tenets, the 1990s Mercosur's “open regionalism” has sought not only the support of the business actors, but also their active involvement. This involvement has indeed taken place, creating new regional policy dynamics. Yet, business involvement has also been a response to their autonomous perceptions of, and interests within regionalism.

Methodologically, this paper attempts to develop this argument by examining the regional strategies of business actors belonging to two industrial sectors, namely petrochemical and steel. Since the volume and diversity of actors logically increase in any process of regionalism, desegregating into sectors can improve the analysis of the ‘meso-level’ –of the intermediation of the actors’ interests at the transnational level (McAleavey, 1994). The logic of policy in regionalism can be clearer and historically grounded in specific sectors’ origins and development. Studying actors’ political strategies in regionalism through sectors shifts research from macro-diversity at the national level to responsible politics where actors become more clearly accountable. This shift in research takes into account specific interests that are common to certain groups and sectors (Booth, 1993: 49-53). Already in the 1980s, Strange and Tooze had called for analytical desegregation that could lead to a reconstruction of theoretical statements based on “*analysis by economic sector rather than on a macro level*” (Strange and Tooze, 1981: 17). The sectoral approach reduces the level of generalisation, which, for the study of regionalism, provides a different perspective from macro-level studies. Moreover, in this century, “*the modern industrial enterprise... dynamics produced its three most significant historical attributes. First, such enterprises clustered from the start in industries having similar characteristics. This is a main reason why sectors’ studies are particularly interesting. Second, they appeared quite suddenly in the last quarter of the nineteenth century. Finally, all were born and then continued to grow in much the same manner*” (Chandler, 1990: 18). Thus, many economic indicators concerning business strategies <sup>6</sup> are sector-bound. (Chudnovsky, 1993: 4), and an essential part to fully comprehend business actors’ behaviour.

According to Milner, industrial sectors with increasing returns to scale of production “*should be the ones who pursue a regional strategy*” (Milner, 1996: 80), and thus, would be more likely involved in regionalism. Industries that are not under perfect competitive conditions would prefer to export than to invest abroad. A customs union would correspond to the firms’ interests of maximising profits, through trade suppression and cost reduction combined with product differentiation, particularly when the home market is small compared to the most efficient scale of production. It would also provide them stable market access.

These considerations apply to both petrochemicals and steel, where most products are commodities, i.e. standardised products, thus characterised by increasing economies of scale. Their plants are technically indivisible and, given their increasing dimensions pushed by large economies of scales <sup>7</sup>, they require enormous capital investment <sup>8</sup>. Due to their continuous processes of production and high interdependence of production flows and technology, they are constituted into vertical industrial complexes. These characteristics also pave the trend for the creation of oligopolies and monopolies.

The fact of being commodities means that the bulk of competition lies on pricing. Vulnerable to changes in global and national economic conditions, the high capital costs and the high costs of halting the plants’ operation make any alternative preferable to temporarily halting production or closing down. If the internal market cannot absorb production, they need to export and/or to sell at low prices to cover marginal costs. At the same time, they need to diversify production and markets during cyclical over-production crises, in order to reduce the risks and costs that stem from non-fully operational plants. Both the cost of capital and the certainty over the “rules of the game” or policy regime are important for their long-term strategies. As a result, chemicals and petrochemicals (together with oil) have been the first most internationalised industrial sectors <sup>9</sup>. In steel, global firms have also slowly appeared in the 1980s (Beddows 1990) <sup>10</sup>, and in the 1990s, steel firms that remain dependent on their home market and without alliances abroad are perceived as ill-competitive (Hudson, 1996: 160). Accordingly, most steel and petrochemical firms from the Mercosur region are oligopolies on their way to internationalisation (see Peres Nuñez, 1993) <sup>11</sup>. Moreover, these firms belong to the main national economic groups or holdings in both Argentina and Brazil <sup>12</sup>.

In fact, these two sectors have a strong impact on their national economies. They are important in terms of capital investment and modern plants, as well as in terms of their active role within the domestic industrial networks. Investment decisions in the two sectors are taken only when demand becomes high enough as to exceed the existing productive capacity. However, by the time the investment decisions mature and new

units start to produce, the demand, which follows phases of expansion and retraction of the international economy, may have decreased. Therefore, both sectors undergo crisis cycles every five years or so [13](#). As producers of intermediate goods, they are central to the economy due first to their forward and backward linkages, and second to the fact that they shape national prices and competitiveness in terms of average costs for the rest of the economy. As a result of their special production cycles and their capacity to influence the rate of inflation, governments may target them for special treatment.

All these characteristics make them key business actors, likely to internationalise and to be heard by governments. However, this is certainly necessary, but not sufficient, to explain their involvement in Mercosur regionalism as a regulatory and policy-making process. Within Mercosur, economists have studied how these sectors have reacted to their changing national economic contexts [14](#). Simultaneously, other authors have studied various actors' reactions to regionalism, including business in general (Hirst, 1991, Hirst *et al.*, 1993; Alvarez, 1995). Nonetheless, the sectoral dimension of business actors' political and social role in policy making have yet to receive the attention it deserves (Schvarzer, 1993: 380, 386). This paper is meant to be a modest contribution in this regard.

The argument is developed along three sections. The first one looks at Mercosur and the concept of "open regionalism"; the second one considers business' involvement and strategies within regionalism; and the third one points to the perceptions and interests that explain their behaviour. The discussion has been grounded on 74 personal interviews conducted in 1995 in Argentina and Brazil [15](#), and later analysed within Atlasti qualitative software [16](#), covering as much as possible the 'power map' of the main business actors from both petrochemicals and steel involved in Mercosur policy-making. Business actors includes owners and managers of enterprises and holdings, as well as representatives of trade and/or industrial chambers, be they national, bilateral or Latin American ones.

## Section 1. The Experience of Mercosur

### 1.1. Mercosur's Regulatory Process

Mercosur's objectives and status have been set out in its original treaty, the Asuncion Treaty of 1991, as well as in the Protocol of Ouro Preto of 1994. Mercosur intends to create a common market with a common policy towards third parties, embodied in its common external tariff, and a free area for the movement of goods and services, capital and labour. It also aims at macro-economic co-ordination as well as at harmonising sectoral policies. As regards to its status, Mercosur has become both a customs union and a legal person of international law as from January 1995. By this latter feature, Mercosur officials are able to represent member countries as a whole and to negotiate as a unit, obtaining international recognition and a greater bargaining power in international negotiations. The customs union, though, is being gradually implemented, and is expected to cover all sectors of the economy only in 2006 [17](#).

Mercosur appears largely as a consequence of a decade long of unilateralism [18](#). As seen earlier, Argentina started unilateral liberalisation in 1987 and has been by far the most unmitigated case, while Brazil has followed a similar path since 1988, though more slowly. Thus, Mercosur was established amidst an ongoing and general reduction of trade barriers. In addition, these countries have a multilateral trade insertion in the world economy, their total exports roughly divided in similar percentages among North America, South America and the European Union [19](#). Their diversified articulation explains Mercosur's interests in a solid multilateral system under the surveillance of the WTO. Indeed, a strong WTO may enable the defence of their interests without being excessively dependent on just one country or region.

Mercosur negotiations started under newly elected presidents, Menem in Argentina and Collor de Mello in Brazil. The Asuncion Treaty of 1991 was a commitment to start negotiations, hence, the major decisions were related to how to carry them. The idea of supranationality was rejected from the beginning and the foreign ministries were given the state role of co-ordinating the regional integration process. In the

context of liberalisation in the two countries, of rapid technological change and world restructuring in industrial sectors 20., the first priority in the region was to attract capital flows and to provide a stable framework for capital integration. The two sectors examined here, above all petrochemicals, were particularly concerned with both the issue of capital formation and the question of scales 21. Indeed, regionalism for the sectors was connected to the goals of increasing scales, enabling their holdings to expand and to connect their firms into regional chains of production and distribution. In such a way, the probability of trade conflict could diminish while that of “capital formation” 22. could increase. Moreover, there was a governmental recognition that, if this failed, regionalism would fail as well 23.

Correspondingly, a primary goal of both Argentina and Brazil national governments has been that of macro-economic stability. For the governments, “*the question is to create the conditions for attraction of capital*” 24. Argentineans had the same goal. Jorge Campbell, Argentinean Secretary of State for International Economic Relations in 1994 (Campbell, 1994), stated “*a greater interest in localising investments in the sub-region (determined, among other reasons, by the expansion of the market and the security of its preferential access) is also expected*”. The expectation was that the enlarged market of Mercosur would couple investment with greater economic competition and efficiency.

There is little wonder that, in this context, the ministries that acquired most power in the process of regionalism were in both countries the economic and financial ones, while foreign ministries were subordinated to the economic agendas 25. Public decision making with regard to regionalism has remained within the executive sphere, while the key actors have been government officials and business representatives (owners and managers of enterprises and holdings, as well as representatives of trade and/or industrial chambers, be they national, bilateral or Latin American ones).

Mercosur has remained so far strictly inter-governmental and based on the Argentina-Brazil bilateral axis. Its intergovernmental working bodies have neither the autonomy to set their agenda, nor financial resources of their own. Moreover, their decisions can only be reached by consensus and cannot be implemented straightforward. They need first to be ‘internalised’ through state approval and endorsement. The only supranational regulation until 1995 was the Annex I of the Asuncion treaty, with the automatic implementation of decreasing tariff rates.

Mercosur’s structure is minimal, with almost no bureaucracy of its own, with the exception of the Administrative Secretariat in Montevideo 26. Mercosur officials are also national civil servants. Like in the EU, the presidency of Mercosur rotates every six months among the presidents of the member countries. The *Common Market Council*, formed by the Ministers of Foreign Relations and Economy, has undertaken the political direction of the process, while the *Common Market Group*, comprising representatives of the national executives, has the task of implementing decisions. A limited number of decision-makers with rather stable positions have facilitated consensual decision-making, which in turn has enhanced personal channels 27.

The definite Mercosur structure was established by the Ouro Preto Protocol, which came into force on November 1, 1995. The Protocol added the Trade Commission and the Economic and Social Consultative Forum. The former has a supervisory role and handles the complaints on trade matters, while the Joint Parliamentary Commission and the Economic and Social Forum have remained so far consultative. The current structure comprises the following main bodies:

<b>Decision-Making Bodies</b>	<b>Body of Parliamentary Representation</b>	<b>Advisory Body</b>	<b>Body of Support</b>
<ul style="list-style-type: none"> <li>• Common Market Council</li> <li>• Common Market</li> </ul>	<ul style="list-style-type: none"> <li>• Joint Parliamentary Commission</li> </ul>	<ul style="list-style-type: none"> <li>• Economic and Social Consultative Forum</li> </ul>	<ul style="list-style-type: none"> <li>• Administrative Secretariat</li> </ul>



- Group
- Trade Commission

Ten working groups (WG), established in 1992, reviewed economic issues under the Common Market Group authority. The WGs had an important role in the so-called transition period (between 1991 and 1995) in which they were considered as ad-hoc groups. Their continuation was uncertain until August 1995, when it was decided that they would be maintained. Previous to 1995, the WG No. 1 had worked on trade and tariffs; this WG was essential to achieve a consensual common external tariff structure. Since 1995 [28](#), ten WG have been covering such various fields as communications (No.1), mining (No.2), technical norms and regulation (No.3), finance (No.4), transport and infrastructure (No.5), environment (No.6), industry (No.7), agriculture (No.8), energy (No.9) and labour (No.10). In 1996, a new WG was added on health (No.11). The task of these working groups has been to harmonise the national norms with the ideal of setting a “levelled playing field” [29](#).

Mercosur’s goal of harmonising sectoral policies includes the issue of industrial policy instruments (e.g. concerning trade, tax and credit instruments [30](#)). However, the issue of industrial policy in itself has neither been mentioned nor its possible instruments delimited, with the exception of the reference to sectoral accords before 1995, that will be explained later (Markwald and Machado, 1999: 74; Leipziger *et al.*, 1997: 14). According to an industrial consultant, in order to restructure and modernise the sectors, *“the only serious possibilities are: trade policy and/or industrial policy. But Argentina does not have either disposition or capacity, particularly to aspire to allocate prospective investments”* (Dr. Lopez, Argentinean specialist on petrochemical industry, interview 36:25). Motta Veiga (Brazilian economist at the National Bank for Economic and Social Development –BNDES) clarified the point further: *“Nothing was discussed in Mercosur, neither rules nor policy directions. The predominant ideas were two: 1. That the most efficient policy would displace the less efficient one. 2. That the object and/or limits of the regulatory capabilities (competencia regulatoria) could not be discussed”* (interview 41:9).

The restructuring has been left to the firms themselves. One of the oldest Argentinean policy advisors on steel, and president of ILAFA –Latin American Steel Association- Mr. Llorente (interview 59:10) explained some consequences of that path. *“Another interesting aspect is the concentration after privatisation, and the exposure of the more fragile small and medium enterprises, in a context in which the State rolls back and there is strong technological development. In Latin America, there has been concentration. This implies less internal competition that compensates firms for the governmental position, which through the economic opening has increased the external competition. This has lead rapidly to concentration, while the state does not feel responsible either for industries sector-wise or the small and medium enterprises”*.

In spite of the clear commitment to general liberalisation, the sector-based option was kept open within Mercosur through the so-called ‘Sectoral Accords’. This option stated the aim to restructure a sector across different states by pooling them together in the regional market. Sectoral accords were meant to involve ‘sensitive’ [31](#) and capital-intensive sectors into regionalism. Due to the existing important structural asymmetries in the industrial sectors between the countries [32](#), the idea was to prevent a crisis that could be serious enough to stall the process. These sectoral accords depended on voluntary action, and needed not include all Mercosur countries. They were to be negotiated by the sector actors themselves, but their ratification was dependent on each state’s approval and on the international consensus among the countries involved. According to the then Argentinean Secretary for International Economic Relations, and current Minister of Industry, Alieto Guadagni, the sectoral accords were to act as ‘safety valves’ along their restructuring. At the same time, they were supposed to increase the *intra*-sector-based trade, counteracting the *inter*-sector-based emphasis of the general approach (Guadagni, 1993). The only sector accord ever approved by Mercosur, and included in the ALADI system, was the one of the steel sector. The reasons for this outcome will be argued in the next section on business involvement in regionalism.

Regarding the trade effects in Mercosur, there has been a debate over the static ones. There are those who criticise them (Yeats, 1997), those who see them as a natural process resulting from shortened geographical distances (Machado and Markwald, 1995), and those who are enthusiastic about them (Irela, 1997, Leipziger *et al.*, 1997). Mercosur trade growth has been significant as we can see in the table below. Intra-regional exports increased by almost five times between 1990 and 1997, from less than 10% in 1990 to almost 25% of total Mercosur's exports in 1997.

**Table 2: Mercosur Exports Intra and Extra Region, 1990-1997 (in US\$ Million)**

Year	1990	1994	1995	1996	1997	1998*
1. Total Exports	46,425	62,112	70,401	74,997	83,210	82,931
2. Intra-Regional Exports	4,123	11,955	14,394	17,038	20,650	21,394
3. As a % of total exports	8.9%	19.2%	20.4%	22.7%	24.8%	25.8%

Source: "Integration and Trade in the Americas, A preliminary estimate of 1998 trade", December 1998. Inter-American Development Bank, Periodic Note.

It is the issue of dynamic trade effects, however, that has been at the forefront of both state and business actors' consideration. According to Leipziger, Fritchak, Kharas and Normand, the arguments for dynamic trade effects in Mercosur are three. These would stem from 1) the capacity of larger markets to attract FDI, 2) from the exploitation of economies of scales larger than the present national ones, and 3) from the idea that the "domestic corporations first need to be toughened through exposure to limited regional competition" (Leipziger *et al.*, 1997: 6). As regards FDI flows, "between 1994 and 1997 FDI growth in the Mercosur region exceeded 52% annually. Argentina and Brazil were the chosen destinations for more than 95% of all FDI entering the bloc. From 1990 to 1994, Argentina clearly exceeded Brazil in FDI competition, which underscores the importance of economic stability as a factor in attracting this type of capital. In 1995, one year after implementing the Real Plan in Brazil, the distribution of investments flowing into the two principle sub-regional members balanced out. During the past two years, Brazilian involvement grew rapidly, last year receiving more than 70% of total resources entering Mercosur" (Mercosur Report No.4, IADB-INTAL). The growth of intra-industry trade is one of the three best indirect measures of dynamic effects from trade liberalisation 33. They point to the degree of rationalisation and specialisation taking place within the region, as well as of enlargement of scale economies. Machado and Markwald (1997) affirm that more than 60% of intra-Mercosur trade in manufactured products are exchanged through intra-industry trade.

Considerations about dynamic effects are translated into reality as Mercosur ensures effective market access to the firms of the member countries. Of the total universe of goods, around 85% have been liberalised as from January 1995. Mercosur has an average CET of around 12% 34, which is rather low compared to the region's previous levels of protection 35. A handful of sectors are still protected (e.g. automobiles and sugar) and a few others will harmonise tariffs by raising Argentine ones (telecommunications, computers and capital goods). In the case of petrochemicals, most products enjoy a zero tariff, while iron and steel industry products have been included in a third type of mechanism regulating regional tariffs, called Regime of Adjustment or "Regimen de Adequacion". This type is a mechanism phasing out the remaining barriers to trade, made of decreasing tariffs rates covering particular items until 1999. In the case of steel, the tariff range goes from 10 to 15 %. Thus, non-tariff barriers have remained significant for many steel products (see table 3, in Machado *et al.*, 1997: 186).

The minimalist treatment applied to industrial policy at the regional level has allowed for national policy instruments such as anti-dumping and safeguards. These have tended to be used by the smaller market of Argentina, principally in the case of steel. Later the safeguards for steel have been internalised into the Regime of Adjustment. In 1995, in petrochemicals, there was "one exception, included in the Regime of Adjustment. Polyethylene of high density enters with quota and then with tariff" (interview 53:19). In 1999, the situation remains the same. "Very few petrochemical products come under Mercosur's adjustment regime, and practically all of them are traded with zero tariff" (Hasenclever and Lopez, 1998).

There are other barriers that remain due to these states lesser capabilities to deal with them. One area

concerns the uncertain and complex implementation of regional regulation and control of norms of origin. This affects more the petrochemical sector than the steel one, due to threats of triangulation through the smaller countries and the broader range of products involved.

Another problematic area is beyond the sectors. It attains the difficult relationship between the goal of macro-economic and exchange-rate stability, with the increasing deficits in the balance of trade and the volatility in capital flows. After each main financial crisis (Mexico, Asian, etc.), the CET and interests rates are increased. In particular in Brazil, firms are squeezed between more costly imported capital goods and finance, while the overvaluation of the currency weakens extra-regional exports. Additionally, there is a tradition of using trade policy to solve trade deficits. In 1995 and 1996, Brazil exempted several products from the CET (agreed just a couple of months before) for the reason of maintaining price stability after the Real Plan. The first exemptions included petrochemicals and meant a reduction in the external national tariff to just 2%. Following exceptions included among others steel and fertilisers. Therefore, the priority of stability is experienced through a tacit acceptance that, at the Mercosur level, uncertainty and a low degree of state compliance is part of regionalism.

Since 1995, Mercosur has been facing the issue of deepening with moderate success. Harmonisation of national policies and regulation on services, competition, consumers' protection and the regime for the automotive industry has been debated. Agreements have been reached with regard to these issues, unfortunately, without much progress [36](#). Either they have not been implemented or have backtracked into renewed renegotiation or conflict. *"In fact, the remaining obstacles for the full consolidation of Mercosur as a customs union appear to be less associated to the trade regime related to third countries, than to the instability in the levels of protection and other obstacles –of regulatory nature, bureaucratic and infra-structural- to the intra-regional trade flows"* (Machado *et al.*, 1997: 183).

These obstacles have raised many trade complaints from the private sector, which are handled first at the national level or by the Trade Commission, whose role is not yet completely clear. Legal disputes in Mercosur are managed first through political governmental negotiations, followed by ad-hoc arbitration commissions [37](#). Brazil in particular has been adamant against any supranational tribunal [38](#). The situation, which does not create legal jurisprudence, is open to repeated costly disputes over the same issues with the risk of differing interpretations and legal sentences. An emerging consensus is favouring the establishment of a private system of arbitration. In 1996, the Brazilian national parliament approved a law legitimizing private arbitration. And in the Mercosur presidential summit of July 1998, the ministers of justice accepted a system of international commercial arbitration as the alternative to solve private conflicts regarding international contracts. Mercosur signed two legal instruments on the issue: one among the member countries of Mercosur and another between Mercosur members and associate countries [39](#). Moreover, Argentina and Brazil have recognized the autonomy of the will of contracting business parties in deciding the law that will be applied to their commercial relationship. In 1998, Uruguay was debating whether to implement it, in order to harmonize the regulation within Mercosur [40](#). Thus, within regionalism, there has been a gradual process of privatisation and de-territorialisation of commercial law regarding conflict solution.

## 1.2. Mercosur's Open Regionalism

Mercosur's regulatory process, which we have examined above, appears to be underpinned by a vision and a set of values that have been rationalised through the concept of *"open regionalism"*. The values essentially related to economic and political liberalism [41](#), including the search for stability, consensus, and a state with a minimal regulatory role.

The evidence making explicit the concept of *"open regionalism"* stems from documents, public presentations and personal interviews.

In an Argentine document of the ministry of foreign relations, the framework and rationale of Mercosur was defined as the following: *"[Mercosur is]...open regionalism, in the framework of market oriented national policies and adherence to multilateralism... In case of success, Mercosur constitutes a tool*

*intended to improve business profitability and the expected returns from investment projects*” (Campbell, 1994).

In terms of public declarations, the state authorities in Mercosur countries have repeatedly declared to agree with European Commission Vice-president Manuel Marin’s definition of open regionalism. Formally, the concept has been legitimised through Mercosur’s relation with the EU, through their 1995 Framework for Co-operation that seeks to create a trans-Atlantic free trade area. In the introductory statements of that document, the governments affirmed *“underlining, in particular, the importance of an open regionalism”*. This concept may diminish any concerns about a competition between the USA and the EU for ‘spheres of influence’. Above all, by resorting to the idea of open regionalism, the Mercosur governments wanted to signal their choice for a non-discriminatory bloc against outsiders.

Mercosur has largely been in consonance with this stated vision of ‘open’ regionalism. The Asuncion treaty had from the start a clause for enlargement. In addition, Mercosur has been placed within the ALADI system, which means that it is open to all Latin American countries association, for which there are ongoing tariff renegotiations. In December 1995, the Agenda 2000 reinforced enlargement as one of the main priorities for Mercosur, together with the goal of a common trade policy. Two countries have become associates: Chile and Bolivia. Canada and Central America have signed agreements with Mercosur. Negotiations to free trade are under way with the Andean Group as well as with the European Union. Finally, the Mercosur countries are participating within the Western Hemisphere free trade negotiations.

In public presentations given at the first meeting of the European Commission and Mercosur Joint Co-operation Committee (Brussels, June 11-12, 1996), Mercosur representatives laid open the regional value-consensus underlying Mercosur’s regionalism. In that meeting, business actors declared that *“the Mercosur countries have shared three general features: a representative system of government, neo-liberal economic policies, and the diffusion of military threats. These features were related to the priorities given first and foremost to stability and the attraction of capital investment, and they were the result of a power consensus among the elites”* (Bulgheroni, Argentinean businessman, at Brussels Seminar, 10-11 June, 1996). Such a consensus focused on *“four issues: macro-policies of adjustment in terms of stabilisation, micro-economic policies in terms of de-regulation, trade policies in terms of liberalisation, and the private sector as an engine of capital accumulation”* (Guadagni, current Argentine Secretary of Industry, at Brussels Seminar, 10-11 June, 1996). In other words, affirmed Brazilian Celso Lafer, *“the key issue for Mercosur is competitive insertion into the world economy”* (Lafer, at Brussels Seminar, 10-11 June 1996).

The UN Economic Commission for Latin America and the Caribbean (Eclac) has provided the rationalisation of the concept for the whole of Latin America. In its publication *“Open Regionalism in Latin America and the Caribbean”* of 1994, it explained the environment for “open regionalism”, its “key principles”, while justifying the concept (Eclac, 1994). The term is used to *“refer to a new process that results from reconciling the two phenomena...the interdependence that stems from special, preferential agreements, and that which basically arises from the market signals that are produced by trade liberalisation in general”* (ibid.: 12). “Open regionalism” has been conceptualised as a strategy to ensure the insertion of LDCs countries into a world conceived as multipolar, while preventing their turning into a closed trading bloc. To comply with the concept, several conditions are to be met (Fuentes, 1994) <sup>42.</sup>, the main ones being trade liberalisation, harmonisation of standards, and flexibility in the institutional regional regimes. Business actors were invited to participate on four grounds. The first ground was *“to avoid the dangers of premature institutionalisation”*, which, *“owing to the absence of a single authority with a monopoly on power”* at the *“multilateral level”*, could spur intense conflicts of interests. Hence, Eclac favoured flexible and low institutionalisation. There would be neither political representation on party or parliamentary lines nor supranational bureaucracies. The second ground recognised that, however, regionalism had to reflect the regional trends towards democratisation and representative government. The third ground was to lend legitimacy to regionalism by giving voice to new actors, thus increasing the capacity of regional institutions to respond to the aspirations of various social groups. The final ground was to include the de-facto integration phenomenon –of firms and investment flows-. The



latter “largely conditions the evolution of policy-driven integration, especially when it occurs in a context of globalisation, liberalisation and deregulation, it also requires **more active participation** by non-governmental actors, such as business, labour and cultural groups, **in the design and implementation of integration policies** (Eclac, 1994: 97-98).

Eclac’s late director Faynzylber clarified Eclac’s thought in an interview (Fajnzylber, 1994). Fajnzylber sustained Eclac sees an “*open participatory system*” as intrinsic to its proposal. This participation was expected to occur on a corporate basis (the “*principal actors that take part...in the production process*”), while the “*State...is going to delegate responsibilities in the area of production to the existing stock of entrepreneurial capabilities*” (Ibid: 207). The latter, namely business actors, will “*assume a clearly dominant position in terms of decision-making responsibilities*” (Ibid: 208). “Open regionalism”, in its very tenets, has sought the active political involvement of business actors in the state-originated strategy of regionalism, and not only their support, as it will be seen in the second and next section.

In brief, Mercosur’s policy making and regulatory process were framed by the values contained in the conceptualisation of “open regionalism”. As a result, there have been four main policy implications stemming from “open regionalism”. First, trade is expected to increase interdependence and to be conducive to regionalism through “spill over” effects. Second, there would be a neutral process in policy selection, the best of which would stand out by itself. Third, there would be no industrial policy or regulation as such. Finally, business actors should actively participate in the decision-making, design and implementation of policy.

## Section 2. Business actors’ response to Mercosur Regionalism

The previous section analysed Mercosur “open regionalism”. This one reviews how business actors have responded to it. Have they been associated with the regulatory process involved? Given the region’s structural heterogeneity (Becker *et al.*, 1992: 140), the analysis of business actors’ behaviour is complex. In general, this issue has been debated in terms of ‘weak versus strong’ actors or coalitions (see Payne *et al.*, 1995). However, the main issue at stake here is whether business’ involvement has continued with their traditional fragmented and particularist behaviour, or whether they have been able to accept general rules of the game and a general articulation of the political arena and the policy-making process (Viguera, 1995).

In the region, business actors’ involvement in politics at the national level is not new, but it has shown a renewed intensity and heightened visibility since the 1980s. In that decade, debt and the state’s fiscal crisis affected the two sectors, which had evolved during the ISI period. Thus, they experienced national economic crises, uncertainty and instability [43](#). In the 1990s, they underwent structural national reforms. First in Argentina (1991-1995), and later in Brazil (1994-1998), the two sectors were privatised, their tariffs reduced, and their regulation dismantled or diminished [44](#).

Although it is difficult to strictly separate business’ actors strategies linked to internal reform from those due to regionalism, the section will emphasise the latter. Attentive to Mercosur’s very beginning, business representatives had been preparing the ground for regionalism. Parallel to the widespread recognition that regionalism was from the start a strategy led by the states, business actors were also moving on this front on their own initiative. Already in the mid-1980s, when the Argentinean Brazilian Integration Programme started, some of the sectoral chambers from both countries had begun to meet to discuss the regional situation and possible strategies. The chambers’ involvement followed the perception in both sectors that a new period was dawning, marked by globalisation and internationalisation [45](#). Already at the start of Mercosur, the Argentinean-Brazilian general bilateral chamber was playing a significant role [46](#).

The two sectors were experiencing considerable changes in behaviour [47](#). But, in petrochemicals, “*transformations in organisation, quality, processes, etc., [did] not seem attributable to Mercosur’s per se, but to the trade liberalization and deregulation carried out since the start of this decade. However, the*

*establishment of Mercosur did generate new business strategies, including the installation of commercial offices in the partner country, the formulation of complementarity schemes between the affiliates of transnational companies, direct investments in the neighbouring country, partnerships between Argentina and Brazilian firms, etc.*” (Hasenclever and Lopez, 1998). Similarly, the portrait of the steel sector at the World Bank was that *“the big [Mercosur] firms have entered into agreements of co-operation, while the [Brazilian] medium scale ones have tried to enter into the Argentinean market through the control of distribution and/or associating with the few remaining independent laminators. The latter have been the most marginalized from negotiations”* (Dr. Meo’s interview, Washington, April 1997).

## 2.1. The new competition

The privatisation process, one of the main components of structural reform, has had two special impacts as far as business actors’ involvement in regionalism is concerned. First, it has allowed regional business alliances to take place, increasing the possibility of building new business strategies and rationale to match the new environment; at the same time, it has allowed a restructuring of the sectoral chambers in the region, providing the latter with new roles and capacities. Second, it has led business actors to design one Mercosur policy instrument, the so-called sectoral accords (SA), with the goal of encompassing the whole process. Consequently, important examples of network building are considered first, followed by a discussion on the SA.

Along the privatisation of the sectors, some important long-term regional alliances took place. Those engaged were considered strategically offensive-oriented holdings and ‘first-movers’ [48](#). In their negotiations, sectoral chambers had an instrumental role to play, offering a restructured neutral place to meet and co-ordinate. The Latin American chambers of ILAFA (Latin American Steel Institute) and APLA (Latin American Petrochemical Association) in particular took up the latter role [49](#).

In November 1992, the Argentine holding Techint purchased Somisa, that country’s main state steel plant, together with Usiminas, (Brazil), CVRD (Brazil), Acindar (Argentina) and Aceros del Pacifico (Chile). Usiminas bought 5% of Somisa, integrating Siderar’s board. This was Usiminas’ first investment abroad, which afterwards multiplied like an expanding network on its own. CVRD also participated with another 5%, locking in the long-term provision of raw materials in special conditions and prices. CVRD, privatised in 1997, is the regional supplier of iron ore and a world price setter. Acindar soon left the venture. In July 1993, it transformed it into Siderar, specialising in the production on flat products while discontinuing the non-flat ones, and focusing on improving marketing and servicing the internal market. In 1998, *“Siderar is part of Siderurgia Amazonia Ltd, a consortium that owns 70 percent of formerly state-run Venezuelan steelmaker Siderurgica del Orinoco”* (Reuters, 04-02-99). The latter is now partly own by Techint. Meanwhile Usiminas is enlarged in 1999, merging with Cosipa of Sao Paulo but maintaining its name. Siderar, Usiminas and Cosipa all produce flat steel products, destined in a large part to the automotive industry.

The rationale of the first alliance was not to control Somisa, except for Techint. This strategy has been considered as *“soft regional integration”* (interview with a consultant from Booz, Allen and Hamilton) for the purposes of exchange of information and other types of co-operation, including technology, training and experts’ exchanges, while preventing potential actions of dumping (22:5). Techint and Usiminas interviewees clarified it further. It was *“to bring up new opportunities”*. As an example, they would supply at least three of the main automobile companies operating within Mercosur (Usiminas manager, 70:2). In this case, the first observation is the use of privatisation opportunities to build a vertical alliance from raw materials to automobiles, providing as well services and credit to the clients. The rationale was the creation of a strategic regional network.

Schvarzer provided a complementary explanation: *“Why do they co-operate regionally? In business, there is an important element of trust. The other reasons being that they will not be a competitor, and that they will know each other internally”* (p.49, 49:11, 25:28). The Latin American Steel Institute confirmed that both Techint and Usiminas knew well each other from before through the Institute (whose functions have been similar to APLA), moreover *“they respected each other’s management”*. Since the 1970s, both steel

and petrochemical firms had been in contact through the yearly ALADI negotiations, and the regional meetings of ILAFA for steel, and APLA for petrochemicals. There was also a flowing technical co-operation in processes of production and training, the latter more for petrochemicals than for steel [50](#).

Further alliances took place between Techint and Brazilian holdings. Techint and Siderurgica Tubarao (also recently privatised) established a new firm as a joint venture in Argentina (49:8, 4:6). There has been a joint venture among the Techint Group and Brazil's Acesita to commercialise Acesita products in Argentina. Another Techint's firm, Siat, had an exchange of 30% of shares with Brazilian Confab Tubes. The two are the largest Latin American producers of seamless tubes, the same product for both. According to the Brazilian firm, this was a long-term alliance in order to confront the world market's competition (Argentinean Embassy in Brazil, 1995). One of their objectives was to jointly win regional contracts to build Mercosur's infrastructure. For example, they successfully bid for Argentina-Chile and Brazil-Bolivia projects (22:7, 23:27).

These examples show the vast array of moves by which one regional holding may be involved (cross-shareholding, joint ventures to establish new firms, commercialisation/distribution agreements, regional supply to Mercosur infrastructure projects). In a simplified manner, these may be seen as tactics, whereas the common content to all is the accomplishment of long-term co-operative networks. This element has been rationalised under the concept of 'business scales', discussed in the last section.

The petrochemical sector has matched this general development. In the petrochemical sector, Argentinean Perez Companac chose to strengthen itself through the firm PASA, already present in Argentina. Perez Companac bought the firm in the USA, and with it came to control the refinery of San Lorenzo (where PASA had 15% and Perez Companac 33% of the shares, thus obtaining the majority). It also acquired voice and voting powers in Unistar (a joint venture with Monsanto), opening the possibility to position itself in the sub-sector of fertilisers. In the 1990s, Perez Companac had engaged in high value added production for automotive use and fertilisers for agriculture (EE, 11-11-94: 11). In this case, the holding, whose core interests lay in oil, purchased and transformed one firm, and "*redefined it as its petrochemical arm*" (Argentine petrochemical consultant, 36:11). This was not only a case of vertical integration from oil into petrochemicals. The "*arm*" would be the co-ordinating centre to expand including the building of a network in the latter.

Perez Companac and Odebrecht have had two important regional joint ventures. The first venture was signed in September 1995, in order to build a new unit of styrene in Southern Brazil, producing 180 thousand tonnes, and had Brazil's Petroflex as a shareholder. Petroflex produced synthetic rubber. The idea was that Copesul of Odebrecht would provide the raw materials (butadiene for synthetic rubber), while Petroflex and Perez Companac would manage the demand. The second venture dates from 1996, when Copesul and Perez Companac signed in Buenos Aires an agreement to build a production unit of polystyrene in Copesul, of 100 thousand tonnes per year. The new unit, for which they invested US\$ 90 million, operates as from 1998. Moreover, they bid together for the Bahia Blanca's petrochemical complex, the major petrochemical privatisation in Argentina. In this last privatisation case, two were the major competitors: Perez Companac in alliance with Odebrecht (through its subsidiary Copesul), and YPF in alliance with Dow Chemical. The latter won, triggering a 'counteroffensive' from Brazil (interview with Odebrecht manager).

By 1997, there were two major Argentinean oil holdings, both vertically integrated into the petrochemical sector and both highly professionally managed and internationalised, YPF and Perez Companac. In 1997, YPF, Dow and Perez Companac owned 75% of the sector in Argentina and all the internationally competitive firms (Lopez, 1997: 355). In 1999, though, as the Argentine State withdraws further from YPF, selling its last shares, the situation may change again. Spanish Repsol, already participating in YPF, may take over its control, likely preserving the holding from any financial crisis in the region.

In Brazil, Petrobras, in a redefined and more stable institutional situation since 1997, is re-engaging in the petrochemical sector [51](#), in particular with Odebrecht, to create a renewed core in the industry (interview 1998, Sao Paulo). Odebrecht is a major conglomerate. Entering the petrochemical sector in 1979 through

the Companhia Petroquímica Camacari, Odebrecht became a transnational in the 1980s [52.](#), and participated heavily in the 1990s privatisation process in Brazil. Now it is the most important holding in petrochemicals, after obtaining participation in all petrochemical complexes in Brazil, and is the Brazilian leader in polyethylene and polypropylene. In 1996, Odebrecht had two main firms OPP Petroquímica [53](#) and Trikem [54.](#), producing resins, polyolefinic specialities and PVC. The first firm installed a representative sister-company in Argentina to evaluate the market and future company acquisitions and/or joint ventures. The objective was to create a business base for Mercosur, including Chile. As seen above, it expected to enter into Argentina's Bahia Blanca complex. Since YPF and Dow Chemical won the Bahia Blanca's petrochemical privatisation, Odebrecht pursued its own expansion and a broader alliance with the oil sector. Odebrecht will create a *"megafirm, that the government wants to stimulate, already discussed by the private sector since mid-97, when the Polo Petroquímico of the Paulista Planalto was constituted"*, through an association among Petrobras, Odebrecht, the Ultra Group and Elekeiroz of the Itau Group. This undertaking upset the other three remaining main actors in the petrochemical sector in Brazil (Mariani, Ipiranga and Unipar). Ipiranga Petroquímica since then entered Chile by investing US\$ 120 million to produce polypropylene as from 1998. In 1998, together with Odebrecht and Ultra, they bidded for Conepar, of the Ex-Economico Group. Conepar was the largest shareholder of Norquisa, which controlled Copene, the central plant of the North-Eastern petrochemical complex (Jornal do Brazil 11-03-98).

Not all holdings have built long-term networks. Others had a more individual strategy, opening offices for sales and services in the region. This type of strategy was sometimes the result of failed attempts in creating long-term alliances, and, at least in one case was also aimed to obtain inputs at lower prices. Acindar opened a sister company, Acindar do Brazil, in Sao Paulo in January 1992 to export special steels. According to an interviewee, however, Acindar was trying to establish commercial long-term relations with Acesita, the Brazilian leader in special steels, to sell in both markets and specialise their productions. Brazil's Gerdau had plants in several countries, Uruguay, Chile and Canada, hoping to expand *"possibly, in the near future, in Argentina, in the whole of Latin America"* (45:14, 85:87).

Finally, when there were few plants producing the same product, directly control was sought at the regional level. One case was Argentina's company (Maleic) bought by Brazil (Group Ciquine) through a majority equity venture. Ciquine, localised in Camacari, Bahia, acquired 50% of Maleic S.A., producer of maleic anhydride in Ensenada, Buenos Aires province. The investment totalled US\$ 4 million, corresponding to 2,2% of Ciquine's liquid capital (which amounts to US\$ 180 million). The other 50% remained in the hands of four Argentinean firms: Ecofisa, Conevia, Codi and Lupia. In 1995, the venture was a monopoly, expressing that *"it is easy to reach that stage with just buying one plant"* (Ramal interview). In the early 1990s, Brazilian firms centred their entry strategies in Argentina in specific products, the most dynamic ones in sales and growth, through direct capital investment, joint ventures or commercial representations. According to a consultant, the firms had high expectations from Argentina's low levels of consumption after the last hyperinflation. In general, the Brazilian firms build their business by, on the one hand, locally producing one or two products which are leaders in the market, and, on the other hand, by complementing their offer through importing the rest from Brazil. However, after the Real Plan and the consequent more expensive costs in Brazil, the importing offices in Argentina suffered a reduction in profit margins. Thus, they were compensating with increases in Argentinean production, in order to reduce the fixed costs per unit (EE, 11-11-94: 13).

The establishment of joint ventures provides a regional supply base for sectors such as the regional automotive industry and the new Mercosur infrastructure, enabling the formerly national, now regional, holdings to engage in the new type of competition. Economic incentives for regional expanding networks should be seen in a dynamic and diachronic perspective. Transport and energy projects include roads, bridges and tunnels, oil and gas supply (that in turn require steel tubes), and in return diminish both transport and raw materials costs within the region, which are always major costs for steel and petrochemicals. Moreover, it is clear that the concentration of each industry and the building of sectoral networks do not stop at the regional level. They tend to enlarge beyond, as the 1995 interviewees were already expecting. Although the first movements of business actors' may have begun in their neighbouring countries within Mercosur, the strategy was being gradually extended into Chile, Venezuela,



Peru, Ecuador and Mexico in Latin America, and beyond, introduced into China, Southern Africa, and Europe. For the first time, business actors would establish significant linkages, not just to export or to invest individually, but through their entrance into economic, social and political networks within the member countries. This would allow them to attempt a consensus within the networks on the one hand and to broaden the basis for an oligopolistic competition on the other.

As mentioned at the beginning of the subsection, we now turn to the regional policy-making face of business actors' strategies linked with the new competition, by discussing the issue of sectoral accords (SA). *"The cross participation in privatisation in both countries"* was one of the two main symptoms of a steel regional restructuring. The other was the steel SA, already mentioned in the first section of the paper. Signed in 1992, it was *"surely accompanied by another one not formally approved but more concrete"* (Lopez et al., 1994: 124-5). What was this accord about and why was it the only one successfully approved, while the petrochemical one failed?

What was it about? A steel manager described it. *"We considered, between private sectors, and it was agreed: no price controls; no new subsidies; no price discrimination (clarifying that this agreement was post-to the steel agreement, and that it means Brazilians would sell to Argentines at the same price they sell to their Brazilian alliances); d) no unfair competition of dumping"* (also part of 61:19). These were the rules included in the accord. But the apparent rationale behind it was to allow the sectoral networks to be worked out. Concretely, this was affirmed as a main objective of the accord by Acindar's president in a paper 55.

From within the steel sector, explanations were that industrial policy restructuring was an issue *"left to the firms themselves within the SA... But the SA were not applied directly"* (59:26). For a steel manager from Argentina, it was in reality a period of co-operation *"technically called SA"* (61:2). *"The issue was how to generate a framework in which a predatory position would not be allowed"* (61:19). Its premises lay on plant specialization and privatization. A steel manager from Brazil had a similar view about the SA: *"firstly, co-operation was sought, but trade issues prevailed due to the conjuncture, the opening to imports"* (97:9).

This was an intense period of restructuring, starting from 1991 under the Menem and Collor de Mello's governments. There was high instability, economic as well as political. In addition, in 1992, there was a recession in Brazil and an overvaluation of the Argentine peso. At the time, together with the brunt of unilateralism, there was a downturn worldwide cycle of oversupply and low prices for steel and petrochemical products. Brazil's steel sector, as explained, was 8.5 times bigger. Altogether, it was felt as a 'death threat' by Argentinean steel. At the same time, there was the open option for sectoral accords, which could be undertaken by the firms themselves. In the process of regionalism, this was a period of transition from the ABEIP towards the Asuncion Treaty's establishment of automatic liberalization across-the-board. In Argentina, Cavallo was moving from the ministry of Foreign Affairs to the one of Economy, with a monetarist project to secure macro-economic stability. National coordinators of the WG7 on industry in the two countries gave related answers: *"It was approved because of the moment. The petrochemical one had demands within economies under full deregulation. Thus, the latter was rejected."* (Argentine WG7 co-ordinator, 4:16). *"They [steel] arrived first, and were approved as part of [Mercosur and the ALADI system] as a bilateral agreement"* (Brazilian WG7 co-ordinator, 13:12). Timing and being the first-mover were essential.

From within the Argentine ministry of Economy, *"it was proposed to them [business] in the beginning, later the decision was invalidated, because the public sector was left highly compromised with the basic sectors. It was dangerous in a moment of opening and privatization. It would have decreased the degrees of freedom of movement. If there were necessary changes at the macro-economic level, the public sector would have been tied by hands and feet"* (62:11).

Academic researchers explained the SA as policy instruments chosen by the governments and offered as a *"double-way strategy for [regional] negotiations"* (32:21). Sectors disliked the one-way –only governmental decision making– in ABEIP's regionalism (ibid.). *However, the firms did not discuss the*

*convenience of sectoral accords. That decision belonged to the governments”* (Dr. Lavagna, 35:18). The acceptance of the steel accord was eased because it seemed to follow the EU steps. *“The sectoral accords start with sectors with a high concentration and scales of production coefficients. The most classic case was the EU with CECA”* (ibid.: 35:10). And moreover, Eclac’s proposal for *“open regionalism”* stated that one key mechanism was a sectoral accord, *“the reduction of transaction costs and discrimination within the region could be reinforced by sectoral arrangements or policies to take advantage, in turn, of the synergetic effects of integration”* (Eclac, 1994: 13).

Sectoral accords have been described as *“an instrument of managed trade for reciprocal protection”* (32:20) and as *“fragmented business initiatives with specific interests and a vague regulatory framework”* (32:24). It has also been alleged that part of the rationale was to ensure the protection of the Argentine steel sector against the Brazilian one, where the SA had a role of postponing tariff liberalization both in terms of products and of periods (Latin American Steel Institute manager, 59:26). Even if all this is correct, there seems to be a more fundamental underlining offensive strategy. It worked in fact as an open space for the private sector to handle the existing asymmetries (structural and regulatory) by themselves, which the states were unwilling to undertake and for which states invited business actors’ involvement. By so doing, the issue of the SA encompassed the process of privatisation and restructuring of the first half of the 1990s, allowing at the same time business to build regional networks.

The petrochemical SA was rejected, mainly because of obstacles in terms of contents and timing. One of the objectives of the petrochemical sector was to defend the market shore against extra-Mercosur imports (Argentine petrochemical consultant, 47:23). They wanted an automatic implementation of anti-dumping measures, and this was not compatible with the Asuncion Treaty. Let us remember that, at that time, international competition was stronger due to DCs recession, low demand, and lower prices, like for steel. After the Cavallo plan was implemented, though, the issue of international reputation was at stake, given the government’s international commitments to unilateralism. The Argentinean government was against both anti-dumping and safeguard regulation, although there were individual exceptions. The government began to regulate the issue only in 1993. Without these measures, the petrochemical SA meant little since it would have not represented what business actors wanted. Finally, the agreement was rejected, while the private sectors stopped lobbying for it since there was little time left for 1994, when Mercosur would enter a new phase as a customs union. *“SA were just a means to regulate the transition to a common market. Argentina's government answered that it was fine in 1994, when there was only one year left. Brazil's government never gave a response. The SA project had been proposed in mid 1993, I believe. So what happened is that they [the sectoral actors] desisted and did their work. There was someone in the Secretary of Foreign Trade who did not like the accord. The main real issue [at the time, became] the harmonization of the CET”* (Mr. Mariani, owner of a Brazilian holding, interview 39:13) Business actors in petrochemicals concentrated thereafter in preparing the proposals for harmonizing the sectors’ tariffs and the sectors’ technical standards.

## 2.2. Constant Flows

In 1996, commodities and semiprocessed goods represented 43% and manufactures 56% of total intra-regional exports (Markwald et al., 1999: 65). Petrochemical trade between Argentina and Brazil has increased strongly in this decade [56](#). A similar trend may be observed in the steel sector, with the difference that Brazil is a net exporter of steel [57](#).

Intra-industry flows have also increased in the 1990s, appearing consolidated in the chemical and transport sectors, which include petrochemical and steel products. With a coefficient above 40, such intra-industry flows responded approximately for 30% of the 1996 total bilateral trade (Machado et al., 1997: 201-204). In 1999, the same researchers have validated the hypothesis that intra-industry growth in the region is only due to Mercosur (Markwald et al., 1999). This leads to a situation in which national firms and holdings perceive Mercosur as one domestic market.

As mentioned in the first section, intra-industry trade reflects the dynamic effects stemming from trade liberalisation, and the extent of the exploitation of the enlarged economies of scale. Trade liberalisation

has augmented the potential for constant flows under a uniform and expectedly reliable treatment for the same products in the member countries. Moreover, the establishment of long-term sectoral networks has assured the constant flows, making up for the lack of “hard” vertical integration, thus decreasing transaction costs and providing for a long term planning.

Considering the increase in exports, the high intra-industry trade, and the significant alliances, it is observable that business actors have not only risen their stakes through regional trade and investment, but they have also sought to ease flows within their cross-boundary networks through harmonisation of norms. In 1994, from a total of “224 non-tariff restrictions and measures on imports and 51 on exports” identified by the member countries and set for harmonisation, 24% corresponded to technical standards and 40% to agricultural policy. The former have become a major issue for industry, still waiting for the completion of harmonisation (Bouzas, 1997: 20).

Therefore, many remaining obstacles have been related to non-tariff trade barriers, apart from the structural asymmetries between the two countries in terms of scales of production. The solution to the new needs, in particular harmonisation, cannot be solved within the economic sphere, since they have to cover the whole regional space, not only the networks. They must be solved within the public policy making sphere.

From the start of “open regionalism”, Argentina (undergoing thorough deregulation) requested mutual recognition and a later harmonisation of norms, but Brazil rejected this option (Argentine WG7 co-ordinator 4:4; Argentine WG3 co-ordinator 10:16). The latter did not have enough incentives to engage in it, and, besides, it considered it as hindering its sovereignty. The de-facto arrangement resulted in the enforcement of the national rules at final destination, which, according to interviewees, which meant Brazilian norms. How did business actors react to this situation?

In June 1992, as seen in the first section, ten Working Groups (WG) were established to harmonise norms within the region. The WG closely related to petrochemicals and steel were the WG number 3 on technical harmonisation, number 7 on industry, and number 1 on tariffs. Co-ordinators of the WG maintained in the interviews that politicians decided over the technical part, but without providing clear political guidelines nor priorities, the idea being that there should be no regulation at the supra-national level (interview at the Argentine embassy in Brazil, 6:15). As mentioned in section 1, the WG had to prepare regional norms by consensus and then present them to the Common Market Group for approval. WG norms could be drafted in two ways: through consultation with business actors or through business’ direct voluntary action: “*We worked by consensus and then norms had to be approved by the CMG*” (15:23). “*The WG3 was divided into two types to harmonisation: obligatory and voluntary (ISO quality and productive norms)*”. Since the lower-tier or secondary Mercosur bureaucracy could not tell the business actors what to prioritise, the latter had to do so themselves.

The 1990s policy style in the region was evolving towards co-operation between state and business (Peres Nuñez, 1996). The concept of “open regionalism” acknowledged this need and called business to take an important participatory role. Thus, it would be unfair to state that there were cartels or corporatism, or to affirm that business determines regionalism. The process of “open regionalism” appears rather like emerging regional patterns of regulation, for which policy networks have worked within a framework.

In the very beginning, Mercosur governments had a top-down and reticent approach to business’ full participation, signalling that the process would be automatic. Business participation, however, was gradually recognised as a necessary part in the new and “open” regionalism. On the business actors side, in the beginning, “*even though being little [business actors participation], it was enough to capture the functioning of inter-governmental negotiations, especially at the time when the Brazilian Government did not care about informing them. Then we got the information from the Argentineans, who had more access [to the government].*” (Mr. Mariani, owner of a Brazilian holding and representative of Brazil’s Chemical Chamber, 39:34). Thus, in the beginning, the strategic stand of the firms in many sectors was to observe and discover the rules of the game. On the governmental side, it was, above all, a question of information and efficiency in policy-making. Business actors had the technical expertise coupled with inside

knowledge on investments and trade in the sector. Thus, they had become a main key to information concerning regional harmonisation of norms. In order to understand this phenomenon, we need say that the national process of structural reform not only involved privatisation of firms, but also a shift towards the private sector of human resources and flows of information, necessary to make policy decisions. As a result, much of the knowledge was no longer in governments' hands. Even Eclac acknowledged the situation: *"At the level of the private sector, [the proposal] is to advance in the strengthening of business chambers as intermediate mechanisms, capable of participating in the policy implementation"* (Peres Nuñez, 1996: 26). Dr. Lavagna confirmed this process: *"The Chambers joined in, the firms helped in the question of information"* (35:28). Mariani explained: *"This was up to one moment, I believe in 1993, when they started the discussion on the harmonization of the customs' tariffs nomenclature. The government recognized they could not work out the chemical sector, because it was so long and complicated. Extra-officially the two governments asked both national sectors, which is typical in Latin America. This never became an official invitation, while the benefit of negotiations was for the governments. Negotiations may have started in 1992. In Brazil it was in the Ministry [of Industry, Trade and Tourism], in Argentina in the Secretariat of Industry"* (39:17).

After such recognition, business actors participated all along the process, through two main types of representatives who were always representing sectoral interests: owners and top managers of holdings and national trade, and industrial sectoral chambers. Even when a national industrial 'umbrella' organisation, such as the Argentine Industrial Union (UIA) was present in regional meetings, it was the sectoral associations that acted in the name of UIA within the Mercosur working groups and the Mercosur's industrial Council. This was due both to UIA's lack of *"its own army"* and to the *"contrasting interests within the association"* (interview with the late director of the Mercosur Department of the Argentine Industrial Union, 52:22).

Business actors participated in the WG 3 and actively assisted WG 1, while only the petrochemical sector did so in WG7. An increasing mix between public and private became normal. The WG 7 on industry was perceived as disappointing, since its purpose did not include the drafting of regulatory norms (WG7 coordinator interview).

WG 3 was perceived as successful, because harmonisation was discussed and endorsed by the firms and sectoral chambers. Within the WG 3, they could decide the agenda and approve decisions by consensus. From Brazil's side there was a problem of representation in the steel sector between the still state firms and the private ones that dominated the non-flat production. There were two parallel associations conflicting, and the governmental negotiations regarding harmonisation of sectoral norms were therefore paralysed. This conflict of representation was resolved as privatisation proceeded and ended by the merging of the two associations while keeping the "trade mark" best known worldwide. After this, harmonisation proceeded apace, and their proposals gradually incorporated in the Mercosur agenda for approval.

The WG 1, working on the common external tariff, was also perceived as successful because the proposals for the harmonisation of the sectoral tariff nomenclature and range were drafted by the sectors themselves, through the joint work of both national chambers. The universe of tariffs for petrochemicals was more complex than the one for steel. There was more competition between Argentinean and Brazilian firms, and more actors involved within each national sector. This was caused by the different structure of production in the two countries. In addition, due to the privatisation process, there was more competition for control and verticalisation in the sector itself, concentrated in the expansion of the size of firms and the integration in two ways: with the raw materials sector and among the national petrochemical complexes. Moreover, there were different national regulatory frameworks. The regulation on raw materials was different in each country. YPF was privatised, while Petrobras remained governmental amidst the privatisation of Brazilian petrochemical firms. Thus, the direction appeared contradictory. YPF, for the first time, entered the petrochemical sector, while Petrobras, for the first time, became temporarily disengaged from it. In the 1990s, average tariffs have been higher in Brazil in basics and plastics, although the situation has been reversed when considering the Argentinean statistical tax of 10% (the latter has been merged within Mercosur's CET in 1997). Cavallo's proposal was to set the petrochemical sector



apart and leave it as a free trade sector, perhaps because there was a tacit preference for verticalisation with the oil sector. In any case, governments did not know how to manoeuvre among the multiple conflicting interests without provoking significant political pressures that could halt the rapid evolution of regionalism as an “open bloc”. As a result, the chambers engaged in harmonisation during two years.” *The final report was presented in the first semester of 1994, very dynamic and well organized, after several thousand man-working hours, and was considered a joint project. They used to get together every month. The governments approved 95% of it. However, lately, the governments distorted it with exception lists in the second semester of 1994, in detriment of the logic of the tariffs*” (39:18). On the CET itself, they proposed a range of tariffs, i.e. the acceptable top and bottom limits of the norm being discussed by the governments. Governments then approved them, with one or two exceptions. As recognised by one negotiator, “*the final exceptions respond to the lobby capacity*” (88:13). Governmental acceptance of business-drafted norms did not entail state compliance, especially if other priorities were considered under threat (e.g. inflation).

Putnam’s two-levels of negotiations (1988) seem not directly applicable in this case, because it appears as an inverted double stage. Decisions by consensus within “open regionalism” meant that the first round of negotiations would take place within mainly the private business actors. The ratifying stage corresponded to the state officials. The national executive branch in both countries did set the framework, but issues would be drafted by the private sector and then presented to the other level -the State. State officials were the ones to debate the draft and to approve or reject it. In the beginning and at the end, states decided. In the process, business actors were engaged in furthering deep integration (Lawrence, 1996).

Significantly, the sectoral chambers’ managers recognised that governments still had the “upper hand” in the process of regionalism 58. The two main reasons were that, first, governments derive their legitimacy and authority from state sovereignty and from democratic selection processes. Second, government officials enjoy a broader autonomy given the multiple negotiations engaged in the regional policy making process. 59. O’Donnell’s description of the 1990s “delegative” democracies in the region as liberal but less accountable (O’Donnell, 1994) corresponds to some extent to the experience of “open regionalism”, as the latter was partly a consequence of the former. It is interesting to note that the key actors representing socio-economic and sectoral interests are now demanding further institutionalisation of Mercosur.

The work of the Plastics national chambers provides an idea of how deep integration may be gradually achieved (interview with the manager of the Argentine industrial chamber for plastics). Chambers representing a mixture of enterprises, where the majority are small and medium scale ones, and which may be thus regarded as ‘smaller’, tend to work much harder and in a highly professional manner.

In 1991, under the Argentine industrial chamber for plastics CAIP initiative, Uruguay’s AIUP and Paraguay’s CIPP were invited to join in, and COMINPLA-Mercosur was created -the Mercosur Commission of Plastic Industries. Cominpla-Mercosur is an informal organisation, with no formal structure. It has two representatives per chamber, plus two deputy-representatives. Meetings rotate in the Mercosur countries. It can create technical commissions, which have actually become the most active information resource. Cominpla has its plenary meetings within national Fairs, such as Argenplas in Argentina and Brasilplas in Brazil. From 1991 to 1995, three committees were established, one on customs and tariffs, one on harmonisation of norms for packaging and labelling, and one on standardisation of quality norms for the construction sector. A fourth one had been established in early 1995. In May 1995, at the Brazil Fair, Cominpla decided to create a fourth technical committee on Plastics and Environment, for which representatives were selected. The first one analysed the common external tariff structure to *present a common proposal* to the Mercosur governments. It also *analysed the norms of origin*. With respect to the tariff structure, there were many problems, in product description and in harmonising the Argentinean nomenclature with the Brazilian one. The latter traditionally has a much greater opening of tariff items, which entails a more detailed and specified structure. The Argentinean one was more reduced, therefore each tariff position included a broader range of products.

The second technical committee working on harmonisation of packaging and labelling rules had so much

success that *all its proposals were incorporated* into the Mercosur legislation. These rules dealt with the requisites for food packaging, and trial as well as laboratory methods. The proposals were then given to the Working Sub-Group No.3, where CAIP permanently worked with the State officials. This work was the regional policy-making in the sphere of the “Mercosur obligatory norms”.

The third Cominpla committee worked on plastics for the construction industry, on its most important products, first on water tubes, and later on gas tubes. Still in 1995 work was intense, because there were serious obstacles to harmonise Argentinean and Brazilian norms. The main issue was that harmonising quality norms implied the complete national industrial restructuring of either of the two. Argentines were against: “*why should we re-convert our industry to sell only to Brazil ?*” However, exporting outside Mercosur was difficult, due to the volumes of the tubes and transport complications. Thus, the final solution was to work out norms similar to the standard ISO ones. Both countries had to adapt, half way. In 1995, Cominpla was looking forward to implement the series ISO 9000.

### 2.3. Search for regular patterns and certainty

At the end of 1994, another transition began, in which new demands for regular patterns of interactions were created, mainly in terms of mechanisms for conflict solutions and for effective state compliance with what was agreed. Conflicts mentioned by interviewees when entering the customs union implementation period pertained to sectors’ claims against states for not observing governments’ public commitments.

The reaction of the negotiator for Brazil’s chemical chamber to the lack of state compliance in early 1995 (justified on the basis of anti-inflationary measures) was the following. “*The ABIQUIM position was made known through our decision and preference for a tariff structure similar to that of Europe and USA. And not to respect it in the most important products, which have no bearing against inflation! Because the price is now international, it does not create a reliable image. And now, they continue to negotiate*” (39:22).

A manager of one steel holding described how they react to state non-compliance to regionally approved norms: “*The Mercosur project is very ambitious. To re-negotiate, we meet in private and then in public, in order to strengthen the process. But if Brazil displays a public [state] blow, it is very bad. It is silly. It is just 1% of the market. Why did they do it? In my personal opinion, even if Brazil values its own market, Mercosur will continue. This is a new period of transition, the period of flexibilisation of [public regional] norms*” (61:9).

In the 1990s, business has slowly been shifting to supranational mechanisms of private governance, in the search of mechanisms for conflict-solution. Dagoberto Lima Godoy, Co-ordinator of the Brazilian Section of the Mercosur Industrial Council –MIC (a newly created business organization)- explained that, concerning trade conflicts: “*the Brazilian section in the MIC proposed to institute a System of Previous Consultation between the private agents and the MIC industrial entities. The idea is to create a private channel, searching for a solution before reaching the governments.*”<sup>60</sup>. This is consistent with 1995 interviewees’ responses, whose strategies for conflict solutions will be reviewed in the next section. Justifications were not only the rate of speed to negotiate a solution and to implement it. Business actors consciously avoided to politicize conflict, which, they believed, would be harder to solve, as the director of the Latin American Steel Institute argued: “*In ILAFA they have participated in the dumping issue. These were meetings to prevent reaching the Governmental Way, and to de-politicize the issue*” (59:8). As said in the first section, Mercosur has been gradually accepting a system of private arbitration and mediation. The pattern of privatisation of conflict solution, exemplified in the above excerpts, matches these more recent governmental trends.

Section 3. What led business actors to become involved in Mercosur’s open regionalism and which role have they played?

Mercosur's regionalism has been characterised by a high trade growth together with minimal institutions and regulation. The priority has been the achievement and maintenance of economic stability. Motta Veiga mentioned that several conditions had been lacking in Mercosur until 1995 and required attention (Motta Veiga, 1995). There was a need for developing a regional community vision as well as mechanisms to follow national and regional economic policies, gathering information and strengthening decision-making, implementation and evaluation capacities. Other important mechanisms were also weak regarding the negotiation of conflicts, representation of interests and the space to propose alternatives of community interest. The latter could absorb tensions, and provide legitimacy and efficacy to regionalism. *"In general, solutions were found at the presidential level. The most important factor in Mercosur's transition period has been the political will of Argentina and Brazil to carry on with the regional integration process. Such will had a central role, given the lack of co-ordination in the macro-and micro-economic policies between the two countries, and the choice for a low degree of institutionalisation"* (ibid.).

This may have been true in general. The picture, though, appears qualified if taking a sectoral approach to the analysis. The values framing the conceptualisation of open regionalism called for the active participation of business actors in the process, as well as the new policy-making style justified by Eclac. Business actors, mainly owners and managers of holdings, and representatives of sectoral chambers, represented the sectors in negotiations on regional norms. Their role had several functions: aggregating, representing, channelling intensity of preferences, influencing policy-making, and beyond, when states did not have the information and knowledge most needed to conduct and carry out the negotiations, such as on harmonisation of norms. The sectors' representatives, as socio-political organisations appeared to have a division of tasks, supporting the regulatory process. National chambers worked on the CET and harmonisation, Latin American ones provided neutral spaces for network building, and the bilateral one worked on the initial drafting and framing of the whole regional integration process (both ABEIP and Mercosur). The sectors analysed here have built on all the above points that Motta Veiga stated were lacking at the public level. However, this does not mean that an increasingly oligopolistic competition may not lead to future conflicts.

Business actors have been involved in the construction of the regional market. If any market –including a regional one– is seen as a historical socio-political construction, *"it is an institution that should be created through the definition of collective rules that foster positive dynamics among these individual actors"* (Bianchi *et al.*, 1994: 29). In addition, Sapelli, building on Chandler's work, emphasises that *"it is essential to remark that the organisation cannot be understood only as an abstract principle opposed to the market"*. Historically, the firm should be understood as *"moment and segment of a population of actors with a contextual economic goal, who are contemporarily active in the definition of both themselves and the market that is a market of and among organisations"* (Sapelli, 1993: 120). The firm is then an institution, an association among subjects who carry strategies of behaviour and of cultures, while its market is the result not only of firms' actions but also of socio-political associations with which the firm constantly interacts.

The political sustainability of the process, thus, has not been exclusively due to presidential will, but also to this complementary process of co-ordination undertaken by business within the framework of regionalism. *"Mercosur's economic process must have a minimum level of policy co-ordination to forestall appreciable differences in the incentives that each country offers. A sufficient degree of co-ordination has not yet been reached. Nevertheless, Argentine and Brazilian producers – and the chambers of commerce that represent them – do not express any significant concern about the "asymmetries" that might exist between the two countries. However, there is greater concern about the possibility of extending the integration process to other countries or regions, which differ substantially in their policies in this sector"* (Hasenclever and Lopez 1998).

Business actors have developed a regional vision of their sectors, and supported a national consensus based on the need for a stable macro-economic framework. The conclusions of Hasenclever and Lopez (1998) reflect that business actors are more concerned with lack of policy harmonisation. Business actors accept deeper integration, as long as it is a gradual and negotiated process. Instead, they dread enlargement that may threaten their market shares and the kind of regulation that they already master.

What they fear most is any obstacle to the expansion of their business scales. They fear that, in case such expansion was halted, they might not survive the new type of competition. In fact, industrial groups which enter into alliances appear to have come out strengthened.

The pressures to deepen regionalism stem from below. For example, at the end of 1997, there was the threat of a financial crisis stemming from the Asian one. Argentine president Menem publicly supported the Brazilian set of measures taken as a reaction to such crisis and to the threat of Brazil's macro-economic stability. Quick negotiations led to a transitory higher CET and to offer Paraguay and Uruguay additional exemptions to it. Argentina's presidential support was followed publicly by the two industrial umbrella organisations of Argentina and Brazil in a document called "Sao Paulo Consensus". The Sao Paulo State Federation of Industry and Argentina's Industrial Union signed this document in November 1997. It called for deeper regionalism and further institutionalisation of regional mechanisms, among which the improvement of inter-governmental consultation and a common position in international negotiations (La Ley, PET/Mercosur, 15-01-98: 20).

It is now recognised that *"the process of trade liberalization requires increased international regulation. To avoid possible conflict between the creation of trade blocs and trade liberalization on a global level, a WTO-related debate has emerged on harmonising norms, standards and tariff regimes"* (Irela, 1997:29). These three issues have been the ones that business actors have focused and worked on.

Business actors have engaged in open regionalism in order to respond to the challenges stemming from the environment encompassing regionalism. Regionalism has been instrumental to respond to challenges that were previous and beyond 'open regionalism'. In the interviews, regional actors used the word 'challenge' on several occasions. The expression was equally distributed between the two nationalities, the majority of users being business people and industrial experts. The world was always associated to one or more of the following: unilateralism, regionalism and globalisation. The most important challenge to face was unilateral deregulation. Regionalism was the first challenge for only one case and globalisation for two others. Therefore, regionalism did not appear as threatening as unilateralism. As a secondary challenge, regionalism appeared 3 times and globalisation just once, which supported the comparison with unilateralism. A first answer shows that regionalism presented challenges but also opportunities to grasp. *"Mercosur is an opportunity for firms located in Argentina and Brazil, since they are considered competitive in terms of costs, technology and scale, and they have access to a bigger market under preferential conditions (both as regards tariffs and geographic proximity) compared to producers in third countries"* (Hasenclever and Lopez, 1998).

Industries such as petrochemicals and steel, with large economies of scale of production, seem to favour liberalisation within regionalism. As long as access to other members' markets is negotiated and/or managed, no member country of a RIA may face conflictive reactions from another member of the same RIA. It should be noticed, however, that such a process is far from the traditional perception of firms as profits-maximisers arms-length traders, and exclusive competitors. Enlarging scales to the regional level lends support to regionalism as Milner said, and may in no way be contradictory to claiming protection within the national market, especially during a downturn economic cycle. Since these industrial sectors experience cyclical periods of oversupply and low prices, they may also tend to prefer a regional Customs Union (CU) during downturns. In the 1990s, strategic timely choices have appeared to matter more than sheer capacity for exports. For these reasons, sectors such as steel and petrochemicals are "markers" for RI processes and their study in Mercosur has a broader importance.

However, there appears to be a more fundamental consideration in the business actors' rationale, based on the 1995 interviews. Business actors rationalized the new type of competition through the concept of *"business scales"*, which envelops and transcends the concept of economies of scales until now applied at the individual plant, production level. This concept was argued in Oliveira's PhD thesis (Oliveira, 1994) on the petrochemical sector in Brazil. They consider it as a new form of pre-emptive entry barrier, while strengthening the firm's competitiveness as locus of capital accumulation (Oliveira, 1994). The tangible and intangible assets of a holding or conglomerate build the 'business scales'. Assets include capital investment, R&D capacity and technology, autonomy in organisational and managerial practices, trade



links and strategic alliances. Its measurement would thus be complex. Some possible indicators have been discussed, such as a group's total sales and profit in a particular sector world-wide, and the percentage of US\$ spent on R&D compared to total sales. Their business' objectives have been focusing on co-ordination and enlargement of business alliances and market shares, taking into account the world-industry cycles.

The justification for the developments in the petrochemical industry in the region was that "*the 1990s competition is inducing the firms to adopt strategies of concentration and of strategic alliances...due to newcomers from Asia, chemical firms, and the big world consumers of resins like the automobile industry. At risk is the permanence of the current firms, that alone would not survive*". Lucianano Coutinho's sectoral study argued that only a petrochemical firm "*capable of US\$ 3 billion per year of sales can compete*". Odebrecht, the biggest in Brazil, had sales for only US\$ 1,2 billion in 1997 <sup>61</sup>. If the 1990s regionalism is new in itself, it is so because its "*axis in not on trade*", as economist Nochteff clarified in a brief discussion with the author in 1995.

In Eclac's terms, Mercosur's "open regionalism" has been largely successful in reconciling regionalism with trade liberalisation. In a period of world economic restructuring, "open regionalism" meant an insertion into such restructuring and the new type of competition. There are, though, important issues lying ahead, such as social and environmental concerns, technological development and sub-regional marginalised economies, which exceed the scope of this paper.

Regarding the process of participation of business actors amidst a general democratic deficit in Mercosur, the important issue of accountability arises. While the Mercosur states have remained attached to a Westphalian image (Mittelman, 1996: 197), regional networks may provide the necessary information and co-ordination in policy-making that the former cannot. Business actors' participation has taken place to the extent described in this paper partly because of the lack of mechanisms for representation and participation in policy-making, whether a supra-national bureaucracy or a democratic forum, such as a regional parliament.

In the end, the question that lies ahead is whether Mercosur's "open regionalism" should limit itself to an "openness" in the economic sphere, or whether its "openness" should also involve the regional population at large. This question bears a systemic implication, for Mercosur's long-term sustainability rests on its legitimacy and the broader support and involvement of society.

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## Endnotes

**Note 1:** “Unlike autocentric regionalism, the neoliberal variant is extroverted” (Mittelman, 1996: 191). “Looking at regionalism from the standpoint of power relations, it is clear that the neoliberal agenda holds sway. In fact, there is little evidence that other approaches...have been implemented with any degree of coherence.” (ibid.: 205). [Back.](#)

**Note 2:** Mercosur, formed by the states of Argentina, Brazil, Paraguay and Uruguay, covers a total surface area of 12 million square Km (60% of South America). With a population of 200 million people it had a gross domestic product of almost 850 billion dollars in 1995 (Irela, 1996). [Back.](#)

**Note 3:** Alexander Yeats, from the Trade Division of the World Bank, qualified Mercosur as “the most convincing and worrying demonstration until now of the potential adverse effects of RIAs”. His work, echoed in The Wall Street Journal, The Journal of Commerce and Financial Times, was heavily criticised for its indicators and postulates (Bouzas, Clarin, 24-11-96, Clarin Economico: 16). The World Bank itself, through its vice-president for the Latin American and Caribbean region, Shahid Javed Burki, dismissed it and publicly defended Mercosur (Financial Times, 11-96). A second Yeats’ report appeared in January 1997, this time only with question marks on Mercosur. For a good answer to Yeats comments, see Markwald and Machado, 1999. [Back.](#)

**Note 4:** Recognising that there is a lack of systematised information on the issue, Bouzas cites two sources: the Embassy of Argentina in Brazil and the Central Bank of Brazil. The first shows that “A survey to May 1996 identified a total of 313 joint Argentine-Brazilian ventures, 60 percent of which were linked to the goods sector... tripled in a little over three years” (Bouzas, 1997: 14). The second states that the stock of Brazil investment in Mercosur in 1995 (US\$ 349) has doubled compared to 1991” (US\$ 1991), of which Argentina received 75%. The latter’s stock of investment in Brazil was even more dynamic. In 1995, Argentinean stock was US\$ 347 million compared to just US\$ 36 in 1991 (ibid., 15). [Back.](#)

**Note 5:** Together they represent 96% of the bloc’s GNP (Leipzig, 1997:2), and have ranked first (Argentina) and sixth (Brazil) among the economies with fastest growth rates between 1990 and 1996 (Markwald et al., 1999: 64) The two countries account for the most dynamic growth rate of Mercosur

intra-regional trade. In 1990, they represented 50.3% of trade, while in 1996 they accounted for 67.8% of the total, which in turn had multiplied by four (The Economist Intelligence Unit, 1998, Brazil Market Atlas: 84). Regarding petrochemicals in Mercosur, Paraguay has no local production and in Uruguay the supply of petrochemical is very limited, although there is a chemical industry of some significance which is highly dependent on imported inputs (Hasenclever and Lopez, 1998). Concerning steel, the situation is similar. [Back.](#)

**Note 6:** These are, for example, the characteristics of the production process, the type of demand, the type of ownership, the speed of technological change and manner of access to technology, the configuration of the industry at national and global levels, and the type of competition among the main actors. [Back.](#)

**Note 7:** Economies of scales indicate that marginal costs decrease as firms expand their output, and they have actually enlarged through time. See Erber (1995) and UNIDO (1973: 4, Table 3 on growth in capacity of ethylene plants in Western Europe, 1950-1970). In 1998, 60% of USA crackers had a capacity beyond 500 thousand tonnes per year. Europeans had 25% of such capacity. Although there were plans to expand in the two countries in 1995, there was not one plant with such capacity in the Mercosur region, being Camacari the closest one. [Back.](#)

**Note 8:** Except for steel mini-mills. Regarding costs in the two sectors, raw materials are the most important, together with the initial fixed capital investment (IPA, 1988, in Ramal *et al.*, 1992). Transport constitutes the other major part of the total cost, which provides an additional incentive to engage in regional integration in order to lower transaction costs. Labour costs are less important, since these sectors are not labour- but capital-intensive. [Back.](#)

**Note 9:** Grant and Paterson, focusing on the ISIC 351 of basic industrial chemicals, argue that the chemical industry is the most internationalised in terms of production and trade, and that the sector has attempted to build some international governance system on their own (Grant and Paterson, 1994 Chapter 6). This might be one of the earliest models for recent 'global industries'. [Back.](#)

**Note 10:** Traditionally, steel was not an internationalised sector. Rather, it was a national symbol of state defence and industrial capability, restricted to the national markets. Germany and Japan have led the internationalisation of the sector via joint ventures and mergers & acquisitions (Hudson, 1996:159), and via standardisation of products and management connected to the automobile sector (Beddows 1990). [Back.](#)

**Note 11:** As the exception to the rule, the only FDI of Argentinean SME (small and medium enterprises) in Brazil took place in the plastic sub-sector. Two plastic SME from Santa Fe and San Luis provinces put 60% of the total capital, while the Brazilian Belquimica put the other 40% of the US\$ 6 million for the establishment of a plant of plastic packaging for meats, opening in 1997 (Clarín, Clarín Económico, 24-11-96: 11). [Back.](#)

**Note 12:** Namely, the Brazilian Groups of Odebrecht, Ultra, Suzano, Vila Velha, Ipiranga, Mariani, Peixoto de Castro and Economico for petrochemicals, and Usiminas, CVRD and Gerdau, among others for steel; and the Argentinean Groups of Perez Companc, YPF, Astra, for petrochemicals, and Techint and Acindar for steel. [Back.](#)

**Note 13:** The last international low cycle took place between 1990 and 1994, during Mercosur's first years. From 1994, an upward cycle evolved until the end of 1997, when oversupply and falling prices came as a result of the Asian and Russian crises. [Back.](#)

**Note 14:** See Ramal *et al.*, 1992; Schvarzer, 1993; Chudnovsky *et al.*, 1993; Lopez *et al.*, 1994; Azpiazu *et al.*, 1994 for Argentina; and Erber, 1995 and Pessoa de Andrade *et al.*, 1995 for Brazil. [Back.](#)

**Note 15:** Interviews were concentrated on states and firms during the period under study onwards, since these were the main actors in regionalism. State level interviewees included state officials from the ministries of industry, economy and foreign relations, from the national parliaments; and bureaucrats co-

ordinating the Mercosur Working Groups. Business actors included owners and managers of firms and holdings, and chambers' managers and representatives. The managers were those dealing with regional issues, whether financial, technological, commercial or managerial. Chambers included the Argentine-Brazilian bilateral trade chamber, the sectoral Latin American chambers, and national sectoral ones. Research centres specialised on industrial issues and policy making, as well as a business historian and sociologists researching on business culture and regional integration were consulted. In addition, engineers working in the steel and petrochemical sectors, some of whom also teach postgraduate courses, gave further technical and contextual explanations. A few actors not related to the sectors under study, but who were nevertheless involved and/or closely following the process of regionalism, such as a negotiator from the food sector and several journalists, provided evidence with which to check and compare the interviews. [Back.](#)

**Note 16:** Each quotation used in this paper appears with two numbers separated by a semicolon. The first number indicates the interview-document number and the second one shows the number of the quotation within the interview. [Back.](#)

**Note 17:** For references on the general evolution of Mercosur see Roett, 1999; Irela, 1997; Motta Veiga, 1995. [Back.](#)

**Note 18:** Shahan Abrahamian (officer-in-charge of the Global Interdependence Division at UNCTAD) has affirmed that neither multilateralism nor regionalism had been the main force behind the liberalisation of trade in Latin America. *"It seems to me that the main impetus is basically unilateralism"*. Percy Mistry (chairman of the Oxford International Group), agreeing with him, stated: *"The new regionalism has only become possible in an ethos of unilateral trade liberalisation, and if that ethos had not occurred, then we wouldn't even be talking about the new regionalism"* (Mistry, 1995: 30-31). See also Tussie, 1998: 91. [Back.](#)

**Note 19:** Mercosur Leading Markets in 1996 (% of total exports and imports)

Total	EU	USA	Japan	Other Latin America	Other	Mercosur
Exports 75 billion	23.4	14.6	5.3	8.6	26	22.1
Imports 86.7 billion	29.1	23.1	3.7	6.1	21.4	16.6

Source: *The Economist Intelligence Unit, 1998, Brazil Market Atlas: 85.* [Back.](#)

**Note 20:** A complex industrial restructuring has taken place at a global scale since the mid-1970s (Dicken, 1998: 437-438; Ruigrok and Van Tulder, 1995). *"The globalisation of the world economy passes through the reorganisation of processes of production along a rather regional, even global basis... The importance of economies of scale, that imposes the reduction in the number of units of production, and the need to standardise the processes of production...combine themselves in order to determine the new modes of articulation of products and processes of production"* (Fontagne *et al.*, 1996: 11). Within this phenomenon, the intermediate or middle goods deserve a particular attention. Defined as all goods produced, re-introduced during the productive cycle and disappearing as such within the cycle itself, they comprise, among other sectors, steel and petrochemicals, their raw materials, and their immediate by-products (*ibid.*: 27). The importance of intermediate sectors in globalisation resides in that their percentage in world trade is ever growing. In 1996, they accounted for between 50 and 60% of the world trade among Western Europe, the USA and Japan (*ibid.*: backpage). [Back.](#)

**Note 21:** *"In Brazil they must make an integrated industry. But with imagination, it can be reached"* (interview 5:30, interview with Dr. Amilcar Pereira da Silva Filho, chemical engineer, consultant of Ciquine and Polialden in 1995. He had worked for 35 years in Petrobras, and has also been technology

manager of Petroquisa, and commercial director of Petroflex). Jovelino, another manager of a petrochemical firm in Rio de Janeiro, added that in Brazil *“trade is very concentrated, though now they work with 25 new items, such as marble and fruits. Mercosur will permit those [sectors] to adjust better, in a process of integration of capita l”* (interview 60:12). [Back.](#)

**Note 22:** *“Intra-zone [regulation] is the fundamental key to the harmonization of the process of formation of capital”* ( Aldo Ferrer, Argentinean economist, interview 57:6). [Back.](#)

**Note 23:** *“There is an important point: the political will of governments was not enough, it was necessary to integrate capitals”* (Ms. Brun, Brazil’s alternate co-ordinator of WG7 on industry, and representative of the Ministry of Industry; interview 13:6). This was the explanation for entering into negotiations on the only regional (bilateral) policy instrument targeting an industry, the automotive one: *“The Automobile Accord is being negotiated because Argentina has a regime, while Brazil has not. This situation could not persist, because it would have created a problem in investments. And because Brazil wanted to attract capital investment after the Plan Real, and the shock of the Mexican crisis”* (ibid: 13:41). In 1998, *“automotive, auto-parts, cargo and transport vehicle trade continued to be one of the major focuses of bilateral trade between Brazil and Argentina. This happened under the protection of special sectoral treatment, as was outlined during the first years of Mercosur. In 1997, sectoral flows reached US\$ 4.6 billion and accounted for more than 31% of bilateral trade. Maintaining the rate of expansion that the automotive sector between Argentina and Brazil reached during the first six months of 1998 would suggest that by year-end it could reach US\$ 5 billion. This figure would increase sector involvement to 33-34% of bilateral trade”* (Mercosur Report No.4, Inter-American Development Bank- INTAL). [Back.](#)

**Note 24:** Interview with Brazil’s alternate-co-ordinator of WG 7 on industry, October 1995. [Back.](#)

**Note 25:** The owner and also general manager of Brazilian petrochemical holding (Mr. Mariani, interview 39:20) explained in 1995: *“In the chemical sector, governmental negotiators were stable. The major negotiators were from Itamaraty (the Ministry of Foreign Relations), Finance, and Industry and Trade (its Foreign Trade part). From all these, the most important one after the Plan Real was the one of Finance”*. From the Argentinean side, the situation was even clearer. In a personal interview, Dr. Lavagna explained: *“before and now the one to decide is the Ministry of Economy. There are two aspects: one formal and one real. When Cavallo was in Foreign Relations Ministry he wanted to bring them from the Economic Ministry. Then, when he was in Economy, he did the opposite. The decision-making power is formally in the Foreign Relations Ministry, but in reality is in the Ministry of Economy”* (interview 35:23). [Back.](#)

**Note 26:** The secretariat had both its first Director (appointed in a Mercosur meeting) and its first autonomous budget for 1997-1998. [Back.](#)

**Note 27:** *“To date, exchange of information and consultation on macroeconomics matters among governments of the member countries have been informal and linked through personal channels rather than bureaucratic institutional routines”* (Bouzas, 1997: 6-7). [Back.](#)

**Note 28:** By CMG Resolution 20/95. [Back.](#)

**Note 29:** *“The great advantage of the Common Market is that sovereignty is in partly abdicated. What is important is the harmonization of legal and tax issues, to level the playing field”* (Candal, main advisor to ABIQUIM, the Brazilian Association of the Chemical Industry, 21:3). [Back.](#)

**Note 30:** Trade instruments may include non-tariff barriers, quotas, and anti-dumping measures. Tax ones refer to credits, export promotion, tax deferrals, and regional schemes, among other possibilities. And credit instruments may cover loans and guarantees. [Back.](#)

**Note 31:** The Argentinean Sub-Secretary for American Economic Integration affirmed that the sectors under negotiations were chosen according to the sensitivity that their production and restructure bring about (Sabra, 1993: 551). [Back.](#)



**Note 32:** To give an idea, in 1995, Brazil's steel sector was 8.5 times that of Argentina. Analysing the three-year period 1994-1996, it is evident that Brazilian petrochemical production was approximately nine times greater than that of Argentina, visible consumption was six times greater, and exports were five times higher. (Hasenclever and López, 1998 ). [Back.](#)

**Note 33:** Intra-industry trade occurs when there is simultaneous exporting and importing of products from the same industrial sector. It is usually measure with the Grubel and Lloyd coefficient, rating from 0 to 100. A stable coefficient of above 40% indicates the existence of such type of trade. The other two measures are the reduction of price-cost margins in the tradable sectors and the positive growth of total factor productivity. These measures are based on individualistic assumptions and neo-classical theory (Sawyer, 1989: 39-ss). They concentrate on allocative efficiency and tend to disregard technology and social relations (i.e. with labour). In addition, they may have as much to do with unilateralism and the national stability plans, as with regionalism. Tradables have indeed shown a reduction in the price-cost margins, and have grown much slower than non-tradables, due to the stabilisation plans in both countries. Regarding productivity, steel in the region shows high absolute competitiveness (relative to the USA), while the plastics sub-sector in Argentina has improved in TFP (World Bank 1996, in Leipziger et al., 1997: 9). [Back.](#)

**Note 34:** The CET *“has a simple structure, involving applied ad valorem duties which originally ranged from 0 to 20%, with a horizontal average of 10.1 % and an import-weighted average of 11.2%. Decree No 2376, whereby Mercosur countries agreed on a 3% across-the-board increase to their common external tariff CET, increased the CET maximum to 23% in November 1997. The CET should be fully implemented in Argentina and Brazil by 1.1.2001 and in Uruguay and Paraguay by 1.1.2006”*(source: mkacdb.eu.int). [Back.](#)

**Note 35:** In Brazil, tariff reductions resulted in a drop in the average tariff from 51% in 1988 to 11.3% at the end of 1994. [Back.](#)

**Note 36:** Una Cumbre fría para el Mercosur, El Cronista Comercial, 24-07-98. [Back.](#)

**Note 37:** As Peña explained: *“For conflict solution there are several stages: 1. A first phase reviews conflicts of opinion, and imbalances of tendencies in trade. 2. A second phase in the Common Market Group (CMG), problems were dealt with here first. 3. A third way is the Brasilia Protocol, which foresees 3 stages: a first one of bilateral consultation, a second one for the CMG to decide, and a third one of arbitration. The issue was NOT to give it a legal form before it was dealt with [politically]. Now, since 1995, there is a fourth channel: the Trade Commission. It substitutes the (CMG), but if it fails, then it goes to the Brasilia Protocol or the CMG itself”* (Dr. Félix Peña has been a stable Mercosur negotiator on behalf of Argentina, currently Argentina's Under-secretary of Foreign Trade, interview 88:11). For Dr. Botafogo (interview 76:5) the Brasilia Protocol prevents *“costly bureaucratic structures, and can be used by governments or physical or legal persons”*. The only clarification regarding the three stages is that the third one of arbitration is ad-hoc, obligatory and without appeal. [Back.](#)

**Note 38:** *“The system of conflict resolution seems to have attracted most attention in academic and legal domains in Brazil. There were many in favor of creating a Mercosur Justice Court, following either the example of the Luxembourg Court, the EU or the Andean Group. For the Brazilian government...the current needs of the integration process do no support such stand, which neglects obstacles of constitutional nature and mainly, neglects the virtues of the mechanisms established in the institutional structure of Mercosur”*. (Minister Jose Botafogo Goncalves, Brazil's negotiator for Mercosur, and in 1999, Brazil's ambassador to Argentina, document, 76:5). [Back.](#)

**Note 39:** AFP-Agence France Press, 20-07-98 [Back.](#)

**Note 40:** “Parlamento uruguayo estudia convención sobre contratos internacionales. Uruguay pone al día su legislación por el Mercosur” (Sucesos Mercosur news, 21-07-98). [Back.](#)

**Note 41:** *“Liberals in government thought of RI in terms of locking-in the reforms at a supra-national*



level” (former Secretary of Economic Policy of the Brazilian Finance Ministry in 1994, Dr. Winston Fritsch: 30:11). [Back.](#)

**Note 42:** The complete list of conditions is the following (Fuentes, 1994): An extensive liberalisation of goods, without excluding different transition periods to allow gradual adjustment. An extension of that trade liberalisation to new Mercosur member countries. The harmonisation of standards and the application of WTO-consistent trade rules. The establishment of the customs union (Mercosur) after stabilising the national economies, and the use of RI to finance national balance of payments, in order to minimise possible macro-economic disequilibria. The minimisation of transaction costs (financial, transport). Special measures for the relatively less developed countries of Paraguay and Uruguay. Moderate levels of protection against third parties, incorporated in the common external tariffs. Flexible and open sectors’ agreements. Flexible institutional arrangements. Participation of social actors, mainly the “existing stock” of entrepreneurs. [Back.](#)

**Note 43:** A steel producer explained that in 1989/1990, “*macroeconomic restrictions (did) not make us foresee but a slow GDP increase...the problem is that exogenous factors make sterile our efforts, such as the changes in economic policy*”. A petrochemical TNC manager stated that with such crises, “*there is a loss of critical mass in the value of business undertakings, especially for new investments*”, Business Development Manager of Rhodia, group Rhone-Poulenc., Sao Paulo (48:13). [Back.](#)

**Note 44:** See Lopez, 1997 and Erber, 1997 for the petrochemical sector; Azpiazu et al., 1994, Nofal, 1994 and Unicamp-UFRJ-Funcex, 1993 for the steel sector; Chudnovsky *et al.*, 1996 on Argentina and Coutinho’s 1997 article on Brazil. [Back.](#)

**Note 45:** A representative of the Chamber of Plastics in Argentina said: “*The relation with Brazilians started in 1986, when we perceived the globalisation process of the economy, and therefore, our role in the process has become very active*” (15:1, 1:7). [Back.](#)

**Note 46:** It was the Bilateral Argentine-Brazilian Trade Chamber (BABTC) that took Menem in his first visit to Brazil. “*Then, the first Menem's trip to Brazil was a charter organized by this Chamber, based on the silent work previously done. Only this year came to be publicly known*” (42:10). Both the petrochemical and steel sectors had been members of the BABTC for about 20 years, from the time of ALALVALADI. Besides, the previous BABTC director to the one in 1995 was from the chemical sector. The involvement of this chamber in regionalism, though, had a longer history. Its manager affirmed : “*Sarney was a person with vision, very close to business people. In 1984, the work for the ABEIP began in our Chamber*” (42:38). The ABEIP- preliminary to Mercosur- took place from 1986 to 1990. [Back.](#)

**Note 47:** In 1995, Kosacoff, ECLAC’s economist, described the new typical stylized firm in the region: a) from an industrial firm it shifts to incorporate assembling plus its own system of commercialization and distribution. This leads to the situation that profit-making in Mercosur in the short run is higher. This also happens because of the non- tradables [effect]. B) The entrepreneur is more sophisticated, and has simultaneous management and financial representatives abroad, joint ventures on inputs, and market allotment. This rationality responds to the international, macroeconomic and regulatory framework. It leads to the expulsion of labor and there are no externalities (interview 34:37). [Back.](#)

**Note 48:** “The first to move were Techint and Usiminas, [the latter] recently privatised” (19:4). [Back.](#)

**Note 49:** APLA, is the sector-based organisation that appeared 15 years ago to promote the petrochemical business. First, they waited for a strong political signal, e.g.: in terms of creating one common market, to change their business strategies. Then, its structure and role changed to meet the two most pressing needs for the sector: RI and environment. APLA’s structure already offered advantages (interview with the manager of APLA). “*Its role changed. There is a delicate game. The idea is not to interfere with the sector-based national chambers, but to offer a space for them to meet (a neutral space)*”. For that it changed its statutes and created CEQPLA (Business committee including the chemical sector). This committee had the goal of establishing a common language and gathering the executives of firms and the chambers of the region. [Back.](#)

**Note 50:** Exemplified by the case of PIDCOP in Bahia Blanca, Argentina (interviews with Eng. Capriati, Eng. Brignole, and Eng. Arcodaci). [Back.](#)

**Note 51:** “Petrobras, headquartered in Rio de Janeiro, has lined up dozens of international and local partners as part of the new competitive environment in Brazil's oil sector. A most recent deal to develop fields in the Santos and Campos basins in Southeast Brazil was signed with three partner: Odebrecht, U.S. oil company Amerada Hess Corp. and exploration and production company British-Borneo” (Reuters, 04-02-99). [Back.](#)

**Note 52:** Odebrecht was present in 20 countries and four continents in 1995, in the areas of construction and engineering, chemical and petrochemicals, infrastructure and public services and cellulose. The structure covered 125 controlled and allied firms, under a holding, a group of firms in the first three areas and a development undertaking in the last one, a firm in Insurance, and the Odebrecht Foundation. In 1997, Odebrecht had approximately 40 thousand employees, of which 29 thousand in Brazil and the rest abroad. [Back.](#)

**Note 53:** OPP was founded in 1995, after the restructuring of PPH (Companhia Industrial de Polipropileno created in 1978) and the integration of Poliolefinas S.A.(created in 1968). It produced mainly polypropylene, polyethylene, and EVA. It was present in Triunfo (South) and Itatiba in Sao Paulo, producing 360 th.tpy of polypropylene. With its subsidiary OPP Polyethylene S.A. it was again present in Triunfo (South), Bahia (Northeast) and Sao Paulo, producing 480 th. Tpy of polyethylene and EVA. The first goes mainly to autoparts, electronic components, packaging, furniture, etc. The latter to shoes, films, toys, and food packaging. The Voting composition showed OPP Petroquimica S.A. owned 100% as the holding controlled by Odebrecht. OPP Polyethylene S.A. was divided among OPP Petroquimica S.A. with 51,6%, Odebrecht Quimica S.A. with 15,7%, in alliance with UNIPAR (Union of Petrochemical Industries S.A.) with 31,5% and Chase Manhattan Bank with 1,2%. Both OPP hold shares in the central Copesul in the South. OPP Petroquimica also held shares in UNIPAR, holding of firms of the sector among which was the central of Sao Paulo (PQU Petroquimica Uniao). (ww.odebrecht.com.br). [Back.](#)

**Note 54:** Trikem was founded in 1996, after the incorporation of Salgema Industrias Quimicas S.A.(created in 1977) into CPC Companhia Petroquimica Camacari (created in 1979), and produces PVC, caustic soda, chlorum and EDC. It had three PVC units, in Bahia, Sao Paulo and Alagoas, for 440 thousand tpy. CQR (Companhia Quimica do Reconcavo) controlled by Trikem, produced 552 th.tpy of caustic soda and 464 th.tpy of chlorum. From chlorum, it obtained 520 th.tpy of dichloretane, a raw material to obtain PVC. The composition of Voting Capital showed a high degree of long-term co-operation among EPB (holding controlled by Odebrecht) with 69,4%, with Mitsubishi Chemical Corporation (13,4%), Nissho Iwai Corporation (10,06%) and Fundacao Portus de Seguridade Social with 7,09%. It also showed three represented preferential shareholders, BNDESPar, IFC (WB Group) and PREVI (pension fund of the officers of Banco de Brazil). Trikem holds shares of Norquisa, the controlling holding of Copene, the raw materials central of the Camacari Petrochemical Complex. (ww.odebrecht.com.br). [Back.](#)

**Note 55:** Leone, C.A. (1994) “*The importance of Mercosur for the Argentine steel industry*”, Latin American Iron & Steel Conference, Rio de Janeiro, May 15-17<sup>th</sup>. [Back.](#)

**Note 56:** In Brazil, petrochemical imports grew, in relation to total internal sales, from just 3.40% in 1989, to 13.70% in 1994 (Erber, 1995, Table 10). In 1995, the trade balance of Brazil's petrochemicals sector showed that exports to Argentina were US\$792 million, whilst imports tallied US\$360 million, accounting respectively for 74% and 84% of Brazil total petrochemical trade with Mercosur partners (Abiquim, 1995). In 1995, Brazil, who is responsible for almost 80% of Mercosur supply, produced 26.5 million tonnes. [Back.](#)

**Note 57:** Although the importance of each country for the other is low due to Brazil being a world leader in steel, and the intra-industry trade is also small, changes began to take place in 1993. Compared to 1992, Argentina doubled its importance in Brazil's total steel imports to 9,9%, while Brazil accounted for 48,2%

of total Argentine steel imports in 1993 against 46,5% in 1992. Thus, the coefficient of intra-industry trade rose from 7 in 1992, to 18 in 1993. Given the extremely high intra-industry trade between Argentina and the rest of the world of 92, a special report on the region's steel sector anticipated the possibility of regional specialisation and co-operation (Nofal, 1994: 35-36). [Back.](#)

**Note 58:** *“The political apprehension against institutionalisation did not diminished the participation of the States' bureaucracies in the process”* (Dr. Hirst, FLACSO researcher on regionalism, 29:32).

According to Apla's manager (39) *“the governments still have the upper hand. In fact, Mercosur gave governments back the initiative, because before during Aladi and ABEIP, the firms had negotiations to themselves”*. [Back.](#)

**Note 59:** *“In concrete, all negotiations have the participation of business people, in some sectors more than others. Since the [state] negotiators have to accommodate so many interests, they have autonomy. More interests, more leeway. That is why it was necessary studies by product”*. Mr. Braidot, 1995 director of the International Studies Centre of the Argentinean Ministry of Foreign Relations, 12: 13.) [Back.](#)

**Note 60:** Source: <http://www.mre.gov.getec/webgetec/bila/14/> “The Common Market of the South in the industrial view”. [Back.](#)

**Note 61:** Odebrecht's Director Alencar, Jornal do Brazil 11-03-98, “Odebrecht quer superpetroquímica”. [Back.](#)