The Political Economy of Regionalism

Business Actors in Mercosur in the Petrochemical and Steel Industrial Sectors

A thesis submitted by

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List of Acronyms

ABEIP	Argentinian-Brazilian Integration Programme (1986-90)
AFTA	American Free Trade Area
ALADI	Latin American Association for Integration
APEC	Asia-Pacific Economic Co-operation
BNDES	Brazil National Bank for Economic and Social Development
CET	Common external tariff
DC	Developed countries
ECLA	UN Economic Commission for Latin America and the Caribbean (CEPAL in Spanish)
IADB	Inter-American Development Bank
IPE	International political economy
ISI	Import substitution industrialisation
MNES	Multinational enterprises
LDC	Less-developed countries
NAFTA	North American Free Trade Area
NIE	Newly industrialised economies
RI	Regional integration
RIA	Regional Integration Arrangement
TNC	Transnational company
WG3	Working Group no 3 on Technical Norms
WG7	Working Group no. 7 on Industry
YPF	Argentine Oil Company (Yacimientos Petroliferos Fiscales in Spanish)

1 Introduction to the Study

At the beginning of the twenty-first century, a different world economic and political system is emerging in a process that began towards the end of the last century. A new approach to political economy is needed to understand it (Moneta *et al.*, 1994; Stopford *et al.*, 1991; Strange, 1995). For most of the twentieth century, the conventional theoretical approaches to political economy have studied the relation between the state and the economy and between the public and private spheres.

Although scholars from contending schools disagreed on the nature of such relations, they did agree on two major issues. First, that there existed two key institutions, namely, the nation-state in the public, political and international spheres, and the national market in the private and economic spheres. Second, that there was a dichotomous relation between agency and structure.

Recent changes in the world political economy have undermined these assumptions. The above-mentioned state-market dichotomy is less valid as the new hierarchical networks of the global economy cut across regional and national boundaries, in the so-called globalisation process. The attempt to understand this process has hastened the need to consider a joint analysis of agency and of structures. It is partly to address this need that 'international political economy' (IPE) has developed, its central focus being the relation between an increasingly unified global economy and the still-fragmented political authorities (Gamble *et al.*, 1996:10). Like all newly developed approaches, IPE has specific current limitations regarding its assumptions and methodology (Strange, 1995).

Economic and/or political regionalism has been one of the major responses to the threat of marginalisation stemming from the above-mentioned process. Regionalism may also be seen as being embedded within the so-called globalisation process.

Regionalism has taken different institutional shapes in various parts of the world, such as Europe, North America, South-east Asia and Latin America. In the Southern Cone of Latin America, a group of developing countries are presently carrying out a new and significant attempt at regional integration called the Common Market of the South, commonly known as 'Mercosur' (in Spanish) or 'Mercosur (in Portuguese). This is considered to be one of the most dynamic regional responses from the South to the challenges of the 1990s. The present research focuses on this particular region. It will use two specific sectors, petrochemicals and steel, as a case study in an attempt to provide a new way of analysing and understanding Mercosur's regionalism.

Mercosur is a regional integration arrangement (RIA) between Argentina, Brazil, Paraguay and Uruguay, under which a customs union has been implemented since January 1995. As such, it goes beyond a regional grouping for the free movement of goods, services and production factors; it also has common tariffs and a common trade policy towards third parties. With a total surface area of 12 million square km (60% of South America), a population of 200 million people, and a gross domestic product (GDP) of almost 850 billion dollars in 1995 (Irela, 1996:1), it constitutes a significant political, demographic and economic ensemble.

1.1 Aim and contribution of this research

This dissertation analyses the political economy of regionalism in the context of Mercosur. The aim is not to measure the degree of regional integration or regionalism. Therefore, it does not need to depart from a clear definition of Mercosur's regionalism. Rather, the aim is to reveal and comprehend the process that advances the possibility of regional co-operative strategies that may create a sustainable pattern of relations, both socio-political and economic. There are two main questions: (1) What has made Mercosur sustainable so far? (2) Are there any differences from past experiences that may explain its apparent sustainability?

'Hie sustainability of the Mercosur process since its inception has been explained by two factors: the political will of the national presidents and the dynamism of firms in trading and investing in partner countries (Motta Veiga, 1995). These factors are perceived as more or less individual initiatives.

Regional economic co-operative strategies, however, arc not so easily visible. Hence, they have not been extensively studied, except in the automobile industry, which has been closely followed (for example, Kosacoff *et al.,* 1991; Maceira, 1995; Roldan, 1997; Medeiros M. Santos *et al.*, 1995). The perceptions and strategies of business people and firms have been widely studied (by, among others, Chudnovsky and Porta, and Motta Veiga), but the focus has been mainly on individual initiatives of firms and entrepreneurs within the national framework, not on their linkages.

The lack of research on strategic policies and linkages raises questions as to whether the process has been sustainable only due to presidential decisions and increasing trade. Thus, the research questions are broadened: How have firms interacted with the governments? Has such interaction been based only on individual initiatives? Has it had any influence on the public regional integration project?

This dissertation therefore lies midway between an in-depth socio-political study of two industries and a macro-economic general study of a RIA. IPE is at the core of such a project, in that it tackles the meso-level - the “in-between” which is involved in the creation of a market, between the macro and the micro.

The dissertation aims to contribute to the literature conceptually by providing a better view of the *problematique* of regionalism. This subject has not only been considered an established tendency in the world during the 1990s, but it has also been crucial for less-industrialised states in search of development strategies and forms of international insertion in the post-cold war era.

1.2 Outline of the dissertation

There are three fundamental aspects to this dissertation, corresponding to three stages in the evolution of the research. The first stage was to acquire knowledge of the context in which the actors’ regional strategies were being implemented. Mercosur has not been the only external environment for economic actors’ strategies within the region. However, it constitutes a comprehensive phenomenon of regionalism, of regional policy-making and regulation, whose major characteristic has been a low degree of public institutionalisation.

The second stage was devoted to studying the sectors. The aim was to investigate whether there were coalitions of interests in favour of or against RI within the sectors, and to determine whether there was a genesis of new subjects (with new rationality or identities), i.e., regional actors with regional perspectives and roles. The sector-based analysis in effect narrowed the research to an involvement with Argentina and Brazil, because the chosen sectors are almost non-existent in Paraguay and Uruguay.

The third stage analysed the regional policy-making process in depth in order to see how regionalism has been carried out, namely, how the Mercosur policy with regard to these sectors has been defined, in order to comprehend the resulting regionalism, its institutionalisation process, and its relation to globalisation.

These stages run through the dissertation and are mirrored in its four main parts.

Part One examines the theoretical and methodological framework of the thesis. In Chapter 2, the theoretical literature traces the shift in conceptualisation from ‘regional integration’ studies to analysis of ‘regionalism’, suggesting that this shift occurred in response to the so-called globalisation process, as well as to involve a previously missing meso-dimension. Finally, the current approaches within the field of IPE bearing a relation to regionalism are presented. Chapter 3 gives the rationale for the choice of the case study (Mercosur and the economic sectors of petrochemicals and steel), together with the methodological approach within IPE and the way it evolved in the course of the research.

Part Two focuses on Mercosur as the public project of a regional integration arrangement. Chapter 4 shows how the private sector has become the most dynamic factor within Mercosur, while Mercosur itself achieved a low degree of co-ordination and institutionalisation by the end of the transition period (January 1, 1995). Chapter 5 supports this assessment through a review of regional trade and investment.

Part Three concentrates on the specific industrial sectors of petrochemicals and steel. Chapter 6 analyses their historical development. Chapter 7 discusses the major issues concerning business actors connected to the 1990s world economic competition. Chapter 8 reflects on how the dynamism and strength of the firms within the sectors varied, some being more capable of adapting to the changing context of both world and regional restructuring.

Part Four, by examining the regional policy-making process and the institutionalisation of regionalism, analyses how the firms reacted to and became involved in the process. Chapter 9 probes into the strategies and agendas of the business actors within Mercosur's regionalism, Then, with the main objective of analysing institutionalisation in regionalism, Chapter 10 concentrates on three aspects: first, Mercosur's degree of institutionalisation; second, the process through which institutionalisation has taken place; and third, which agents have effected it. The latter aspect reveals a complex and complementary mix of public and private actors in the policy-making of regionalism. Finally, Chapter 11 debates the insights stemming from the study, attempting to reach conclusions about Mercosur' sustainability, the role of business actors in Mercosur's regionalism, and new paths for future research.

Part One:

Theoretical and Methodological Framework

2 Theoretical Background to Regionalism

2.1 Introduction

Regionalism has received considerable contemporary attention in both theory and practice. 'Regionalism' has been utilised partly to differentiate from other terms that have been applied to regional attempts towards economic and political integration and co-operation, such as regional integration (RI). The concept of 'regionalism' was used by Haas (1958a), and became widely applied in the 1990s.

This change in nomenclature indicates a conceptual shift that has operated since the mid-1980s, following real-world changes and producing a qualitative distinction with respect to previous RI attempts. The concepts of RI and regionalism call attention to different problematiques. While in the 1980s RI studies concentrated mainly on trade, works on regionalism in the 1990s relate to multidimensional aspects, including policy-making within an expansion of economic, social and institutional networks, embedded into a so-called 'globalisation' process.

In addition, the shift in concepts involves the incorporation of different assumptions that essentially replace static by dynamic thinking. Current assumptions account for imperfect competition, product differentiation and economies of scale, and also accept the possibility of co-operation in the economic and international spheres, since the new assumptions lead to a renewed appraisal of regionalism in the light of unconventional gains.

> Perhaps, the most striking feature of the empirical analysis of regional integration in tenns of the 'new' economics is that the predicted gains are several times larger than the integration gains … from orthodox trade creation commonly estimated … for the EU and other blocs … To that extent they have an important bearing on the rationale for integration throughout the world, and not least for integration among developing countries. (Robson, 1998:101)

The shift, in turn, sustains the critique of state-centric analyses which have resulted in a lack of theoiy regarding the behaviour and strategies of actors at the national level across the borders of nation-states, and their influence on regionalism. As Robson also recognised,

> The systematic study of the dynamics of policy integration has emerged only recently, and then mainly in the application of public choice analysis to the purely institutional dynamics of integration. So far, general studies of the issue in an

> integration context are few, but there are several studies in these terms of specific policy areas in the EU context ... which analyse the incentives that work in favour of policy centralisation. (Robson, 1998:70)

There has been a process of internationalisation of activities that were previously centred at the national and state level, encouraged by policy reforms in many states. In regional integration arrangements (RIAs), however, the states remain necessary and powerful intermediaries. Thus, beyond the incorporation of multiple actors in the analysis, assessing the state's role in regionalism is already a complex task. Two academic disciplines - economics and international studies - have investigated regionalism and regional integration under a variety of theoretical approaches, which are reviewed in this chapter.

These approaches and disciplines include two basic perceptions about regionalism and RI. Researchers tend to believe either that regional groupings can advance the establishment of an integrated world, which is expected to be 'convergent' and 'co-operative', or that regional groupings can turn into 'closed', 'divergent', even 'destabilising' blocs. Economists have followed this dichotomy and have tended either to support RIAs in the belief that they can liberalise trade and further multilateralism (Tussie, 1998:91), or to resist them because they expect a weakening of multilateral trade institutions amidst exclusionary and inefficient RIAs (see for example Robson, 1998, and De Melo and Panagariya, 1993). Expectations of order, and the fear of disorder, underscore both types of beliefs, since their 'dominant concern in the current policy debate is whether the 'new' regionalism in trade policy can lead to a more integrated world economy' (De Melo and Panagariya, 1993, Foreword). Such concern also governed international political economy (IPE).

> In IPE, hegemonic stability theory, traditional realist analysis and radical political economy have all sought to understand the twin phenomena of regionalization and globalization by focusing on trade and money/finance issues. (Coleman and Underhill, 1998:3)

In addition, there are diverse institutional forms of regionalism: it is not clear whether there is one common type with diverse forms, or whether several types of regionalism exist. A further complication is that different words tend to be used interchangeably, such as 'open' and 'new' regionalism, *'de jure'* and *'de facto'* regionalism, and 'regionalisation' (see Mansfield and Milner, 1997; Oman, 1996; Gamble and Payne, 1996).

In this Chapter, some concepts will be re-examined in an attempt at clarification. In Section 2.2., the major approaches discussing RI and regionalism within the discipline of international economics are reviewed. The concept of globalisation and its possible relation to regionalism is covered in the first part of section 2.3, which discusses regionalism within international political economy (IPE). The subsequent parts of section 2.3 debate the emerging theoretical approaches, intended to enlarge the analytical framework.

2.2 Regionalism in international economics

Some functionalists initially regarded RI as the political encompassing of an economic project (see Lieshout, 1997 and Nelsen and Stubb, 1998). As Lindberg expressed it,

> Our concern will be with the political consequences of economic integration. (Lindberg, 1963:4)

From the 1960s, the predominant conceptualisation of RI became economic and related to multilateralism and free trade. In the 1980s, a new wave arose in theory and practice. RI was discussed in relation to 'globalisation[1], while giving way to the new term of regionalism. In the 1990s, and in particular since 1995, institutions have come back into the analysis because there is a perceived need for rule-making in the construction of larger markets (see Nelsen and Stubb, 1998). The volume edited by Coleman and Underhill is a recent example.

> In analyzing the relationship of global to regional integration patterns, this volume also addresses a number of debates in the converging comparative public policy and international political economy (IPE) literatures ... This volume contributes to the idea that there are intimate linkages between state policy processes, the private interests of market actors, and the emerging global/regional patterns of integration in the world economy ... Transnational interdependence means that state and non-state actors alike become interrelated across three levels of political institutions [global, regional and national]. There is continuity in policy and institutional terms across the levels of analysis. (Coleman and Underhill, 1998:3-4)

2.2A. Definitions

The main question in the regional integration (RI) overarching debate has been whether RI is a step towards reducing barriers and creating a global economy, or whether it is a stumbling block that increases protectionism. In Robson's terms,

> International economic integration, often termed regionalism, may be defined as the institutional combination of separate national economies into larger economic blocs or communities. (Robson, 1998:1)

lliis definition shows the difficulties encountered in attempting to define Rd since it may as well be applied to unilateral liberalisation, economic regionalisation or globalisation. Such definitions can include different questions such as national treatment of foreign direct investment (FDI) or the *de facto* dissolution of boundaries either by TNCs' intra-firm trade or by the international banking system.

RI has usually been analysed according to the goals explicitly stated in the traditional definitions of its different forms. Evaluations of RI attempts have thus largely been confined to the realms of trade (trade creation and diversion), and of nation-states' interests and policy co-ordination. RI has also been seen in terms of positive and negative integration (Tinbergen, 1965), as well as through the means of four variables: strength, organisational form (formal institutionalisation), scope and allocation mode (Haggard and Simmons, 1987:497-8). RI also comprises different forms that are traditionally defined as free trade area, customs union, common market and economic union, and usually adapted to the specific priorities and strategies of each historical case. For example, although a free trade area, NAFTA includes additional issues such as capital flows, and two annexes on environment and labour, while others (free movement of people for instance) are explicitly excluded.

The points of the theory of customs union that are most relevant to the Mercosur case are:

(a) trade creation and diversion,
(b) arguments favouring industrialisation and
(c) economies of scale and specialisation

With regard to point (a), from Argentina's point of view, access to the market protected by a customs union plus the lower transport costs of exporting to a neighbouring country provided a positive prospect (Chudnovsky and Porta, 1989:119). Concerning point (b), a customs union reduces the costs of protection granted to industrialisation in a context of rapid technological change, compared to individual (national) action. Concerning point (c), customs unions help to achieve economies of scale that are impossible in relatively small national markets. Under the previous Argentinian-Brazilian Economic Integration Programme (ABEIP), given the goal of industrialisation and since the initial situation for both countries was that of a closed economy, the customs union was linked to protection rather than to flee trade.

The benefits would come from trade creation, a gradual opening-up and increased competition, which could serve as a learning process. Even trade diversion could be offset through the reduction of production costs that pertained under the import-substitution and more closed economy strategy

(Martirena-Mantel, 1990:3). In Mercosur, the main expectations have been the creation of new investment opportunities and employment, the mobilisation of resources not yet exploited, external economies, and the achievement of experience and discipline in the regional market in the transition to a more open economy.

Regional economic integration has sometimes been considered as a process that potentially conflicts with multilateralism or with the global trade liberalisation pursued by GATT (now WTO). At other times, it has been seen as an intermediate step supporting liberalisation, as provided for under Article 24 of GATT. For De Melo and Panagariya, ‘protectionist’ RI was most evident in South-South integration in Africa and Latin America, which they oppose under the section called ‘A mistake not worth repeating’ (De Melo and Panagariya, 1992:14).

Debates have distinguished two periods since World War II in which regional economic integration became an important trend. A first RI wave took place in the 1950s and 1960s both in theory and in practice, and was most evident in Western Europe (see Nelsen and Stubb, 1998) and Latin America. Prebisch’s conception ofRI was particularly important for Latin America. The issues of balance of payment constraints as well as industrial linkages presented RI as a ‘natural extension’ of import-substitution industrialisation (Fishlow, 1984). At the end of the 1950s, however, Prebisch’s arguments became more perceptive, linking industrialisation, regional economic integration and outward oriented growth. Prebisch considered a common market essential for several interrelated reasons. It could correct the structural imbalances of the centre-periphery model,

> [T]o break the old patterns of trade according to which each Latin American countiy orients its trade towards the industrial center, with very weak trade flows with other countries in the region. (Prebisch, 1959a, in Gurrieri, vol. 1, 1982:460)

Prebisch argued that increasing the rate of industrialisation, exports, and growth, was the key to ‘increase average productivity’ and to raise ‘the living standards of the population’ (Prebisch, 1959b, in Gurrieri, vol. 1, 1982:471-2). To achieve these objectives, national import substitution was not enough, a common market was also needed (ibid.). ‘…[T]he common market, by helping lower costs, might boost certain lines of industrial exports’ (ibid.:473-5), not only to the regional market but to the rest of the world as well (Prebisch 1961, in Gurrieri, vol. 2, 1982:85, 88-9). Latin America’s competitiveness depended on that, and on the periodic revision of external common tariffs, to ensure that protection was not excessive (Prebisch, 1959a in Gurrieri, vol.1,1982:451). Moreover, he mentioned two examples to emulate: European exports to the U.S. markets, and Asian exports to Europe (Prebisch, 1959b, in Gurrieri, vol. I, 1982:473). These and other points are discussed by Salazar-Xirinachs (1993) regarding the relevance of Prebisch thought to the 'new' wave of regionalism.

That 'new' wave began in the 1980s: as regional integration agreements once more multiplied, RI again became a topical policy issue. The new wave was prompted by concerns about the possible outcomes of the GATT Uruguay round, and by the European Community deciding to enlarge (including Spain and Portugal in 1986) and to create a Single Market by 1993, under the Single Act. This raised fears about a 'Fortress Europe' that would cause the breakdown of multilateral trade liberalisation and the emergence of closed economic blocs. Meanwhile, Canada and the USA negotiated a free trade agreement (CUSFTA) which started to operate in 1989, and in which Mexico was later included, creating in 1994 the North American Free Trade Agreement (NAFTA). The trend, less visible in Asia, led to a free trade agreement called AFTA. Asia's AFTA decided in 1992 to implement tariff reductions over a period of 15 years, starting in 1993. The most interesting process in Asia has been the Asia-Pacific Economic Co-operation (APEC), joined by the USA in November 1989.' For the first time, RI also included attempts between developed countries and LDCs (as in NAFTA). Other RIAs are the Australia-New Zealand Closer Economic Relations Trade Agreement (Anzcerta), the Economic Community of West African states (ECOWAS), and the Southern Africa Development Community (SADC). In Latin America, there is the Common Market of the South (Mercosur), while the Andean Pact, the Caribbean Common Market (Caricom) and the Central American Common Market (CACM) have been renewed since the mid-1980s.

Concern about the new wave of RI led to a debate on the breakdown of the multilateral trading system into trading blocs. Krugman has hypothesised that regional blocs would result in a decrease of world welfare, but those effects could be softened considerably if transport costs are included and it is recognised that world trade policies are set through negotiation (Krugman, 1989:21).

The regional trading bloc has become a common concept which nevertheless remains rather unclear, as can be seen in Krugman (1993a). According to Schott (1991:2),

> In brief, one can define a trading bloc as an association of countries that reduces intraregional barriers to trade in goods (and sometimes services, investment and capital as well).

The aims of a trading bloc are very similar to those of RI: to improve competitive potential (region-wide), co-operation and market access, while its evaluation is also based on trade creation and trade diversion as in RI theory. A trading bloc may involve the merging of diverse RI agreements, as well as informal integration (Oman, 1994), into a continent-wise regional arrangement that would include a hegemonic core to provide the public goods apparently unavailable at the global level (Schott, 1991; Brand, 1992:280). In such a case, a ‘hub and spoke’ system was envisaged as the possible form.

The hub and spoke image would be that of axis and rays. This type would involve bilateral deals in which countries would have only access to the hegemon’s market without regional plural co-ordination or harmonisation policies. NAFTA may lead to this type, since it provides contradictory incentives to regionalisation: on the one hand, the U.S. government approves subregional integration efforts that 'would ease negotiations’, while on the other hand, countries can be admitted to NAFTA only after negotiations, not by adhesion, and with approval of the U.S. Congress (FIEL, 1993:91-2).

A hierarchy of bilateral agreements between the core and other partners would be established according to the hegemon’s priorities and standards (ibid., 1993:91-2; *Development Policy,* March 1994:3-4). In this case, the hegemon may also act as a development ‘locomotive’. These views are connected to the hegemonic theory of stability at the international level (Kcohane, 1984), to be discussed in subsection 2.3.1.2 below.

The concept of a regional trading bloc involves new theories and concerns such as location theory, economic geography, dynamic growth-poles analysis and gravity models, criteria for the dimensions and borders of a region (usually ending in continent-wide visions), and optimal areas of jurisdiction for the provision of public goods necessary to regionalisation (e.g. externalities, stabilisation policies, economies of scale, deregulation and management co-operation) (Lorenz, 1992). It highlights the expansion of activities covering a region, and the issues of economies of scale and localisation of investment.

Finally, regionalisation and RI are two concepts that deal with different interacting processes. They have been separated in two ways: by using the concepts of *de facto* and *de jure* regionalisation, and by the terms of ‘regionalisation’ and ‘regionalism’. The latter concepts provide the best insight, as RI (included in the concept of regionalism) is seen as a political process of creating preferential trade agreements.

Oman distinguishes between regionalisation *de jure,* meaning legal, formal and explicit, and *de facto,* meaning informal or executed by firms, especially in the case of proximity and economic complementarity (Oman, 1994). At the same time, he offers a definition of regionalisation as a centripetal and political process. In contrast, Oman sees globalisation as a centrifugal and micro-economic world process amidst post-Fordism and flexible forms of production. Globalisation and regionalisation can interrelate through conflict or in mutual reinforcement. The first type of regionalisation *(de jure)* correlates with his definition of regionalisation (as RI). Yet the second type *(de facto),* applied to the regions of Asia and the Pacific and to the Mexican-USA border before NAFTA, seems more connected to his definition of the globalisation concept. Consequently, when applied to specific instances, his conceptualisation does not provide clarity.

Lorenz distinguishes between 'regionalisation' as 'the outcome of a natural location phenomenon leading to closer economic ties within a region', and 'regionalism' as 'the creation of preferential trade agreements' (Lorenz, 1992:84). lie thus applied the term regionalism to national policy-driven efforts towards liberalisation within a given RIA.

In a similar fashion, though outside international economics, Hurrell has singled out 'regionalisation' as one of the five categories'* through which 'regionalism' can be analysed, discerning between regionalisation as 'the growth of societal integration within a region and the often undirected processes or social and economic integration … intra-firm trade, international mergers and acquisitions … dense networks of strategic alliances …' (Hurrell, 1995:334) and 'regionalism' as the broader process.

Summary

The differentiation of waves of regional integration, the concepts of trading blocs, and the distinction between regionalism and regionalisation provides a rich resource of concepts, examples and variables to move towards considering the process of regional integration.

Conceptualisations of regional economic integration in international economics increasingly recognise the importance of the institutional and political aspects of the process, as well as the growing internationalisation of activity within so-called 'globalisation'. Yet conceptualisations of the institutional and political aspects have so far remained bound to the state.

2.2.2 Analytical approaches to regional trade

RI has traditionally been examined in terms of international trade. According to economic integration theory, free trade is the best choice in terms of international resource allocation. Customs unions are the second best alternative, but only if they lead to free trade. The traditional approach assumes perfect competition and constant economies of scale, complete factor mobility within but not among nation-states, tariffs as the only restrictions to international trade, balanced trade, and the full utilisation of resources.

Analyses of the economic effects of a customs union rested on its static impact on trade flows: ’trade diversion’ versus ‘trade creation’ (Viner, 1950;Johnson, 1965). It was thought that, except for the terms of trade aspects, benefits from integration could be gained equally or even more efficiently through unilateral liberalisation. The integration policy would end as trade barriers were removed. This approach does not provide a rational explanation, however, of why a country should favour any particular form of regional integration. Furthermore, results that may take place through the formation of a customs union cannot possibly be defined *ex ante.*

The introduction of collective goals was seen as an improvement (Cooper and Massel, 1965; El-Agraa, 1984). It should be noted that the argument of ‘public collective goods’ such as industrialisation has always been present as a motivation for Latin American integration and in ECLAC thinking (ECLAC, 1959:141). The relevance given to integration was based on the importance given to industrialisation in the development process, the possibilities of exporting manufactures, the degree of foreseen economies of scale, the localisation of markets in member countries, and the lower costs of transportation (Robson, 1980:158).

A customs union permits a more efficient production of public and private goods than does free trade. The traditional ‘non-economic’ theory (Krauss, 1972) added other motives for integration, such as defence or national prestige. This was not considered satisfactory, however, in that economic motivations were not addressed.

New approaches to trade developed from the analysis of three main issues that were neglected by traditional theory. The three issues were based on the understanding: first, that increasing returns foster the so-called ‘competitive’ advantage of certain firms and industries; secondly, that the issue of transition involves the reduction of tension and conflict, as well as the building of consensus within the state; and thirdly, that reciprocity in liberalisation provides incentives to pursue a regional strategy. All parties involved in regional negotiations expect some gains, as well as reciprocal access to the other’s market.

It has long been accepted that distribution of benefits within an integration process leads to co-operation and/or conflict among and within countries (Johnson, 1965). These possibilities are emphasised if dynamic effects from integration are taken into account (Guerrieri and Padoan, 1989:3).

Because customs union analysis concentrated on the analysis of static effects (as a 'once and permanent’ alteration of trade patterns), however, the dynamic effects on the formation of regional markets were ignored. These include the attraction of capital in the form of local and foreign investment, the increase of the export base, the mobilisation of under-utilised resources, a possible change in business behaviour in the new environment, and a continuous generation of new products and processes of production.

Such dynamics have been accepted, since the mid-1980s in particular, and externalities, increasing returns and linkages have been at the core of a renewed 'high development theory' (see Krugman, 1993b and Stiglitz, 1993).'" The rationale for RI has thus shifted. The production of technological innovations requires R&D investments and larger than domestic markets (Jacquemin and Sapir, 1987). The effects from increased competition can be quite important if imperfect competition in national markets is assumed. An important consequence of the new approach is recognition of a greater possibility of conflict over the benefits, since market forces may lead to their concentration. The concentration could deepen the existing development differences, provoking open conflict or retaliation from partner states in the same RIA. By 1998,

> The traditional perfect competition approach has been supplemented by models that allow for imperfect competition, economies of scale and product differentiation. This development has considerably modified the views ... on the rationale for regional integration and its gains. Scale economies both internal to the firm and external are also central to newer models of the spatial aspects of integration (Robson, 1998:xiv)

In the present state of regional and global mobility of factors of production, RIAs seem to encourage a process of regionalisation of production co-ordinated into global commodity chains or networks (Gereffi, 1997; Smith and Korzeniewicz, 1997:1), while becoming a factor in attracting investment (Oman, 1994). The recent acceleration of RIAs gives rise to new questions about the effects of these co-ordinating commodity networks. Co-ordination implies the ordering of things together, through networks that tend towards a certain level of sustainable regulatory and institutional order. It remains to be seen whether such networks lead to the consolidation of sustainable coalitions focusing on issues of regional policy-making and regulation. With regard to Latin America, Smith and Korzeniewicz (1997:2) have emphasised that

> Although heated debate continues, academic scholarship on Latin America focusing on the political economy of democratic transitions … the main features of the 'new economic model' … and the status of democratic governance … is now quite abundant. Much less theoretical and empirical work has been done on the political sociology of market-oriented economic restructuring.

Strategic trade theory has been part of this new economic policy reasoning, in which policy-makers identify strategic high-technology sun-rise sectors (e.g. firms and industries considered economically vital to a country and whose survival should be guaranteed). The concept of strategic trade policy was to provide justification for wider governmental intervention. First, it supported the creation of advantages for firms operating within markets in which important economies-of-scale, and market shares were at stake. Secondly, it tended to counteract unfair trade practices by other countries. Since the 1980s, this approach has influenced industrialised countries' policy-making away from the traditional most-favoured-nation principle towards the implementation of bilateral and sectoral agreements based on reciprocity.

Although the old dichotomy of free traders versus protectionists no longer holds (Keohane and Milner, 1996), businessmen in less developed countlies (LDCs) do not have the necessary conditions to be able to demand a 'strategic policy'. LDCs supporting this type of policy can be more vulnerable to sanctions from other states, and particularly to pressure from developed countries (DCs).

Neo-classical authors argue that free trade decreases national budgetary costs and also the incentives for rent-seekers. In this line of reasoning, a RIA is expected to deliver two main collective goods: deregulation and economic co-ordination (Guerrieri and Padoan, 1989), the first being a means and the second the final objective (Padoa-Schioppa, 1987:131). This has informed the teleological thrust of State representatives' discourse on regionalism and RI in the 1990s.

Although the few existing and limited hypotheses indicate that rentier groups would disappear within a RIA (De Melo and Panagariya, 1993; Hughes Hallet and Primo Braga, 1994), those same groups may actually enjoy a new leverage through regional strategies (Leidy and Hoekman, 1993:264-5).

Since the late 1940s, the study of economic integration has dealt with three topics (Villanueva, 1992:4). First, the study of international trade created by Rl processes, concentrating mostly on the analysis of free trade areas and customs unions. Secondly, the movement of factors of production in common markets and their impact on the location of activities and on international trade. Thirdly, the analysis of policy co-ordination and harmonisation among nation-states participating in RI. These three interrelated topics (trade, location and policy harmonisation) are generally found in separate studies. Ultimately, economists have tended to support RIAs in the belief that they liberalise trade and further multilateralism, or to resist them on the grounds that they weaken multilateral trade institutions.

A first group of analyses uses *ex post* studies on resulting trading patterns, while others use models. Within the latter, some assume competitive markets and constant returns to scale; others assume imperfect markets and scales effects.[lv] Throughout these works, the questions of how RI outcomes actually come into existence and what is the rationale behind them are not properly answered. The need for an analysis of RI actors' interests and strategies is obvious.

2.3 Regionalism in international political economy

2.3.1 Globalisation and regionalism

2.3.1.1 Definition of globalisation

As noted earlier, contemporary regionalism is inevitably linked to the so-called globalisation process; any factors associated with the latter could be considered as the macro level to regionalism. Theorisation at this level is systemic and emphasises the economic and technological changes in the world-system. Most of the literature on globalisation has appeared since the late 1970s, though there were some initial contributions before (Wallerstein, 1974). One of the few regular notions informing the discussion is that there is a new and unique situation characterised by an ongoing and incomplete process that reaches all parts of the world. The concept of globalisation has also generated a discussion of crisis, open-ended development, and inherent conflict and contradiction in the world system.

Globalisation theories are essentially rooted in modernisation assumptions. Western institutions have spread to the rest of the world, e.g. the capitalist mode of production and the nation-state, together with scientific rationality in the form of modem technology (Beyer, 1994). The main unit of analysis has become the entire planet and this alters how the sub-units (i.e. nation-stales and firms) can be perceived. These sub-units constitute themselves not only in reference to other units, but even more in reference to an enclosing totality with its own attributes. In general terms, globalisation

> refers to the multiplicity of linkages and interconnections between the states and societies which make up the modem world system. It describes the process by which events, decisions, and activities in one part of the world can come to have significant consequences for individuals and communities in quite distant parts of the globe. (McGrew and Lewis, 1992:23)

The two major differences from globalisation's previous historical patterns are the intensity and scope manifested by a multiplicity of forms (economic, political, social, cultural and ideological). These include perceptions of compression of time and space in social relations (Mittelman, 1997:3). Critical IPE thinkers on globalisation have followed the post-modernist juxtaposition of the idea of immediacy and immanence to that of segmentation, by which different 'social times' can occur in parallel without permeating each other (Gill, 1997:20, *22-4)*. They have also followed Braudel's work, allowing globalisation and the market to be acknowledged as socially constructed phenomena that could be studied under Braudel's four analytical axes: space, time, 'social orders' and hierarchy (Helleiner, 1997:102).

Some have criticised the notion of globalisation, stating that it is nothing more than internationalisation, largely concentrated into the so-called 'triad'. Ruigrok and van Tulder, among others (such as Hirst and Thompson,, 1996), reject the notion that there is a worldwide economic globalisation. Their critique has some force. First of all, globalisation is by no means a new phenomenon. Second, it is highly uneven in impact and scope. Thirdly, there is an unbalanced concentration of so-called 'global' economic, financial, technological and managerial activities between DCs. Fourthly, it is still possible to stylise different strategies employed by multinational firms according to their national origins or home base (Ruigrok and van Tulder, 1995:146-51).

Despite these criticisms, some important changes are clearly taking place in the macro-level environment of RI. The mass production Fordist system is waning as a predominant manufacturing form. The ongoing worldwide economic restructuring may be characterised by intensifying competition among industrial complexes, organised according to different institutionalised relations of production, based in turn on different concepts of control, which Ruigrok and van Tulder (1995:36-62) call flexible, Fordist and Toyotist. Firms are gradually changing their investment and competition strategies, at both regional and worldwide levels, in which trade becomes linked to investment.

> The new economic of regionalism stresses the potential gains from reduced administrative and transaction costs and other barriers to trade. These show up for an economy in increased inter-firm competition ... (Robson, 1998:278)
>
> [The] pattern of FDI is extremely polarized. In that context, regionalism is seen by some economists (Oman, 1994) as one means by which developing countries may be able to avoid exclusion from the growth benefits of the globalisation of production. (Robson, 1998:279)

In the context of this study, globalisation may be viewed at two levels. First, as a system spreading within the globe with particular attributes that may vary according to theoretical visions of the world. Secondly, as multiple phenomena that have intensified during the last few decades, constituting a historical perspective of the present world conjuncture. This second level is discussed in subsection 2.3.1.2.

Two main bodies of research have dealt most with the first level: the world-system theory and international political economy (IPE):

(a) Immanuel Wallerstein's world-system theory has its roots in the work of Karl Polanyi, Fernand Braudel from the French Annales school of history, and in dependency theory. According to Wallerstein (1979), the world-system is above all a world-economy that creates its own geographical divisions into core, periphery and semi-periphery, the last two being defined by a relationship of dependency and exploitation with the first. This world-system led to the rise of the nation-states which are seen as unique to the modem world (Wallerstein, 1974). In this world-system, nation-states are engaged in a world division of labour. Before the world-economy, there were two other kinds of social systems, i.e. mini-systems and world-empires. The passage from the one to the other is driven by the internal contradictions of the capitalist system that ultimately is transformed into an entirely new type of system. Although Wallerstein's view is the most radical one in international relations (IR) theory, it has been criticised for underrating the state's autonomy and for a bias towards system-maintenance (Cox, 1986:206).

(b) IPE's approach is defined by an attempt to understand and explain the development and change in the global economy. It tries to achieve multidisciplinarity by drawing all social sciences into its ontological basis. This approach is characterised by different modes of analysis and interpret-ation of the relationship between politics and economics at the international level. The three major bodies of ideas in IPE are Marxism and neo-Marxism, neo-realism, and liberalism (Polychroniou, 1992; Tooze, 1992). Lately, however, a whole new array of critical approaches are becoming prominent, for example Cox's, neo-Gramscian, and constructivist, with an emerging variety of alternative research programmes within IPE, Alker, Cox, Anderson, Chatterjee, Giddens and Hughes (Murphy and Tooze, 1991:21). Given the wealth of ideas, research programmes and works within IPE, and its use and relationship to RI, it is useful to consider their axioms and postulates in more detail.

Chase-Dunn combines Wallerstein's vision with neo-Marxism: shifting the unit of analysis to the world-system as a whole and redefining capitalism as a global mode of production alters Marx's accumulation model. In his view,

> the glue that holds together the modern world-system is a combination of market-generated interdependence in the world division of labour and the political or military power of core states. Our global political economy is called a capitalist one because the market-based logic of accumulation constitutes a greater part of the dynamics of the whole system than [before]. (Chase-Dunn, 1992:8)

Chase-Dunn also points to 'ceiling effects' of global expansion with an analogous result to Wallerstein's 'change in the fundamental nature of the world-system'. Thus, a systemic crisis would be caused by the structural change prompted by the historical evolution of the capitalist system and the internationalisation of production. In this context, the nature and power of the state and its relation to capital is an important practical and theoretical problem.

For neo-realism, the global economy reflects the lack of authority and is in recurrent conflict within a continuing structure. Key actors are sovereign nation-states that try to maximise wealth and security, interacting in a perpetual anarchic order (Oye, 1986). Most co-operation takes place within a hegemonic framework, in which a hegemon, based on its material power, is needed to create and maintain a particular order. Neo-realism, in short, speaks of an international system rather than of a global one. The international system is taken for granted, assuming states as unitary actors and in equal power relationships. Neo-realism assumes the autonomy of politics and of the national economy (Gilpin, 1975:43), but above all, it assumes that states or nations have interests in their own right. This line of thought has been highly concerned with the perceived loss of U.S. hegemony and the destabilising implications for the world economy stemming from the resulting loss of hegemonic control. In this IPE strand, R1 and regionalism in developing countries are considered in relation to trade and the notion of 'lock-in', explained later in this chapter.

For liberalism, the rationality of economic behaviour is comparable to that of politics; as traditionally, the role of the latter should be to minimise any interference in the former. Politics should provide a stable political environment for economic activity and should manage the transition towards a world market and world production, since, at the global level, the benefits from efficiency will finally be accomplished. In this IPE strand, globalisation is essentially a micro-economic process (Oman, 1994:14). Politically and by definition, liberalism assumes a pluralism of actors, mirroring a market in which no actor has sufficient power to determine outcomes by itself. Similarly, the global economy is assumed to have no determining structural conditions that set the context for action. Economic relations are considered essentially harmonious and the global domain is defined by the extent of the market. A crisis in the global economy would arise from the complexity of managing interdependence and instability in a period of rapid technological change (Buzaglo, 1991:79-82).

Conclusion

This brief revision of theoretical strands in IPE shows that different ontological premises undeipin the views of ‘globalisation’, according to how the world-international system is imagined to be. The different premises prescribe and constrain what research should be and how it should be conducted. Above all, there has been a missing area regarding mcso-level hypotheses connecting and defining the interaction between so-called globalisation, regionalism and the national levels. Only very recent research has begun to attest to the existence of ‘transmission belts’, interfaces, or particular issues relating them (for example, Coleman and Underhill, 1998).

2.3.1.2 Major phenomena connecting globalisation to regionalism

As said above, at a second level a number of phenomena have connected globalisation to regionalism and form important contextual elements for RI.

International hegemony

The first of these phenomena is the debate over the decline of U.S. hegemony, undertaken mainly by neo-realists. This was due to the perception within the USA of the changing relative position of the U.S. economy in comparison with other developed countries, in particular Japan and the European Union. This decline is contested by some authors such as Susan Strange (1988) and Gill and Law (1988), who conclude that the USA remains the international hegemonic power. Important for this research is that the USA clearly remains the regional hegemonic power in the American continent.

Hegemony is sometimes viewed in IPE as trade-driven, and the trade system has been considered a major cause of world economic growth since the end of World War II. According to the theory of hegemonic stability (Gilpin, 1987), promotion and preservation of the public good depends on an open trading system sustained by a hegemonic power at the international level (e.g. the USA). In this respect, the idea of hegemonic trading blocs (e.g. USA with Latin America, Europe with Eastern Europe, Japan with South East Asia) bears the same conception. Given that the current regionalism in LDCs goes hand in hand with unilateral liberalisation and deregulation commitments under structural adjustment policy reforms, the notion of ‘lock-in’ has been advanced. The regional hegemonic power would guarantee that policy reforms would be secure by locking a developing country’s policies into regional treaties and system of free trade, which would ensure access to the hegemon’s market. Examples would be the U.S. and Mexico within NAFTA, or the proposed American Free Trade Area (AFTA) (Robson, 1998:280; Milner, 1998:29).

Hegemony is conceived within an ‘international’ system of states. Although the present hegemony may not be successfully challenged by other nation-states, globalisation may be, if it carries insurmountable organisational and managerial challenges in terms of arising transnational networks. Since the 1970s, the debate over a possible U.S. decline as hegemon has heightened concerns about preserving the trade system against protectionist state policies. In such a situation, RI has been supported as the second-best option: an international regime that maintains the values of open trade even if there is a declining international hegemonic power (Krasner, 1983).

Flurrell (1994) has argued that the 1990s regionalism is advancing hegemons at regional levels (e.g. Brazil in South America). However, LDC hegemons may not have all the attributes that Keohane (1984) described, and may not play the same role as in ‘hegemonic’ theory, in particular the security role within its region of dominion. Within RI, misplaced debates over possible competition for hegemonic control are not appropriate, especially in comparing the USA with other countries in the 1990s.

Financial globalisation

Another phenomenon important to RI is that of financial globalisation. Since the deregulation of financial institutions in the 1970s, international financial transactions have grown rapidly in relation to the world product, world trade and gross world fixed investment (Akyuz, in Agosin and Tussie, 1993a:568-9). Technology and deregulation have promoted financial globalisation. Information technology and telecommunications have had direct implications on international production, trade and investment flows; and deregulation has led to a globalisation of companies’ shares and equities, fusions and acquisitions, thus blurring the distinction between national and international markets; while financial deregulation has reduced the scope for the imposition of effective exchange controls, and may consequently limit the autonomy of national fiscal and monetary policies. Financial flows react immediately to small perceived changes in relative competitiveness and/or in interest rates, thus increasing the competition for investment localisation, and in exchange and interest rate fluctuations. The renewed interest of TNCs in European integration has been explained by the intent to defend themselves against financial instability, through integrating production in a large regional market and aligning costs on regional revenues (Oman, 1994).

Financial globalisation is intertwined with the necessity to enlarge scales in productive and distribution networks, as well as to specialise within the economic group's core concerns. Both are furthered when firms are included in stock-markets in order to raise capital and attract investment, while assuring profitable returns to stockholders (see for example Sally, 1995, chapter 5).

Several important financial crises have taken place in the last two decades, especially in 1982 (the so-called debt crisis), in 1994 (the Mexican 'tequila' crisis), and in 1997 (the Asian crisis). These three have had major consequences for LDCs, including the Mercosur region. The main relationship between the financial debt crises in LDCs and globalisation is the need to attract investment and to promote exports. Following advice from the World Bank and the IMF, many LDCs abandoned import-substitution strategies for structural-adjustment policies (SAPs) through privatisation, public deregulation, liberalisation, and the reduction of state functions, roles and personnel.

Changes in regulation

Deregulation and information technologies have reinforced existing competition as well as inter-firm co-operation and alliances. Competition increases not only R&D costs and consequent risks, but also distribution and marketing costs. Fixed costs therefore rise. This, and the importance of consolidating and enlarging market shares, lead to global rationalisation through a variety of business networks' organisational structures, via reorganisation, specialisation, export platforms, outsourcing and sub-contracting, verticalisation, and long-term alliances with other firms (see Dicken, 1998, chapters 1, 5, 6 and 7).

Governmental control, regulation and planning capacity decrease, while international production and trade become complementary (Dunning, 1988), particularly after the reduction of trade barriers. A leading indicator of the dynamism of firms' global strategies is the importance of foreign direct investment (FDI). In the early 1980s, OECD TNCs represented one-third of world production, their intra-finn exchanges accounted for approximately 40% of total world exchanges (70% if intra and inter-firm exchanges are considered), and their foreign investments were almost the total foreign investment (Oman, 1994:93). TNCs in OECD countries are not the only ones, however. Latin American firms are experiencing a rapid process of internationalisation, in which RI may play a strategic role (Peres Nunez, 1993:55-74).

‘Flexible’ firms settle down in other continents and regions under a global localisation strategy aimed at taking market shares, jumping protective barriers and driving competitors out of the market (Drucker, 1990:110). Drucker describes it as the 'third trade stage’ or 'adversarial trade’,[v] whose objective is to dominate an industry. His argument is that adversarial trade changes the rules, by which competition may no longer be assumed to be beneficial. If the ‘attacking country’ is still closed to imports, the competitor cannot ‘counterattack’. When neither protectionism nor free trade is the answer, this may lie in regional units that are capable of reciprocity. On this basis, reciprocity may become the new integrating principle of the world economy, not only in trade in goods, but in services, investment, intellectual property and professional services, until transnational law develops (Drucker, 1990:122-6).

As the goal of ‘market maximisation’ may replace that of ‘profit maximisation’, trade becomes a function of investment (Kirkpatrick, 1994:195), implying that globalisation thus leads to spatial regionalisation. This would overcome past choices between free trade and protectionism, providing the possibility of reciprocity through intra-firm and intra-industry trade across regions.

The industrial paradigm of flexible production is considered by some to be the core of the globalisation process, characterised by economising in space, time, motion and inputs, resulting in lower production costs and in greater scope of production in a shorter time (Oman, 1996:18-28). In Oman’s words: 'Post-Taylorist “flexible” forms of organisation now drive and shape globalisation’ (ibid.:1).

Although the historical specificity of the flexible system can be traced to the Toyota company in Japan, (Ozawa, 1993), some of its characteristics have now spread to other countries. The ‘flexible’ system has several implications for LDCs. The reduction of variable costs within total costs and the decreasing need for non-skilled labour (partly due to automation and partly to R&D efforts to create innovative advantages) have driven FDI localisation into DCs, including FDI issuing from LDC firms. Meanwhile, the importance of geographic proximity becomes crucial, leading to multiple locations in RI markets."[1]

‘Flexible’ contrasts with the Fordist/Taylorist system of production (otherwise called ‘push’ system). Fordism was the dominant system of production until the 1970s. Economies of scale were exploited in-house through large production units in order to produce standardised mass products at low per-unit cost. The best example of this was the North American automobile industry in the 1950s and 1960s (Ozawa, 1993). FDI pursued de-localisation in order to take advantage of LDCs' 'comparative advantage' in low labour costs and to supply local markets. There was a separation between the conception of a product and its production, while different parts could be produced and/or assembled in distant countries. The Fordist productive system has faced the challenge and competition from firms implementing a 'flexible system of production'.

Such a system of production lends itself to sectoral analysis. Co-ordinated global purchasing, according to managers and experts in these industrial sectors, is one of the main aspects of 'globalisation'. Spatial distances maintain their importance in terms of costs and timing, however, contrary to the feeling of 'spatial compression' as the disappearance of distance. Spatial distances become more clear-cut to business, especially in terms of investment, because the system of production and its management are changing. Globalisation thus appears to have two spatially uneven consequences:

1. The sites 'wired' into the world tend to concentrate economic activity (sites can be financial, informational, economic, regions, etc.). In order to be more manageable, these 'wires' are established within sectors. Thus, not only global scale and scope become more important for each firm or holding, but, to attain them, business people must concentrate their resources into fewer and related sectors, and fewer products, across nations.
2. These 'wired' network activities tend to be 'imagined' as non-territorial, 'off-shore', or outside the space of the nation-state (e.g. intra-industry trade, free zones, offshore financial banking, and cartels). New spaces, in which '... Business is transacted according to special rules that do not apply to the rest of the national economy in which they are located' (Helleiner, 1997:93). Special rules, however, may depend on the particularposition of the firm within the 'wires' or 'chains'.

Two other likely interrelated effects of the 'flexible' system of production are on labour and politics, costs that may only be addressed through a growing rate of demand and utilisation of regional sectoral productive capacities. These adjustment costs tend to induce protectionist pressures. Reciprocity demands occur at two levels: intraregional and inter-regional. They include requests for market access, labour laws and working conditions. Reciprocity demands not only occur among DCs but also towards LDCs, and may multiply pressures for 'deep policy integration'.

Lawrence (1996) has analysed the previous trade system based on the principle of 'superficial integration' through tariffs (frontier) liberalisation. Under globalisation, different national practices are recognised as affecting the competitive environment and therefore as sources of conflict. Since the new 'deep policy integration or standardisation' is so far unattainable at the global level, regionalism appears as the first option with which to harmonise labour, production and environmental legislation, because international agreements are more difficult to modify than national laws. Possible implications for the development of LDCs are: pressures to reduce trade barriers, to renounce active industrial policies, and to comply with GATT regulations on intellectual property and FDI. NAFTA has already included labour and environmental standards in its negotiations, which may be used as a 'template' for subsequent regional and multilateral negotiations (Agosin and Tussie, 1993a:571-7). The dichotomy between superficial and deep integration policy resembles that between the negative and positive integration policies of Jan Tinbergen (1965).

Environmental concerns

Environmental problems, thought of as the result of market forces often beyond government control, and therefore implying concerted action at the global level, are coming to the forefront in policy-making. Environmental issues are thought to be future barriers to trade, implemented through sanctions against firms and countries that do not incorporate environmental care nonns into their products and production processes. Authoritative and binding global action is not attainable yet, however, and concerted action at the regional level might be a positive beginning.

2.3.1.3 Globalisation and regionalism as interactive processes: the birth of open regionalism

Globalisation is altering the perception and role of RIAs. The emphasis given to economic, social and political forces indicates that globalisation is a broader process than mere trade liberalisation and refers to other actors than the State. It also emphasises the role of FDI.

Most economists consider globalisation as a positive process liberating resources and energies that increase competition and therefore debate whether regional trading blocs or RJ agreements are a step or an obstacle to globalisation (Bhagwati, 1993). On the one hand, the expected role of the State and political leaders is to reduce the power of established oligopolies and rent-seeking groups ('distributional cartels' according to Olson, 1982), with the purpose of meeting the new demands for 'deep policy integration' that spring from globalisation. On the other hand, many statesmen continue to see globalisation as a threat to national sovereignty and relative autonomy, and consider that the inclusion of their states in the global system is the consequence of the ever increasing speed of technological change and the need for adaptation.

In the 1990s, a significant shift occurred from previous RI attempts among LDCs, both in terms of the development strategy used and the type of relation with the regional hegemonic power. LDCs turned from import-substitution and inward oriented growth to export and outward orientation, and moved from a search for autonomy towards bargaining for access to the hegemon's market. Between the 1950s and the 1970s, LDCs saw RI as an alternative to close links with the North or with DCs. Increasingly, LDCs consider both RI and close links with DCs as complementary to one another. This shift has become more visible through the concept of 'open regionalism' (ECLAC, 1994).

> The proposed open regionalism reconciles the interdependence stemming from special agreements of preferential character with the interdependence generated basically by the market as a result of general trade liberalisation. (ECLAC, 1995a:10)

'Open regionalism' has been conceptualised as a strategy to ensure the insertion of LDCs into a world conceived as multipolar, while preventing their becoming a closed trading bloc. To comply with the concept, several conditions need to be met (Fuentes, 1994)?"

The main rationale consists of achieving economies-of-scale and specialisation after increased investment due to the enlarged economic space in stable conditions. Special measures for Paraguay and Uruguay would decrease the likelihood of a counter-reaction due to adjustment costs in less developed member-countries. Meanwhile, moderate levels of protection against outsiders to the RIA would avoid trade diversion.

ECLAC's proposal for the 1990s looked similar to neo-liberalism, as Fajnzylber recognised (Fajnzylber, 1994), in that both shared: (i) an urgency for economic change; (ii) an urgency to develop global linkages; and (iii) a limited role for the State which should ensure macro-economic balance.

This shift relates to a fundamental change in the international system: the disappearance of the bipolar world after the collapse of centralised economies and communist regimes in Eastern Europe and the ex-Soviet Union. There is a perception that the costs of alternatives to global capitalism or any delinking from the international system are rising (see Keohane and Milner, 1996).

Hence, new questions have recently been posed as to the relationship between RI and the processes of globalisation and regionalisation. On the one hand, many authors have equated multilateralism and globalisation. Given the importance of sustainable access to the largest DC markets since the 1980s, LDCs have tried to support multilateralism through the WTO to prevent protectionism in DCs' RIAs. On the other hand, since it may be difficult to prevent DC protectionism through multilateral negotiations, LDCs are now pursuing their incorporation into DC RIAs (e.g. through an enlargement of the European Union and NAFTA). This also explains the successful appeal of the U.S.-led 'Enterprise for the Americas' initiative in 1990, perceived as enhancing the credibility of LDC policy reforms and thus assuring the much-sought FD1, while providing access to the U.S. market. In fact, LDC RIAs increasingly seem to be a response to the threat of exclusion from regional trading blocs as well as a step towards inclusion into them. Multilateralism does not necessarily equal globalisation, however, since the former evaluates RIAs on the basis of trade creation and trade diversion, with the key to the management of the global system depending on the States' decisions and policies.

There are three other reasons that prevent the assimilation of globalisation into multilateralism (Oman, 1994):

1. The present globalisation process can be better understood when compared to the last two globalisation periods: between the end of the nineteenth century and beginning of the twentieth, and the post-war period of the I950-60s, when developments in technology and transport allowed the multiplication of faster and continuous interactions.
2. Tire assimilation would hinder the understanding of regionalisation of production. Promoted by regionalism, regionalisation of production is embedded into and furthers globalisation. At the same time, DCs tried to modify the previous GATT and now WTO towards the harmonisation of national policies at the world level (or 'deep integration'), an even thought of a 'GATT-Plus' among 'like-minded' countries (Schott, 1991:16).
3. The assimilation also conceals the motives for RIAs other than the protectionist one (directly related to multilateralism). These motives can be identified in security and political stability on the one hand, and the development of externalities and networks in the regional productive systems on the other. Security concerns may be considered a common motive in RI in Asia, Europe and Latin America. Political issues include the consolidation of democracy, in Eastern Europe as well as in Mercosur in Latin America, while pluralism and federalism have been strong concepts behind European integration. Regionalism may also obstruct at the political level the possibility of shattering any implemented SAPs, 'lock-

> ing in* structural reforms. Hie prevention of conflict and/or retaliation by the regional hegemonic power may become another primal concern, e.g. in the case of NAFTA with investment and conflict regulations, to prevent unilateral action by the USA.

The changes mentioned above, particularly those related to globalisation, are altering the perception and role of RIAs, which are meant to manage challenges that can hardly be met at the national level. A number of factors behind the multiplication of RJAs since the 1980s are not comprehended by the studies mentioned in section 2.2 above?”’ In addition, in the present state of regional and global mobility of factors of production, regionalisation is considered an important part of a wider globalisation and the major factor in attracting investment.’[x] Specifically, there has been a general lack of theory regarding the actors’ behaviour and strategies across the borders of nation-states, and their influence on regionalism understood as policy-making and institutionalisation of regional norms.

2.3.1.4 Concluding remarks

At first sight, it might seem that globalisation is an economic phenomenon of individual firms stretching around the globe and with little state control (Oman, 1996). Yet some scholars have begun to show that new forms of co-ordination are taking place within chains of productive sectors and consequent networks (Gereffi, 1997; Castells, 1998:335-58; Held, 1997:253). Within each sector, restructuring is occurring with the purpose of achieving cost-reduction, efficiency and productivity, but also far-reaching economies of scale and global sales. To attain these, co-ordination is sought at all levels. Standardisation of products and production processes, as well as an institutional framework meant to guarantee stability in the co-ordination within economic networks, are strong motives to pursue the institutionalisation of regulatory norms within a RIA beyond mere trade liberalisation.

This view of globalisation broadly matches that of a recent EU definition:

> *Globalisation: A* more general term for the increasing interdependence between economies, *but in particular for the rapidly growing specialisation and the resulting intra-firm trade of principally, intermediate products* Globalisation is accelerated not only by FDI (…), but also by joint ventures, outsourcing and other forms of cross-frontier networking. With rising public interest in the matter, the term has also come to encompass phenomena such as financial globalization, the ...emerging economies (mainly in Asia and Latin America)

> anti the widening field foi international competition into fields formerly reserved for national monopolies or otherwise protected [markets] (telecommunications, transport, banking, etc.) (European Commission, Directorate-General for Economic and Financial Affairs, 1997:118; author's italicised emphasis)

If we consider that, in 1992, intermediate products accounted for 54.8% of world trade/ it seems that a great deal of world tradable value and wealth is being produced within a system of interconnected firm networks. In the case of Mercosur, Machado and Markwald (1997) affirm that more than 60% of trade in manufactured products constitutes intra-industry trade (of which intra-firm trade is a significant part). They also state that intra-industry trade, where intermediate products and capital goods predominate, should not be attributed only to Mercosur. These flows are those that weaken the political importance of state boundaries (Strange, 1997) and make the study of domestic politics in global isolation inappropriate. Therefore, although the abused 'G-word' may be a mere slogan, it seems that it is no longer possible to study domestic politics separately from global economics, business and management.

2.3.2 Incorporating the meso-level in IPE theory

Regionalism has been a significant world trend since the second half of the 1980s, and so far seems to be growing and sustainable. In seeking reasons for its sustainability, economic studies, reviewed in Part I, look for answers in trade, externalities and transaction-cost reduction. This approach is important, but not sufficient, since it does not deal with the historical, political and institutional construction of possible regional economies and societies. International relations theorists look at the emergence of international regimes or policy regimes, interdependence and internationalising trends. While neo-classical economics and individual rationality are predominant in most studies, institutionalist research is growing in influence (Amsden, 1989; North, 1990; Evans, 1995) bringing a return of the debate over ideas versus interests (Rutherford, 1996; Hall and Taylor, 1996; Pontusson, 1995).

Meanwhile, a re-conceptualisation of several important concepts has outlined the path for consideration of the 'meso-level' since the mid-1980s. Specifically, these concepts were: (i) co-operation both in international relations and in industrial economics; (ii) competitiveness; (iii) the state; and (iv) the firm. Re-conceptualisation has opened the way towards a meso-level of analysis and the incorporation of actors, values, culture, interests, institutions and history.

First, the likelihood of co-operation within the international system was finally acknowledged by a literature that has had almost no interaction with that on European regionalism. For Axelrod, 'what makes it possible for co-operation to emerge is the fact that the players might meet again' (Axelrod, 1984:12). Leaving aside many restrictive assumptions (1984 17-8), Axelrod concludes that co-operation can emerge in a world of egoists without central authority in three evolutionary stages: (i) it can evolve ‘from small clusters of individuals who base their co-operation on reciprocity and have even a small proportion of their interactions with each other’.(ii) over time a strategy based on reciprocity is the one to survive.(iii) co-operation, once established on the basis of reciprocity, ’can protect itself from invasion from less co-operative strategies’ (ibid.:21).

Whereas in orthodox economics co-operation can only be the attempt to distort prices and is therefore bound to be inefficient, the Japanese and South-east Asian cases have challenged this view. You (1994) has argued for the need to include the ‘social structure’ of industry in the analysis of policy intervention, holding that non-market institutions can enforce co-operation and support industrial success. The notion of ‘industrial districts’ brings in the same concerns. Networks and linkages are

> underpinned by rules, norms and conventions established and maintained to varying degrees...by trade associations, trade unions, the State, political parties, religious affiliations and more informal community-based institutions. (You, 1994:276)

The importance of the institutional structure in fostering co-operation is based on four considerations: (i) it creates the appropriate environment; (ii) it provides conflict resolution procedures; (iii) it imposes sanctions;(iv) it provides the framework for adjusting to external environmental changes. Altogether, an institutional structure provides certainty and the long-term view needed by decision making.

Secondly, as regards competitiveness, recognition of the importance of technology has led to other definitions such as ‘structural competitiveness’. This is

> the interactive nature of the innovation process, the systemic features of technology, the learning processes associated with innovation, the vital importance of human capital, the significance of organisational and institutional factors in innovation and of course, the central role of firms in competition. (OECD/TEP, 1992:309)

The definition of ‘structural competitiveness’ leads to devising strategies by which firms and institutions can capture the knowledge externalities. The new theories of growth imply a sectoral strategy with a technological policy to create a synergy deliberately through co-ordinated efforts. According to the new theories (Bradford, 1994),

> causality is from growth to trade rather than the other way around. In a complex process, advantages for those sectors (credit, access to imports, infrastructure, co-ordinated plans for inter-related sectors) are built to generate and reap externalities and returns, facilitating exports. Trade promotion and selective intervention would then create a pro-export bias, consistent with a strategy led sectoral transformation. (Bradford, 1994:35)

Because of economics of scale, linkages and networks, competitiveness may best be developed at sectoral level. The

> national competitive advantage is best understood by examining particular industries and industry clusters... there is the risk of seeming to emphasise cross-industry considerations in exploring a theory that is aggressively industry (and cluster) specific. There is no practical way around it, however. (Porter, 1990:283)

Thirdly, an ensuing question is to address the identities and capacities of the mam co-ordinating actor or actors. From the late 1950s until the late 1970s, the term 'state' virtually disappeared from the fields of political science and 1R (Krasner, 1984; Netti, 1968). From different ideologies, 'the students of 1R multinationalized, transnationalized, bureaucratized, and trans-governmentalized the state until it virtually ceased to exist as an analytic construct' (Krasner, in Ferguson and Mansbach, 1989:14). Since the mid-1980s, the state has returned. Some authors started to analyse the state's autonomy (Skocpol 1985), (another concept on which there is as yet no consensus), particularly on the degree to which policy outcomes are shaped by domestic political actors and processes. Additionally, historians such as Braudel (1979a, 1979b, and 1979c), Wallerstein (1979) and Cox (1986), have contributed significantly to the analyses of relations between social forces, the changing nature of the state, and global relationships. In the mid-1990s, the analytical concept of embedded autonomy was forcefully elaborated by Evans, who made it clear that state and society 'each helps constitute the other' (Evans, 1995:228). In this regard, embeddedness was essential.

> Analyzing societies and analyzing sectors produced the same message: industrial transformation is possible, and states make a difference. The character of state institutions helps determine whether and how countries change their position in the international division of labour. State apparatuses are potential sites for agency. Sturdy structures make agency easier. Agency changes the structures that made it possible. (Evans, 1995:247)

Fourthly, Sally exposed the other side of the coin, that of firms and industrial capital.

> MNEs are anchored and enveloped in policy networks... (Sally, 1995:16-17). In interactions with external actors MNEs have distinctive political identities...[which] have to be viewed in an enveloping institutional context, (ibid.:19)

Following the work of Chandler (1990) among others, Sally affirmed that analysing firms within political economy needed a 'fresh conceptualisation, given the inadequacy of existing theorising../ (Sally 1995:247). As Dosi put it,

> A first major thing that Alfred Chandler has taught us is to appreciate the importance of the epochal change associated with the emergence of the modem corporation: an organization which for the first time internalizes many activities previously undertaken by more impersonal and decentralized market interactions, and - even more important - systematically develops and reproduces special internal knowledge for coordination, production management, and innovation, (Dosi, 1997:466-7)

Finally, firms have been recognised as modem bureaucratic organisations as well as sites of agency, power and co-ordination.

The four concepts reviewed above (co-operation, competitiveness, state and firm) can now be put together through the idea of 'meso-level'. In Klaus Esser's policy essay 'International Competitiveness in Latin America and East Asia', the 'meso-level' is

> at the level between macroeconomic conditions and micro actors ('meso level'). Structuring the meso-dimensions must be accompanied by a pooling of forces through evcr-closer co-operation among the various levels of policy-making and administration, industrial associations, trade unions and the now fast growing third sector. (Esser, 1993:28-9)

1.3.2. 1 Predominant IPE theories and regionalism

Predominant IPE theories have shared an orthodoxy of positivist values and assumptions which is predominant in the method of inquiry (Murphy and Tooze, 1991). Neo-realists and liberal-functionalists have dominated IPE debates on regionalism. Yet, in the 1990s new 'epistemic communities' (in Ruggie's sense) have been strengthened. The latter include new institutionalists, new trade theorists, constructivists, neo-Gramscians, and those working on Ilettne and Mittelman's project on 'New Regionalism[1] (see Mittelman, 1996). When applied to regionalism, however vast this literature may be, as Hurrell has asserted, 'it is also uneven and fragmented' (Hurrell, 1995:332).

As regards factors leading to RIAs, liberal IPE considers the international economic system as an interdependent oligopoly, in which management is scarce. A trilateral system of trading blocs (North America, Europe and Japan) is conceived as inherently unstable. Moreover, increased interdependence without increased co-ordination can lead to inappropriate policies or even negate the microeconomic benefits of integration (Padoa-Shioppa, 1987:131). In such a case, institutionalisation of regionalism should be carried out by international institutions, remaining a statist approach.

The concept of 'international regime' - the ‘principles, norms, rules and decision-making procedures’ most reflected in the 'convergence of the actors’ expectations’ (Krasner, 1983) - can also be useful in explaining the apparent drive towards regionalism through the need for a ‘set of rules of the game’. The concept has been criticised on the grounds that it diminishes the importance of transnational relations between social and political groups, economic enterprises, or between any of these and governments of other states. It has also disregarded the sources of power of those who determined the international regime. Furthermore, the regime approach does not explain non-regimes, non-decisions, failure to take a decision, and ‘hidden’ agendas (Strange, 1988). Nevertheless, Krasner’s original argument that regimes are an intervening variable between structural power and outcomes is relevant for understanding a regional process, and remains an open path for further exploration.

Tire neo-rcalist view in IPE highlights the collective benefits for the whole regional area as well as the individual incentives for each counhy to pursue adjustment policies, since reciprocity creates incentives that may not exist unilaterally. Economic regionalism is then seen as a problem of collective action and international co-operation that arises when an external threat and/or distributional conflicts exist, and can be analysed as the politics of forming international alliances.

The neo-realist view has allocated the main co-ordinating role to one hegemonic state per continent. If no single leading country is able to impose its own solutions to arising conflicts, the need for ‘leadership’ is expected to be met by interaction and co-ordination of the efforts of several countries.

Is there one regionalism or are there several? As noted above, the factors that have led to the current proliferation of regional integration arrangements (RIAs) have received a good deal of attention, as has the possibility of ‘managing’ RIAs towards an open economy. In contrast, explanations of their institutional diversity and/or similarities have been few. RIAs have naturally taken different shapes in various parts of the world, e.g. Europe, North America, South-east Asia and Latin America. Practices arising from RIAs reflect different institutional outcomes and degrees of institutionalisation.

These have so far been analysed at two levels: from within the RIA and from systemic factors (see Mansfield and Milner, 1997). In some studies, analyses from within the RIA focus on relations among private actors (e.g. firms, transnational corporations and economic sectors) and in others on nation-states' preferences. These studies have used strategic trade policy and may blend with neo-functionalist and/or institutionalist reasoning. These include domestic economic conditions and industrial structures as factors that lead to lobbying by interest groups and to societal pressures that affect the prospects for liberalisation (Milner, 1997). In other studies, generally undertaken by neo-realists, the focus is on power relationships among member states (e.g. regional hegemony, relative gains, and the distribution of capabilities: see, for example, Grieco, 1997). All these analyses are heavily statist.

Analyses at the second (systemic) level discuss factors which, departing from the RIAs themselves, generate a 'spillover' effect onto further integration. The 'spillover' is effected either by newly emerging interests, or by the capacities of the RIA to deal with market failures and problems of co-ordination. Such studies tend to use functionalist and/or institutionalist approaches (Haggard, 1997). Neither history nor the relationship between agency and structures has received due attention, however, nor have exogenous variables to a RIA's institutionalisation so far been hypothesised, except for outside pressure from a hegemonic power or security threat.

Important theorisation on regionalism has materialised in Europe, apparently divided into two periods, with a large gap in between. In the 1950s and 1960s in particular, functionalism and neo-functionalism played a central role; while the second period commenced with the debates over the European Single Act in the mid-1980s. Functionalism, funded on a liberal and pluralistic understanding of international relations, was focused on political issues and the 'political consequences' of economic integration, as has been mentioned earlier in this chapter. In the first period, European political leaders who, together with academic scholars (Haas, 1958a and 1958b; Lindberg, 1963; Mitrany, 1943), were concerned with issues of security and democracy also made major intellectual contributions. Security meant regional peace as well as a response to the Soviet bloc. According to Lindberg (1963:4), the fundamental motivation for European economic integration was political, as well as related to welfare (Haas, in Lindberg, 1963:290) and to the consolidation of a pluralistic array of economic and political actors. Their concerns were bound up with the state, although they envisaged a federal Europe and regional communities. There was no space for a meso-level approach, since institutionalisation was in terms of output and of processes of politicisation of the state. Future autonomous actors were conceived as an international bureaucracy, while social actors were seen as environmental factors to the process.

The application of such theorisation to Mercosur seems rather useless. It would be better, instead, to bring in the Single Act's concerns and some of the debates to which it gave rise (for example Sandholtz and Zysman, 1989). Lawrence's chapter on Europe concludes that, although regional integration is a cumulative process, facilitating exchanges ('removing border barriers and providing for national treatment' - Lawrence, 1996:59-60) does not create an integrated market *per se*. As 'intra-industry trade increases, behind-the-border barriers will inevitably become the focus of attention' (ibid.:60).

For some scholars (Stopford and Strange, 1991; Strange, 1995), public-private as well as agency-structure dichotomies do not hold any longer, as new networks become visible in the world economy and these networks do not match old boundaries, either political or territorial. Thus, the understanding of the emerging system needs an integrated analysis of agency and structures, both institutionally and historically. From this standpoint, there are three important domains to consider in such a new approach. First, there are the national and subnational domains for tracing and analysing emerging regional actors and networks. Second, the state itself. And third, the possible role which the state may have in regionalism.

2.3.2.2 Domains to explore in the new approach

2.3.2.2.1 National and subnational domains

The few hypotheses that have been put forward to analyse politico-economic actors' reactions to regionalism have focused on the extent to which pressure groups would be able to push for protectionist measures within a process of regional liberalisation. In Hockman and Leidy's language, these are called loopholes and holes (Hoekman and Leidy, 1993). Holes are whole sectors excluded from the liberalisation process, such as government procurement in the previous GAIT, or sectors in a RIA. Loopholes are provisions that allow for temporary protection such as subsidies, import restrictions, anti-dumping, and safeguard measures. De Melo and Panagariya, (1993:176-7) assert that RI can limit the power and rent-seeking behaviour of national interest groups. This could happen in two ways: (i) by a 'preference-dilution' effect (in a larger political community national political interest groups would have less influence on policy design), and (ii) by 'preference-asymmetry' effect (preferences on specific issues may differ across countries, raising the need for compromises that may enhance efficiency). Olson (1982) had earlier argued that RIAs would dissolve rent-seeking interest groups. It has also been claimed that intra-industry trade between similar national economies would decrease adjustment pressures and therefore the requests for loopholes and holes. However, contrary to Olson's hypotheses, as national producer groups are already well organised, regional co-operation may be less costly to producers. Instead, consumer interests may be harder to defend than those of the producers.

Interest groups are hypothesised as having less space for raising external trade barriers and protectionist pressures in a free trade area than in a customs union, since the latter involves a policy on common external tariffs against third parties. Again, this is contentious, since anti-dumping measures, for example, can be sought in either type (Hoekman and Leidy, 1993).

None of the existing analyses accounts sufficiently for cross-border actions of the main actors in regionalism (e.g. economic and social actors that are present in more than one member country of a RIA). Actions tend to be perceived as arm's-length without political consequences. For regionalism to be sustainable in whatever form, however, some sort of institutionalisation should proceed. This has not received due attention.

'The existing literature on international trade negotiations often employs a unitary actor model' (Leidy and Hoekman, 1993:246). Political processes and interest groups, particularly the subnational ones, have been ignored. The literature portrays multiple actors as domestic limiting/enabling factors on state strategies, focusing on issues of state autonomy and capability. Cohen's review (1990) is a fine example at the start of the 1990s decade.

> IPE is now firmly established in Western academic circles, especially among political scientists, as a legitimate research specialty in its own right, emphasizing formal integration of market and political analyses in the study of international affairs. The research agenda of IPE focuses largely on two broad sets of questions. One set has to do with actor behaviour - meaning, in particular, government behaviour … The other has to do with system management … How do state actors manage (or fail to manage) their conflicts, and what determines whether they cooperate or fail to cooperate to achieve common objectives? (Cohen, 1990:264)

Since Katzenstein's work (1978), domestic factors such as interest groups and the socio-economic structure have been recognised as influencing national policy strategies with regard to foreign trade policy. In particular, Milner's contribution emphasised the role of firms' trade policy preferences in policy-making, and the relation between varying degrees of firms' international economic linkages and integration and their policy preferences (Milner, 1988). Even then, as Kirkpatrick noted,

> There have been few studies of domestic political interests which have shaped national policies towards regional economic co-operation in East Asia. (Kirkpatrick, 1994:200)

In addition, with regard to the politics of structural adjustment and economic liberalisation, case analyses have dealt with domestic centred approaches, yet without a general theory (Stallings, 1992; Nelson, 1990; Dahlberg, 1993). Analyses use collective action and actor-structure models, linking the political system (parliamentary vs. presidential, elections and so on) and the type of state (including the bureaucracy) to the coalition support and actors' behaviour. They consider elite behaviour (e.g. factional), rent-seeking strategies, and the personality of individual leaders in terms of will, ability and understanding. These studies are all restricted to the national realm.

Concerning a regional area, negotiations have been taken as 'black-boxes' from where a state's order of preferences emerges. State negotiators are assumed to carry the 'national' interest while failure to attain outcomes is attributed to the influence of interest groups. From a public choice perspective, a suggestion has been made to unlock such 'black-boxes' by considering subjective and effective interests of the State negotiators, imperfect information, alternative policy packages, lobbying strategies at different stages (pre-negotiation, negotiation and implementation), and the expenditures of interest groups where public estimates exist (Leidy and Hoekman, 1993:248). Little careful thought, however, is given to historically bound rationales, private interests and actions, values and structures.

Since the end of the 1980s, these research interests have produced four main attempts to interrelate the national and subnational levels in international policy-making. It is important to note that 'international' public policy-making has been constrained to State actors.

A first attempt has been Putnam's two-level negotiation theory, according to which a shift in economic policy preferences reinforces changes in the domestic distributive equilibrium, and eventually entails a high cost in domestic political consensus.

> At the national level (level II), domestic groups pursue their interests by pressuring the government to adopt favourable policies, and politicians seek power by constructing coalitions among those groups. At the international level (level I), national governments seek to maximise their own ability to satisfy domestic pressures, while minimising the adverse consequences of foreign developments. Neither of the two games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign. (Putnam, 1988:434)

Putnam believed that ‘any Level I agreement must, in the end, be ratified at Level II* (ibid.:436). However, he himself recognised that his conceptual framework, “is useful for purposes of exposition, although it is not descriptively accurate* (Putnam, 1988:436). Indeed, it should be further examined, as we shall see in Chapter 10.

Putnam called the outcome of the whole process a ‘win-set’, defined as the set of all policies agreed upon at level I (international) which will obtain ratification at level II (national), and maintained that the dimension of the ‘win-set’ is decisive for the success of international co-operation policy. Recently, Milner has used Putnam’s conceptualisation to compare NAFTA and the Maastricht treaty (Milner, 1998).

Guerrieri and Padoan (1989:x), in a second attempt, have suggested a connection between national preferences, revealed from macro-economic policies and the structure of economic systems, while the formation of collective choices relative to RI is ultimately dependent on the power distribution among the countries involved.

‘Win negotiation sets’ are defined rather differently by these two authors (ibid.:21-9). In contrast to Putnam, they define them in terms of popularity and reputation. Popularity depends on the nature of the constituency of the ruling coalition and its ideological preferences. Reputation increases with the ability of a country to resist expansionary pressure and depends on the nature of the international regime. Both terms are value-loaded towards the promotion of an open financial system and macro-economic stability in order to attract FDI.

Their approach approximated neo-realism as far as regional policy was concerned. Thus, it could not account for the actions and interests of cross-border actors. Nevertheless, their ideas were considered during the primary phase of this research, because they recognised that RIAs are also the result of political forces, in which values and institutions are important (ibid.). This recognition has received increasing attention (Grossman and Helpman, 1993).

For Guerrieri and Padoan (1989:11) three indicators define and operationalise the variable ‘power’: economic dimension, degree of openness and the international financial position of countries. The rate of growth plays a central role as a public good.

> In an oligopolistic system, high and stable growth paths (both cunent and expected) can be considered as a public good... [M]acro-economic co-operation is not only desirable, but it is a necessary condition to produce such a good and to avoid serious imbalances in the system, which may hinder the development of the process in itself. (ibid.:7-8)

However, although the role of growth rate in RI as a public good may seem sound, it does not seem to fit with the experience of Latin American countries that have intensified or renewed RI in times of economic crisis rather than in times of growth.

National-policy choices confronting an integration process are analysed in two steps. The first involves the definition of long-term policy goals of a country in a highly interdependent environment in order to improve international competitiveness. The second analyses the motivations for the strategies of policy authorities, linked to the socio-economic structure and to the interaction between government and leading interest groups with the objective of identifying the motivation of adjustment policies. Guerrieri and Padoan suggest that the political process is the outcome of the demand and supply of policies: governments supply policies in exchange for political consensus, power or 'popularity', while the number, kind and cohesion of interest groups determine the demand.

A third attempt to link the national and subnational levels in international policy-making is found in the work of Susan Strange (1988), who proposed another approach, although not explicitly for regionalism. In her words,

> The definition, therefore, that I would give to the study of international political economy is that it concerns the social, political and economic arrangements affecting the global systems of production, exchange and distribution, and the mix of values reflected therein. (Strange, 1988:18)

How those arrangements were established, 'how they got to be managed in that particular way, and what choices this leaves realistically open for the future, are the three aspects or problematiques of political economy' (ibid., 1988:19).

Methodologically, therefore, yesterday's causes should be reviewed in order to realise the historical dimension of the phenomenon under study. Hence, the role of power is fundamental. Different priorities given to wealth, order, justice and freedom will result in different systems of political economy. Priorities are mainly decided on the basis of power and its distribution, and it is crucial to know what are its sources. Strange conceives two kinds of power: structural and relational; the former is more important and can be found in four distinguishable but related structures: control over security, over production, over finance and over knowledge, beliefs and ideas. Analysing these structures, however, is only half the way.

The next step is to analyse the range of available choices and possible scenarios that might unfold, depending on which choices are made. Strange suggests that there should be a search for key bargains in order to see what might be liable to change. A first bargain might be that between authority and market. Another might be between state governments, in turn depending heavily on the durability of internal domestic bargains. To identify which kind of support (e.g. political, financial, or moral), and whose support is indispensable to the partners in the key bargains (e.g. particular actors, social groups), is an essential stage in the attempt to analyse a dynamic situation. In real life, the interlocking interests of powerful people who create durable conditions in political economy cannot be ignored. The problem is to discover which balance between interest and power allows a 'set of bargains' to be worked out and observed. Two fundamental questions remain: whether there is a dominance of any one structural factor, and what is the nature of the state (i.e. its definition and authority and who is under that authority). There has been no further analysis of institutionalisation of a 'set of bargains', however, nor any imagining of possible 'set of bargains' among non-state actors.

Finally, Hettne and Mittelman's 'New Regionalism' explores contemporary forms of transnational co-operation and cross-border flows through comparative, historical and multilevel perspectives (Mittelman, 1996:189). However, the approach does not enquire whether and how institutionalisation must take place in order to create a specific market or economy.

These theoretical initiatives in IPE relating to the subnational level are important, but arc either partial, value-based, or restricted to inter-state negotiations within regionalism. The authors have not had the advantage of substantial numbers of case studies at the meso-level across states within regionalism. To further this aspect, the state itself needs to be re-conceptualised.

2.3.2.2.2 The state and its role

IPE analysis of the role of the state in regionalism has been limited in several ways. In international economic theory, the traditional liberal view has given the state a minimalist role in regionalism, except for reducing barriers to multilateralism and the integration of markets. In international relations, realists have paid little attention to the existence of other levels of analysis and of actors other than the state. Moreover, Marxist interest in the state has not led to explanations of the differences in types of state and their diverse international behaviour (Cox, 1986). Indeed, there is nothing more central to political theory, and nothing more contested, than the nature of the state. The concept of state has been disputed in multiple ways without any consensus being reached.*[1] Having disappeared from academic analysis, it made a 'comeback' in the 1980s, as seen above.

The view of the state as a 'set of administrative, policing, and military organisations headed, and more or less well co-ordinated by, an executive authority' (Skocpol, 1979:29) and, furthermore, the idea of the state as only one of several power networks (Mann, 1986; Brown 1992), may illuminate this research. It is also important to recognise the distinctiveness and history of particular state agencies and of policy styles, as well as of the fact that 'autonomous state activity...can never really be disinterested in any meaningful sense' (Evans *et al.*, 1985).

There are some important elements to stress. On the one hand, the internal/ external or domestic/international gap seems to be artificial, even misleading. Based on the principle of state sovereignty and the resulting classic patterns of inclusion and exclusion, that gap does not take into account other claims to political identity or other activities and practices that take place across different states beyond national jurisdictions (Walker, 1993). Moreover, contemporary pressure on the state has led it being seen as an interdependent/dependent subsystem within the world.

On the other hand, the concept of state becomes relevant when it concerns actors' strategies and policy-making, if both the subnational level and its relation with regionalism are to be analysed. Conceptual issues aside, the state is still an important reality that cannot easily be dismissed. Claims on territory, coupled with those on the political legitimacy of such 'sets of organisations' and 'power networks' that make up states, should not be forgotten, even when normative/legal boundaries are not necessarily political boundaries, and when these boundaries change over time. In IPE approaches to regionalism, researchers have tried to link the political to economic aspects, though generally restricting civil society to a constraint upon the raison d'etat, in which the notions of sovereignty and internal autonomy have been maintained intact. Even Putnam's interesting conceptual framework adheres to the traditional definition of the state, which maximises 'its' interests in international negotiations, while dealing with 'distribution' issues within 'its own space' (Putnam, 1988).

Thus, studies should be historically grounded to overcome the temptations either of taking the concept of the 'nation-state' for granted or of discarding it altogether.

> Analyses must also take account of the multiple complex linkages of 'nations in changing transnational relations ... market flows and the international division of labour ... (State's) structures, capacities, and policies are always influenced by identifiable aspects of the particular world historical circumstances in which they exist. (Evans *et al.*, 1985:350)

> In the comparative institutional approach, the state is seen as a historically rooted institution, not simply a collection of strategic individuals. The interaction of state and society is constrained by institutionalised sets of relations. Economic outcomes are the products of social and political institutions, not just responses to prevailing market conditions. Understanding diverse outcomes is the aim, not forcing cases into a generic mould or onto a one-dimensional scale. (Evans, 1995:18)

Since the 1980s, the role of the State in the world economy has been ambivalent. The collapse of State-planned economies in the Soviet bloc has reduced the consideration of any alternative to an open-market economy (Keohane and Milner, 1996:257). In addition, the debt shock of the 1980s in less-developed countries, and later subsequent financial crises, brought implementation of the so-called Washington consensus and IMFAVorld Bank structural adjustment policies, in which the State is required to implement the policies prescribed. Meanwhile, in 1986, a new GATT round started in Uruguay to further multilateralism. For LDC states, unilateral liberalisation and multilateralism have emerged as likely parallel paths.

There has been a growing perception that the State's task is to improve firms' access to larger 'regions and markets to create the critical mass of production and sales in order to be competitive' (Schott, 1991:2). As doubts were continuously raised about the success of the GATT Uruguay round, the regional option was also considered. As a proactive response, the role of nation-states has been to promote harmonisation and standardisation at the regional level. It appears that developed countries (DCs) tried to modify the basic GATT system towards 'a deep integration of policies' (harmonisation of national policies such as intellectual property and direct investment) and considered eventual negotiations of a 'GATT-Plus' among 'like-minded' countries (Schott, 1991:16). In 1994, with the successful completion of the round, the World Trade Organisation was established, including among its tasks the evaluation of RIA compliance with its own norms. At the same time, harmonisation and standardisation within and among RIAs allow for economies of scale and intra-industry trade, and the emergence of financial and productive networks. Firms can insert themselves into the emerging networks e.g. playing the role of contractors or suppliers. In the competition for regional market shares, institutionalised norms play an important role, fostered by firms not only within each region but also between different regions, with an impact on States' regulatory capacity (e.g. on industrial and technological policies).

This proactive response of the State has been constructed at two levels, at the world level and in regionalism, particularly in Europe, by concentrating on non-tariff barriers. At the world level, harmonisation of norms among regions may enhance trade and investment, while decreasing or preventing future non-tariff barriers (e.g. technical, quality, environmental ones). In Europe, the 1988 Cecchini Report on the 'Costs of non-Europe' (a project that surveyed 20,000 enterprises) showed the main barriers to creating a single economy, according to industrialists' perceptions, i.e. technical standards and regulations, administrative and customs barriers (Commission of the European Communities, 1988:44). The report was one of the key elements that supported the business agenda as well as the design and implementation of the Single Act. In turn, the Act furthered proactive responses not only in Europe, but also in the rest of the world (talk with manager ofDNV, 1998).

2.3.3 Incorporating the meso-level in regionalism

2.3.3.1 Institutionalisation

This subsection was written during the qualitative analysis of field work, in order to define the emerging core theoretical concepts properly. It seemed necessary to consider the notion of regionalism as policy-making because it centrally involves the meso-level. Regionalism implies a policy-making process that covers a regional space with the purpose of creating sustainable regional patterned relations (socio-political as well as economic). It is therefore a politico-economic process, entailing power relations which should not be prejudged as ‘policy-led’ by the State. This is where research on the meso-level might lead to headway on the theoretical front.

Studies on regionalism have shown that there is at least a minimal process of institutionalisation through which patterns of relations can be co-ordinated in a regular fashion, embodying particular values and nonnative rules that become approved, regularised and possibly formalised into new structures. As regionalism becomes institutionalised, perceptions tend to shift and it is seen as a long-term policy in the countries concerned. Thus, one purpose of the current research is to analyse the institutionalisation process of regionalism.

Pari passu, institutionalisation cannot be discussed without considering the concept of political leadership. Indeed, actors’ strategies are not exercised in a vacuum, but are embedded in historical socio-political orders. Actors’ interactions give rise to policy agendas that highlight their priorities and interests which later will lead to institutionalisation. Both political orders and policy agendas require co-ordination stemming from political leadership of some kind, defining the authoritative path of co-ordination and control. Through the analysis, political leadership emerges as a socially constructed process, It is not an attribute but a phenomenon, on whose existence institutionalisation depends in order to be carried out as a process of differentiation.

Institutions are ‘regularised patterns of interaction that are known, practised and regularly accepted (if not necessarily normatively approved) by social agents’ who expect to continue interacting under the ‘rules and norms formally or informally embodied in those patterns’. Sometimes, institutions become ‘formal organisations: they materialise in buildings, seals, rituals and persons in roles that authorise them to "speak for" the organisation' (O'Donnell, 1994). Based on O'Donnell's definition, institutionalisation has the following dimensions:

1. Regularisation of patterns of interaction within particular boundaries;
2. Embodiment of common rules and norms, based on particular ethical values;
3. Formalisation of roles;
4. Lengthening of horizon.

In turn, through these dimensions, institutionalisation reflects the following functional properties:

1. Delimitation of scope. Institutions may incorporate and exclude (agents, issues, etc.), giving rise to a certain range and probability of outcomes. This is because institutions process certain actors and resources under certain rules.
2. Aggregation. Institutions and persons have limited capabilities to process and give attention to information. Thus, interaction is limited to a few people and issues at a time. This is another reason for the exclusionary side of institutions,
3. Representation. As seen above, institutions favour the transformation of many potential voices of constituencies into a few. Representation involves the right to speak and the ability to achieve the compliance of others.
4. Stability. Institutions stabilise both agents/representatives and their expectations. By lengthening the horizon of representation and expectation, bargaining and trade-offs become possible, overcoming the situation of the 'prisoners' dilemma'. Moreover, sequential attention makes an otherwise unmanageable agenda workable.

The analysis of institutionalisation is more critical than that of institutions. Beyond the question of what an institution becomes and the role it plays, further questions about how, by whom, and according to which normative rules and which bargains institutionalisation takes place, deserve consideration. This may seem close to neo-functionalism, as institutionalisation would tend towards a process of denser (in terms of occupation of the social space, in the political economy of a region in this case) and more sustainable patterns of relations. Concerning Europe, the Single Act and the renewed regionalism that has resulted from it have been interpreted through neo-functionalism as an 'elite alliance' between the Commission, European business and national governments (Sandholtz and Zysman, 1989:95-128).

However, institutionalisation can never be final, and the formation, aggregation and representation of collective identities and interests can only be partial, except in the case of an ideologically monolithic regime. Neither need be exclusively formal and public. Two authors, O'Donnell (1994) and Ruggie (1972) are particularly helpful in arriving at a concept of institutionalisation. Both authors call attention to the process of institutionalisation, not only to institutions as entities or organisations, and both try to broaden the analysis of institutionalisation by considering other variables (economy and values respectively).

O'Donnell and Ruggie relate institutionalisation to regime, by which 'generalised' principles become embedded into a consolidated system. In an article on political regimes in Latin America in the 1990s, O'Donnell (1994:55-69) relates institutionalisation to regime. In his view, the transition of Latin American countries towards democracy should end with a final stage of consolidation. This 'second transition' should take place when a first democratically elected government gives way to an institutionalised, consolidated democratic regime. O'Donnell affirms that 'the crucial element determining the success of the second transition is the building of a set of institutions that become important decisional points in the flow of political power' (ibid.:56). This final transition needs a coalition of supported political leaders who take great care in creating and strengthening democratic political institutions.

In Ruggie's 1972 article, the important concept is not institution but institutionalisation (see Waever, 1997:176). International behaviour is socially constructed as it is institutionalised, i.e. co-ordinated and patterned. By concentrating on institutions, the study of collective action not performed by State (public) institutions is excluded, blocking relations to and with the social milieu.

Neither article, however, seems to go far enough along the proposed path. Ruggie's axiomatic idea of nation-states as building blocs precludes a better analytical path, while O'Donnell limits the analysis to the concept of political institutions as 'formal organisations belonging to the constitutional network of a polyarchy'. The analysis of institutionalisation should go beyond those political institutions that are constitutional and public, in order not to overlook alternative policy-making paths. Structural factors in institutionalisation are also not considered in depth.

Constructivists who focus on shared regional identities, interests and norms, have worked out how these are created by turning to the actors' perceptions, interpretations and discourses that are contingent on the contextual cultures in which actors interact (Wendt, 1994). Their approach is systemic and oriented to post-modern discourse analyses; unfortunately, they tend to ignore the question of how identities and interests relate to economic structures.

Within the 'comparative historical approach', Evans and others working on issues of economic development adopt a historically grounded research strategy:

> institutional because it looks for explanations that go beyond the utilitarian calculations of individuals to the enduring pattern of relationships within which such calculations are immersed; comparative because it focuses on concrete variations across historical cases rather on generic explanations. (Evans, 1995:18)

Regionalism is better analysed as a regional politico-economic regime that includes but can also surpass nation-states, rather than merely as an international regime, while variations within institutionalisation may provide a source of explanation. In this sense, a possibility of spillover (as a historical trajectory) after some degree of institutionalisation is a possible outcome. In fact, the institutionalisation of enduring patterns of relationships provides stability and visions of 'horizons*.

Materials on Mercosur from the region have identified a ‘parallel process* taking place within business (Hirst M., 1992; Chudnovsky and Porta support Hirst’s view, 1995:298, fn. 1; as does Motta Veiga from Brazil, 1995:117-18). However, the writers have never made a full explicit assessment of that process and its interaction with the ‘official* process.

Before advancing further, the concepts of leadership and political leadership must be clarified. First, we must discern between the concepts of leadership in general and political leadership in particular. Most of the literature appears to take these concepts for granted, using them with imprecision. In political studies (see Apfelbaum and Hadley 1986:203), many authors refer to Max Weber’s concept of charismatic leadership, while others make use of managerial leadership.

Leadership pertains to the person or institution that is able to take an active role in structuring the priorities (issues and means) of a hegemonic agenda within which normative rules are embodied. The leader is able to take such an active role thanks to the possession of important information, based on a privileged situational point in the flow of data and communication. In addition, leadership carries a double element of consensus, since it must be able to ensure compliance by others, and force, reflecting a corresponding degree of control. The first function of leadership is co-ordination, achieved through decision-making and conflict-resolution instances.

Within a rational individualist stand, leadership is seen as the attribute of one person, generally with male characteristics (forceful, effective, providing security, etc.). In a sense, the leader embodies a ‘hegemonic* view within a community/social group. Otherwise, she/he would not be accepted as leading certain people/situations. Because of this, a leader is part of the group. A leader is someone who embodies hegemonic values, but may be above them to be able to effect changes if deemed necessary; thus, someone with influence and power. In presidentiahst political systems, the latter aspect is most visibly expected from the president and the executive branch. In addition, the leader may be stylised into a particular stereotype representing those values. Sometimes, leadership may even be ascribed a 'heroic' dimension.

Political leadership, however, is a phenomenon and not an attribute. Political leadership is based on social power, and is a relational quality within a political field in which power may be potentially exerted. It is constructed socially by a conjunction of sources with convergent values, and thus stems from sources that may be personal or institutional, individual or collective.

Inasmuch as the process of institutionalisation of values, norms, practices and roles create a new special and increasingly autonomous field of power, the political dynamics of regionalism is a process of differentiation from previous political frameworks and institutions. Institutionalisation as differentiation among fields of power acknowledges a continuous social re-construction based on existing power relations. Throughout the process of institutionalisation, the leadership carries a significant role in determining how far differentiation and autonomy may consolidate into a new power field.

The notion of 'field of power', though, should not be mistaken for a definition of regionalism, but should rather be regarded as a methodology or meta-theory which can allow the building of an analytical framework. A 'field of power' enables the conceptualisation of power and leadership in a relational way which overcomes individualistic assumptions. It also allows the use of topology, in the sense of covering political spaces as spheres (i.e. a region) that can overlap with other fields (e.g. nation-state, industrial sectors, etc.).

Susan Strange, for example, has advocated a redefinition of the study of politics in IPE. She resorted to Bertrand de Jouvenel, who placed politics as a relational practice ('whenever one individual or group needs the support or assistance of others to achieve their ends'). In her definition, power appears as A's capacity to mobilise and influence B to achieve A's ends (Strange, 1995:169). However, her definition is limited to a dyad and is close to a mechanical as well as unidirectional conception. Instead, political leadership should be seen as relative social power.

Nevertheless, power is a relationship that does not necessarily entail leadership. Power is a potentiality for inducing forces (e.g. driving or resisting forces, which may be one's own, induced or impersonal) in other regions of a field: 'power of B over A is power of one region over another, whether this region be a subregion of the person or of the environment, an individual, a group, or an impersonal (e.g. normative) aspect of the situation' (Graumann, 1986:86-7).*"

2.3.3.2 Political leadership

The notion of political leadership as a phenomenon changes the emphasis of research. It shifts the orientation of the analysis from the issue of effectiveness to the problem of sources of power. Political leadership should be differentiated from managerial leadership (whether at the State, presidential, business or firm level), even though the latter is increasingly portrayed as the former by media and opinion polls (see Kennan and Hadley, 1986). Managerial leadership is linked to effectiveness, while the political sort is further linked to representation. The weighty issue of representation (e.g. a president representing a nation-state and the idea of a hegemonic state) gives way to the concrete actions and environment through which institutionalisation takes place,

At present, political leadership appears to be loaded with negative connotations (e.g. the concepts of governance and networks may imply there is no need for leadership), except when radical decisions are expected, e.g. structural adjustment policies (SAP) or a war threat. Moreover, research on political leadership has been historically associated with the phenomena of mass manipulation and irrationality.

The essential function of political leadership, however, is co-ordination in the face of constantly changing circumstances: it is an indispensable function of a group, and human groups cannot do without it unless living in completely individual worlds. Research, then, has the answers to some fundamental questions. What kind of leadership takes place and how? What type of distribution of power and autonomy exists or may exist? What kind of control, if any, checks on that leadership?

Gramsci's work on leadership or *'dirigetiza'* can offer a good starting point. For Gramsci, political leadership is a relational quality built on the consent of the led, and that quality must be exercised before achieving governmental power. This is necessary because the leadership's base is ethical, namely, the values embodied by the leadership have been accepted as 'universal' and necessary.

This ensures the

> intellectual and moral leadership of ... a social group [that] can and indeed must already exercise 'leadership' before winning governmental power ... It subsequently becomes dominant when it exercises power, but even if it holds it firmly in its grasp it must continue to 'lead[1] as well (Gramsci SPN:57-8, in Ransome, 1992:135)

Political leadership is the exercise of a socially constructed quality by which hegemony™[1] may actively be created. Hegemony is 'ethical-political, [but] it must also be economic, must necessarily be based on the decisive function exercised by the leading group in the decisive nucleus of economic activity' (ibid.:172).

Gramsci was also aware of active group leadership in crucial nuclei of economic activity. A qualitative change occurs when such a leading group in the economy exercises a conscious decisive function in the construction of a new field of power. This could happen when such leadership is capable of changing both the economic base and also its patterns of production relations.

2.3.*3.3* *Concluding remarks*

The above discussion suggests that political leadership may be constructed not only by political sources of power (e.g. political parties, politicians and State officials), but also by all sources of power that construct 'common' values and institutionalise as 'legitimate* values, norms, practices and roles in a particular region. Therefore, regionalism can be analysed as an institutionalisation process that may potentially constitute a new 'field of power', different from the framework of existing political institutions.

2.4 Conclusion

Since the 1980s, the study of regionalism has encountered new challenges stemming from the world economic restructuring, as well as from the multiple re-articulation of identities, interests and alliances that has taken place and the immaterial flows that provide the means for re-articulation.

Networks tend to be built within the same economic sector or along vertically linked sectors. Sometimes called 'commodity chains' (Gereffi, 1997), networks change competition patterns and escape the bounds of state policies (Held, 1997). Taking into account financial globalisation, intra-firm and intra-industry trade, FDI and co-operation among firms in the changing system of production, it appears that a great part of world value and wealth is being produced and distributed within a global system of interconnected networks.

The assumption is that 'the territorial boundaries of states no longer coincide with the extent or limits of political authority over economy and society' (Strange, 1996:ix). Since normative/legal boundaries no longer match political ones, the source/s of co-ordination become essential. Neo-realism can be criticised for blindly sustaining the primacy of an international system and the unreal image of states, while neglecting domestic factors. Neo-liberal institutionalism plays down both domestic and geopolitical factors. It needs to come to terms with the possibility that other actors than states might have sufficient power to determine (i) political outcomes, (ii) the emergence of transnational forms of identity, and (iii) the long-term co-ordination of their interests across states' borders.

In such a context, this study of regionalism is undertaken with a political economy approach without being restricted to previous assumptions of state-centred approaches. In this sense, radical political economy provides a starting point, given its critique of the state and its research on domestic political coalitions, although further research into transnational coalitions as sources of co-ordination and institutionalisation is necessary.

An analysis of the institutionalisation process of regional norms, practices and roles must acknowledge the possibility of institutionalisation that can be parallel, alternative, complementary or conflictive with the public and governmental system. Neo-functionalism has given considerable attention to the evolving role of inter-governmental or regional institutions, i.e. formal, public or state. This limited focus needs to be overcome.

Actors' perceptions, interests and discourses must be taken into account, within their historical context. Constructivism has indeed followed this path, but its research has remained at the general level of region-building and regional identities. Critical research that includes economic interests and transnational networks should be given more attention.

When bringing in firms and states, a perhaps limited but possibly richer undertaking would be to take a sectoral approach. As Sally stated in 'Future directions for research':

> Sectoral variables do matter … and [transnationals] should be studied as specifically political actors in the sense that there should be extensive analysis of their relationships with external actors in policy networks/coinmunities, addressing issues which have some relation to public policy. (Sally, 1994:210)

Moreover, a meso-level perspective implies the acknowledgement of a 'grey area' between the macro and micro-economic levels of research, focusing on co-ordinating sources, networks, communities and transmission belts that may cut across different spaces (national, regional and global) and may imply the 'continuity in policy and institutional terms across the levels of analysis' (Coleman and Underhill, 1998:3-4).

Instead of defending the primacy of any level of analysis (a more traditional strategy in international relations) or analysing the interaction between particular levels, it may be more appropriate to research across the strategic meso-level by focusing on particular sectors.

NOTES

' APEC's thrust is about trade liberalisation, state deregulation and standardisation across the Pacific (Wilson, 1995).

[2] Tlie five analytical categories are regionalisation, regional awareness and identity, regional inter-state co-operation (linked to the concept of international regime), State-promoted regional economic integration (also called RI and KIA), and regional cohesion (in terms of emergence of a consolidated regional unit) (Hurrell, 1995:333-8).

[3] Tiese concepts are important in the Argentine-Brazilian case because both have a significant manufacturing sector and want to modify the existing trade pattern to make their economies more competitive (Chudnovsky and Porta, 1989:119).

[4] Srinivasan, Whalley and Wooton (1993:62-75) provide a description of the most representative studies on the economic effects of RIAs.

[5] Drucker mentions three trade stages: complementary trade, as in the 18th century, which seeks to establish a partnership; competitive trade, as in the 19th century, with the aim of creating a customer; and adversarial trade with the objective of dominating an industry and driving competitors out of the market. Fie describes this process in military terms and in zero-sum gains. His argument is that adversarial trade changes the rules and that competition is no longer assumed to be beneficial. If the 'attacking country[1] is still closed to imports, the competitor cannot 'counter-attack'. If neither protectionism nor free trade is the answer, it may lie in regional units that are capable of reciprocity. On this basis reciprocity becomes the new integrating principle of the world economy, not only in trade in goods, but in services, investment, intellectual property, and professional services, until transnational law develops (Drucker, 1990:122-6).

[b] Proximity is related to the synergy created with *flexible* suppliers with whom to develop long-term relations (as in the keiretsu or vertically affiliated Japanese groups) which foster trust and reciprocity on the one hand, and the closeness to customers that pennits quick adaptation to demand and local tastes on the other. This meets the requirements of just-in-time and zero-stocks, and increases the importance of linkages (Ozawa, 1993; Oman, 1994; Krugman, 1994). Proximity is also important because the *flexible* system is vulnerable to bottlenecks in infrastructure and human resources.

[7] The conditions were die following (Fuentes, 1994):

- An extensive liberalisation of goods, without excluding different transition periods to allow gradual adjustment.
- An extension of 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.

[8] 'The search for safe-haven agreements for smaller countries ... to secure access to the markets ... because of their fears of (DCs') higher trade barriers in the future ... frustration ... with progress toward new multilateral liberalization ... RIAs are now viewed positively in some circles as facilitating growth in world trade. A fourth is the desire ... to lock in domestic policy reforms by signing international agreements; and regional arrangements, if easier to negotiate than multilateral arrangements, have been seen as attractive for such purposes' (Srinivasan *et al.*, 1993:73)

[9] According to a study by the Institute of International Economy in Kiel (Villanueva, 1992:38) the most important factors in attracting investment are:

(a) macroeconomic policies (low inflation, low budget deficit, tax system, balance of payments, exchange rates),
(b) the existence of market distortions,
(c) the existence of efficient capital markets, and
(d) local existence of inputs (natural resources), skilled labour, and infrastructure.

[10] See Fontagne *et aL*, (1996) 'Analyse statistique des echanges ce de produits intermediaires, 6D', Document Statistique, Eurostat: Luxembourg.

[11] The most prominent conceptions have been society-centered, state-centered (the debate on strong and weak states, their autonomy and capabilities), and that of the state as only one major "power network" among many. Within these three categories, the state has been conceptualised in different ways: as a normative order, as identified with the nation and thus as an ethno-cultural unit, as a functional unit, as a monopoly of legitimate violence within society, as a ruling class, as a pluralist state, as neo-corporatist, in terms of elites' analysis, as governmental (bureaucratic) politics and as the executive power (Ferguson *et aL* 1989).

[12] These conceptualisations are based on Kurt Lewin's field theory. This theory was influential but constrained to social psychology, since Lewin was interested in small groups, the training of democratic leaders, and the group's dynamics in developing autocratic or democratic leadership. His research on power and power field represented the leader-led relationship, and argued that political leadership is not an attribute of a

person in a position, nor a quality of an individual. It is a quality of a dynamic whole in a social group/society. In this sense, Lewin's theory was closer to systemic theories such as that of Parsons. This digression into social psychology was appealing for two reasons. First, because it is a remainder that, since die 1970s, social sciences have followed a similar path towards rational individualism, leaving behind the conceptualisation of die social field as a whole. Secondly, because leadership is an English word used as such (without translation) by a number of odier languages. Lewin conducted his research in English and was most concerned with political leadership as a social process.

[13] According to Gramsci, hegemony is the intermediate force that welds togedier the base and die ruling group.

3 Methodology

3.1 Introduction

This thesis is focused on economic sectors, in this case two industrial sectors with large economies of scale.[1] There are several reasons for this methodological choice:

- It offers the advantage of being historically grounded in the development and regulation of the sectors;
- It gives a voice to the main actors, and thus emphasises responsible politics and accountability to the process;
- It follows the dynamics of industrial capitalism in the twentieth century;
- It may resolve contrasting standpoints regarding business actors in Mercosur. On the one side, sectors with increasing returns to scale of production should pursue regionalism: On the other hand, having evolved under ISI, business actors in the same sectors in 1995 were still accused of rent-seeking and protectionist stands;
- It focuses on interviews conducted in the key countries that account for Mercosur's most dynamic trade (3/4), and constitute Mercosur's axis in political and economic terms;
- It covers the 'power map' of regional policy-making.

The following two sections discuss the sectoral focus and the research strategy, including its ontological background. First, the sectoral focus and the selection of industrial sectors for the present study are justified on general theoretical ground as well as on more specific Mercosur characteristics. Secondly, the evolution of the methodology is spelled out. The ontology that supports the endeavour is debated, and the analytical frames subsequently built before field-work are discussed. Then, the evidence collected and analysed enables the research to focus on certain core categories, allowing for integration of the theoretical explanation and accounting for the revealed patterns of actors' behaviour.

3.2 Mercosur and a sectoral focus

3.2.1 General theoretical grounds

With regard to the sectoral focus of this research, there were many reasons why Mercosur could be considered a suitable case for study. The basis for the approach can be divided into four general and several specific reasons.

The first of the general reasons, the study of regionalism within critical IPE, may best be achieved in specific sectors. In the 1980s, Strange and Tooze 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).

Second, many economic strategies and indicators of competitiveness are sector-bound. Only within a specific sector can such indicators be comprehended (Chudnovsky, 1993:4). These include, for example, 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 main actors. In addition, the sectoral focus reduces the level of generalisation, which, for the study of regionalism, provides a different perspective to that of macro-level studies.

Thirdly, a study of actors’ political strategies in regionalism through sectors follows the shift in research from macro-diversity at the national level to responsible politics where actors become more clearly accountable. The latter takes account of specific interests common to certain groups and sectors (Booth, 1993:49-53).

Finally, actors logically increase in volume and diversity in any regionalisation process, thus stressing the significance of desegregating into sectors to improve analyses of the intermediation of actors’ interests at the transnational level (McAleavey, 1994). The logic of policy could be more clearly and historically grounded in the origins and development of specific sectors.

In addition to general theoretical justifications for an approach through particular economic sectors, specific Mercosur factors encourage such a sectoral focus.

First of all, Mercosur includes a general approach to trade liberalisation and an option for economic sector accords. It also incorporates some sectoral policy initiatives from the immediately preceding period of Argentinian-Brazilian regional integration (the Argentinian-Brazilian Economic Integration and Co-operation Programme - ABEIP) from 1986 and 1990. In the 1980s, sectoral agreements were seen as building blocs to multilateral accords for which, to comply with GAIT, a waiver was needed under Article XXV.[2] 'Limited coverage of a particular sector means that trade-offs have to be made within a sector instead of between sectors of an economy... Such pacts highlight both the trade gains and adjustment pressures in each country' (Schott, 1989:14-15).[3]

In this earlier period, trade liberalisation was pursued in discrete segments of the economy without committing the whole economy to a more comprehensive agenda of reform. In the late 1980s, general reductions to trade barriers started between the two countries: clear signs of commitment were shown to general and rapid liberalisation with the objective of avoiding sector pressures (FIEL, 1993:54). Analysts agreed that ABEIP's approach, in spite of positive results, had reached its own limitations (Manzetti, 1990; Chudnovsky and Porta, 1989). However, the changes in the approach to regionalism taken by Mercosur did not seem to be due to a learning process in integration policies. Rather, it appeared to be a completely new set of values as regards regionalism.

Nevertheless, a sector-based option was kept open within Mercosur through the so-called 'sectoral accords'. The policy stated the aim to restructure a sector across different states by pooling them together on the regional market. Sectoral accords 'involve "sensitive" sectors and capital-intensive ones, to facilitate optimisation of factors of production and a greater efficiency and competitiveness of industries in both countries, including not only trade, but investment and technology',[4]

According to the then Argentinian Secretary for International Economic Relations Alieto Guadagni, the 'economic rationality of the Mercosur' of the sectoral accords is to act as 'buffers' in their restructuring. At the same time, accords were supposed to increase m/ra-sector-based trade, counteracting the m/er-sector-based emphasis of the general approach (Guadagni, 1993). These accords were to be negotiated by the sector actors themselves. They depended on voluntary action and did not need to include all Mercosur countries. Ratification of the accords, however, depended on both national and international consensus among the countries involved.

Mercosur was introduced 'particularly when there is a degree of national economic dis-articulation in Argentina and Brazil that, at any rate, makes it difficult to generalise any conclusions' (Hirst, 1988). Becker has also supported this idea using Anibal Pinto's concept of 'structural heterogeneity' which, surpassing the notion of dualism, allows 'us to understand Latin American societies not as imperfect or deformed structures, but on the contrary as societies with heterogeneity as their fundamental defining characteristic' (Becker and Egler, 1992:140). A study of Mercosur's regionalism that goes beyond the macro level could suggest nuances in interpretation, which may nevertheless be important due to the region's structural heterogeneity.

Given that heterogeneity, analysis of the political behaviour of business people is a complex matter. In general, the issue has been debated in terms of 'weak versus strong' actors or coalitions. Pastor and Wise (1995) have described this RIA as having weak business-State coalitions and protectionist business strategies, remnants from the ISI era. Instead, Payne and Bartell, writing in the same period, consider that 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 and Bartell, 1995:257).

The main issue that remains to be considered is whether business leaders' involvement continues with their traditional particularist behaviour, or whether they are able to accept general rules of the game (Viguera, 1995). By acknowledging traditional business behaviour, biased towards fragmentation, a sectoral focus may shed light on both business strategies and the fragmented versus general articulation of the policy-making process within regionalism.

The standard discussion on regulation and competition within a regional sector-based approach carries with it the issue of industrial policy. First of all, a distinction must be made between a sector-based approach in regionalism and sector-based industrial policy at the national or international level. A sector-based industrial policy involves the following five points:

1. If the market is considered to work relatively efficiently, there should be no need for a policy on sectors. If it needs corrective action, then a more active State policy may be considered (as in the OECD approach). Normally, such a policy will reflect the dominant values and ideology of the government negotiators.
2. A division is often made between sunrise and sunset (future and declining) industries, which entails economic-political choices and priorities.
3. Two types of sectors seem to have been targeted in other regional attempts. Those that are powerful, with a high degree of concentration and direct access to government, and those that, being atomistic, are still considered economically and politically important for governments to attempt co-ordination.
4. Sectors may be chosen for international political reasons to prevent conflict or war, as, for example, the Steel Community in Europe (Schuman, 1950; Monnet, 1962).
5. Domestic political consideration on the impact on the labour market and unemployment (and its possible consequences for national governments in

terms of political support and consensus) may also motivate the choice of a certain sector (e.g. agriculture in the EU).

The research in this work is a sector-based approach centred on the sectoral business strategies in relation to regionalism beginning at the sub-national level. This includes the interests and strategies of the firms and organisations within the economic sectors and their reaction to the national government's priorities and agenda, the agreements bargained within the sectors within the regional process, and the sectors' and their firms' strategies in relation with third parties.

3.2.2 The choice of petrochemicals and steel

The research focuses on two intermediate industrial sectors in the Mercosur region - petrochemicals and steel. Since the two sectors are almost non-existent in Paraguay and Uruguay, the research almost exclusively focuses on the two largest countries, Argentina and Brazil. Moreover, these two countries (together with Venezuela and Mexico) are home to the bulk of these particular industries in Latin America as a whole. As one manager of a petrochemical firm explained, the Mercosur 'game rules' are important to the petrochemical industry since it accounts for 80% of total Latin American chemical consumption (interview at a petrochemical corporation in Brazil).

The choice of petrochemicals and steel may be justified on two grounds: first, it is derived from the context of the case study, and second, on more general theoretical grounds that may be applicable to other cases of regionalism.

3.2.2.1 Within Mercosur

Economists have studied how these sectors reacted to their changing national economic contexts (Ramal, 1992; Schvarzer, 1993; Petroconsult, 1993; Chudnovsky *et al.*, 1994; Lopez and Porta, 1994; Azpiazu and Nochteff, 1994; Erber, 1995; Azpiazu and Basualdo, 1995; Pessoa de Andrade *et al.*, 1995; Oliveira, 1994). However, the sectors' political and social role in policy-making has yet to receive the attention it deserves (Schvarzer, 1993:380,386).

Other economists have studied various actors' reactions to regionalism on the level of politics and economics, including business. Monica Hirst's work has been the most representative of this type of research (Hirst, 1991;

Hirst *et al.*, 1993; Alvarez, 1995). However, these studies were of individual countries and political systems, and did not cover cross-national actions and strategies as attempted here. The choice of the specific sectors is based on the following characteristics:

- The intraregional trade of the sectors shows a high degree of intra-industry trade, as will be seen in Chapter 5.
- The sectors belong to the most important so-called national sector-based blocs (chemicals, and metallurgic-construction). Thus, they are important in terms of backward and forward linkages within the economy.
- The firms in these sectors belong to the main economic groups in both Argentina and Brazil.[5] Especially since the 1990s privatisation, these economic groups have acquired a high stake in their respective countries.
- Most of these groups entered each other's markets during the 1990s while some have been present in the neighbouring country for a considerable time.
- Most of the firms are oligopolies and on their way to internationalisation (see Perez Nunez, 1993; Kosacoff, 1993; Vinagre Brasil *et al.*, 1994).[6] They are important in terms of capital investment and modern plants, as well as in terms of their active role within the industrial network and of their influence on the present trajectory of the industrial model of each country as a whole.

The above five points indicate the potential strength of the two sectors to influence the regional policy agendas within Mercosur.

3.2.2.2 Sector characteristics and regionalism

These sectors also deserve special attention within the framework of the study of regionalism. Together with oil, chemicals and petrochemicals were the first highly internationalised industrial sectors. Grant and Paterson, focusing on the ISIC 351 for basic industrial chemicals, argue that the chemical industry is the most internationalised in terms of production, trade, cartelisation and control, and that the sector has attempted to build an international governance system on its own (Grant and Paterson, 1994:Chapter 6). This might be one of the earliest models for recent 'global industries'. In steel, global firms have also slowly appeared since the mid-1980s (Beddows, 1990).

Intermediate sectors such as petrochemicals and steel possess specific characteristics that influence their strategies. The petrochemical and steel sectors produce intermediate goods. They affect the average costs in the economy as a whole and therefore tend lo shape prices and competitiveness. As a result, they also profoundly influence the rate of inflation. Therefore, they can be targeted with special measures by governments trying to maintain macro-economic and price stability.

The sectors are also targeted for special treatment by governments as a result of their special production cycles. Investment decisions in the sectors are taken only when demand becomes high enough to exceed the existing productive capacity. However, by the time the investment decisions mature and new units start to produce, the demand, which follows the expansion and contraction of the international economy, may be lower. Only when demand picks up again will the newly installed capacity be fully utilised, while prices and profits rise, leading to new investment plans. As a result, the demand and price cycles do not tend to coincide, and both sectors undergo crisis cycles every five years or so. The last low point in the international economy took place between 1990 and 1994, during Mercosur's first years.

Steel and petrochemicals, as intermediate sectors, are central because of their forward and backward linkages in the economy. Steel is the organiser of the metallurgical and construction sectors. This industry comprises integrated mills (the dominant form), mini-mills, specialty mills and service centres. Semi-finished products are obtained from iron ore, coal and scrap, and through casting: slabs, blooms and billets, which are further processed into flat rolled sheets, strips, plates, and welded pipes, among other products (OECD, 1996:298-9) Its many products generate a whole variety of interrelated markets and sub-markets. Thus, it is difficult to perfectly desegregate the activities when one tries to analyse the markets for different products. Long rolled products, especially common steel, are used in civil construction, the automotive industry, capital goods and agriculture. Flat products are used mainly in the automotive industry. Mini-mills make carbon steels, and specialty steel firms produce higher-value-added stainless and alloy steels.

Traditionally, steel was not an internationalised sector. Rather, it was a symbol of national defence and industrial capability, restricted to the national markets.[7] This has now changed; in the 1980s, Germany and Japan led the internationalisation of the sector via joint ventures, and mergers and acquisitions (Hudson, 1996:159). The internationalisation of the sector has also been achieved through standardisation of products and management connected to the automobile sector (Beddows, 1990). In the 1990s, steel firms that remained dependent on their home market and without successful alliances abroad were perceived as ill-competitive (Hudson, 1996:160).

Petrochemical raw materials are fossil fuels. The main primary products are olefins, aromatics and methanol. At this latter stage, products and processes are standardised, while R&D is limited to engineering and optimisation of processes, although standardised, green-field, operating costs and the scope of products differ according to the petrochemical process and starting material used.[8] With the use of oxygen, chlorine and hydrogen, other products are obtained, such as plastics, fibres, and intermediates used to manufacture many consumer and industrial products. Currently, the sector offers about 120,000 products for daily use. According to Pessoa, the petrochemical sector achieved USS 500 billion in sales worldwide in 1994, representing the most important segment of the chemical industry's global sales, which totalled USS 1.25 trillion (Pessoa de Andrade *et al.*, 1995:63).

In developing countries, TNCs in these two sectors have led technological developments in the industry through their high R&D expenditures.[9] LDCs usually obtain the technology through licences from these TNCs and engineering firms, and by purchasing plants on a turnkey basis. Plants are technically indivisible and, given the increasing dimensions necessary for large economies of scale[10] (except in the case of steel mini-mills), they require enormous capital investment.[11] Due to the high interdependence of production flows and technology, they are constituted into vertical 'industrial complexes'. The increasing economies of scale derive from the fact that most products are commodities, i.e. standardised products.

In both sectors, the high capital costs and high costs of halting plant operations make any alternative preferable to temporarily halting production or closing down. In addition, the commodity status of these products makes their markets, and hence also their production, vulnerable to changes in global and regional economic conditions. If the internal market cannot absorb production, then the only alternative is to export and/or sell at low prices that cover nothing more than marginal costs. These characteristics also pave the way for the creation of oligopolies and monopolies. Hence, the need for diversification of products and markets during cyclical overproduction crises, in order to reduce the risks and costs that stem from plants operating below capacity. Both the cost of capital and the certainty over the 'rules of the game' or policy regime have long-term importance. According to Milner, industries with increasing returns to scale of production 'should be the ones who pursue a regional strategy' (Milner, 1997:80). Industries that are not under perfect competitive conditions (owing to economies of scale) would prefer to export than to invest abroad.

Krugman has argued that such industries would claim protection in order to make full use of installed capacity while exporting (Krugman, 1984, in

Milner, 1997:81). Milner contends instead that, in imperfect markets, a customs union would correspond to the firms' profit-maximising interest, through trade suppression and cost reduction combined with product differentiation, particularly when the home market is too small to enable production at the most efficient scale.

Since the mid-1980s the two sectors, especially petrochemicals, have been at the forefront of a new process. The businesses in these sectors have focused on control over, and increase in, both 'business scales' (*'escalas empresariais'* in Portuguese, a concept that will be analysed in Chapter 7) and market shares, taking into account the world-industry cycles. Increasing the scale of production at the regional level lends support to regionalism, and may in no way be contradictory to claiming protection within the national market, especially during a downturn in the economic cycle. 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 profit maximisers, arm's-length traders, and exclusive competitors.

Industries such as petrochemicals and steel, with large economies of scale, would tend to favour liberalisation within regionalism. At the same time, although the firms' internationalisation strategies are indeed related to their trade policy preferences, it is important to understand that the two may not be determined only by profit maximisation or by a technocentric striving for productivity. Since these industrial sectors experience cyclical periods of oversupply and low prices, they may prefer a regional customs union during downturns. In these industries, strategic timely choices seem 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.

3.3 Building the research strategy

3.3.1 Ontology

Increasingly, ideas within social science based on a-historical rational individualism and neo-classical assumptions have been critically debated. Most of these ideas evolved from Aristotelian concepts of 'things' in themselves, where the focus was on things as entities, and the ideas were later influenced by Newtonian thinking. Scientific assumptions used in the experimental sciences have always strongly influenced those used in the social sciences. At the same time, scientific assumptions in both are influenced by pre-existing philosophical conceptions. Newtonian physics enhanced the concepts of mechanical cause-effect relation, reversibility, and replicability. In turn, these concepts strongly affected development theories, with the assumption that models from developed countries could be replicated in developing ones, while inducing a manipulative attitude towards the management of resources.

An alternative attempt originates in field theory, cognitive social psychology, and physics. This is to resort to a Galilean concept of ‘things’ as relations and functions (proposed by Lewin in 1935) bound to a historical and contextual whole. The focus is now placed on the interrelations of 'things’, thus concepts become relational (Graumann, 1986:85, 95-6). This allows dynamic thinking in terms of trajectories (Prigogine.and Stengers, 1991) and diverse rationalities and strategies, instead of fixed abstract and unconscious structures or rules. The reason for this is that interrelations are viewed not only as topological or mechanical representations of life, they are also seen as forces of different types. Power, in this context, becomes a potentiality. Its mechanical perception is superseded by its conception as ‘a possible dynamic relationship in a field … the source of which is an agent … capable of acts’ (Graumann, 1986:87).

Power, however, is not leadership. ‘In a field-theoretical (i.e. truly Galilean) sense, leadership is a quality of a dynamic whole, a group property which … cannot be inferred from individuals taken alone’ (Graumann, 1986:93). This point became highly relevant as the qualitative analysis of the interviews proceeded after field-work (see below, subsection 3.3.2.4). It was the open door to an understanding of how Mercosur’s regionalism could be institutionalised and sustainable, given the historical structural conditions. Two axial codes and later core categories appeared during the qualitative analysis: institutionalisation and political leadership. Political leadership is vital for institutionalisation. Such leadership could be seen as the outcome of a social process, and it is exercised as a group, where different individuals, sub-groups and/or institutions may perform complementary tasks and roles. The category of institutionalisation led to a better understanding of regionalism, that is the creation of a regional market and the start of de-limiting an autonomous field of power beyond individual Mercosur member states.

The shift from Aristotelian to Galilean thought was prominent between the 1930s and 1950s (e.g. behaviourism, functionalism, and relativism). In social sciences, these attempts have encountered many difficulties and suffered reversal since the 1970s. Physics, however, has continued on that path. Since Einstein’s relativity theory, the emphasis in scientific assumptions has gradually shifted from orderly cause-effect relationships to change occurring in a state of disequilibrium, and from reversibility to irreversibility. This emphasis has occurred particularly after the work of Prigogine, a Nobel prize winner in physics (Prigogine and Stengers, 1991).

The concepts of change within disequilibrium and irreversibility can also be usefully observed in analysing historical processes occurring on the basis of apparently chaotic and disconnected events. Historical bifurcation points can lead to a particular situation, stabilised for some time, for which three basic factors seem to be necessary. First, there must be a catalytic meaningful event, which provides the qualitative input towards change, and a strong sensitivity within the whole system towards such an event. Second, apparently chaotic and unconnected events, which would normally remain insignificant and die out, must reach a critical mass. At this stage, relational mechanisms occur between the events previously perceived as unconnected, providing them with a common direction and a new common meaning, thereby bringing about a new order, a new coherence. Only when such coherence has been attained can a historical situation be seen as irreversible. This common direction and meaning may be seen as a trajectory.

A trajectory may be conceived as being evolutionary but not relativist. It brings in the idea of long-term and sustainable **co-relation,** which is different from **interrelation. The** latter is only between the parts, whereas the former is defined in relation to the whole, between the whole and the part. For example, how an institution develops depends on long-term and sustainable co-relations, rather than just interrelations. Order and disorder in this sense are not opposed but complementary to each other. This agrees with the Galilean viewpoint, breaking away from Aristotelian and mechanical perceptions.

3.3.2 Evolution of the research strategy

Three guiding research questions emerged after a review of the existing literature on regionalism until 1994. Focused on (i) trade issues, (ii) trade policy preferences, and (iii) the achievement of Mercosur's stated goal of 'open regionalism' and free trade, these questions were directed to the **nature** of Mercosur. Thus, they were not the most appropriate ones to understand regionalism as a process, something that became clear later, during the field-work. However, all the secondary questions, which were focused on the different main actors within regionalism, revealed the process and the actors' strategies. These questions were drawn up following the theoretical figures developed before departure for field-work; during the field-work they were shortened to the categories and sub-categories that appear in subsection 3.3.2.1. The same questions were posed to all interviewees. However, they remained open questions, in order to register the essential features of the case. Field-work interviews, through a grounded qualitative analysis, reoriented the questions from trade and its nature towards a double process: the enlargement of business scales in the sectors, and the process of policy-making and institutionalisation of regionalism.

Other variables and relationships missing in previous explanations were also considered in the outline of a scheme designed for field-work questions and data collection. In addition, a table with existing 'ideal visions of RI' was formulated in order to deduce the governmental policy agendas. These were idealisations of real cases (ideal types in the Weberian sense, see Weber, 1991) that follow both existing theoretical literature and reality. The table articulated the idea of regulation within regionalism, which would vary according to the degree of linkages among firms and the degree of the State's regulatory role. The function of the table was to direct attention to the kind of data and evidence to be collected during the field-work.

While developing the analytical methodology, the idea evolved towards viewing regionalism as:

- the emergence of a historically grounded new field of power;
- a process that entails particular forms of regulation depending on the normative values underlining the public project of regionalism; and
- a process that is best traced within economic sectors.

The methodological strategy to encompass these proposals was to focus on economic sectors with a hermeneutic approach. By shifting the focus of policy-making from the arenas of nation-states to those of economic sectors, and to the co-ordination sources of policy-making, a more visible power relations 'map' may appear. That could lead to a qualified picture of the institutionalisation of regionalism. Political leadership could be analysed in the context of how this institutionalisation occurs.

Therefore, the research departed from the revision of the concepts of co-operation in international relations as well as in economics, of international political economy, and of regional economic integration and regionalism. The two chosen intermediate industrial sectors had high intra-industry trade and important economies of scale. As already observed, these two characteristics would indicate a favourable disposition towards regionalism. However, in the Mercosur region, the sectors developed under import substitution industrialisation policies (ISI), strong protection, and governmental perception of their being part of the 'national interest'. In addition, these sectors have special difficulties exiting the market rapidly. Under these conditions, why was Mercosur able to liberalise trade so quickly, how did the firms in the sectors react economically as well as politically, and how did they interact with governments and between themselves? During the analysis, the evidence suggested that the answer depended on the institutionalisation process of regionalism and the different roles of the main actors. The latter brought a reconsideration of the concept of leadership.

The questions led the researcher to understand the process instead of proving any particular theory or hypothesis. The main goals of this research corresponded to three of the major goals of social research discussed by Ragin (1994). First was the interpretation of the historically significant phenomenon of regionalism. Second was giving a voice to the main actors in the process of policy-making. Third was an attempt to advance a new elaboration of ideas, concepts, and perhaps theory, regarding the phenomenon of regionalism. The first two goals addressed the consciousness of the actors under study in addition to increasing their visibility in the process of policy-making. The post-field-work research strategy was to concentrate on a qualitative analysis of the commonalities across the relatively small number of interviews (approximately 80) as well as other documents, following the research strategy (see subsection 3.2.2.4).

Reasonably good grounds for judging the adequacy of the research process should be indicated in the answers to the following questions (Corbin and Strauss, 1990:3-12):

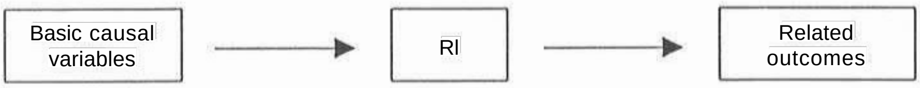
1. How was the original sample selected? On which grounds?
2. What major categories emerged?
3. What were some of the events, incidents, actions, and so on that indicated some of these major categories?
4. On the basis of what categories did theoretical sampling proceed? That is, how did theoretical formulations guide some of the data collection? After the theoretical sampling was done, how representative did these categories prove to be?
5. What were some of the hypotheses pertaining to relations among categories? On what grounds were they formulated and tested?
6. Were there instances when hypotheses did not hold up in the face of what was actually observed? How were the discrepancies accounted for? How did they affect the hypotheses?
7. Flow and why was the core category selected? Was the selection sudden or gradual, difficult or easy? On what grounds were the final analytic decisions made? Flow did extensive ‘explanatory power’ in relation to the phenomena under study and ‘relevance’ figure in the decisions?

3.3.2. 1 Analytical frames previous to field-work

Apart from a list of key questions derived from the proposed conception of regionalism, as indicated above, it was necessary to identify (and during the field-work to be reminded of) the main variables in the case study. For this purpose, four analytical figures were developed before departing for the field-work. The figures provided the analytical ground for deciding what data to collect and where to look for them. Therefore, they guided the theoretical sampling (Strauss, 1987:38-9) and the questions of the inquiry.

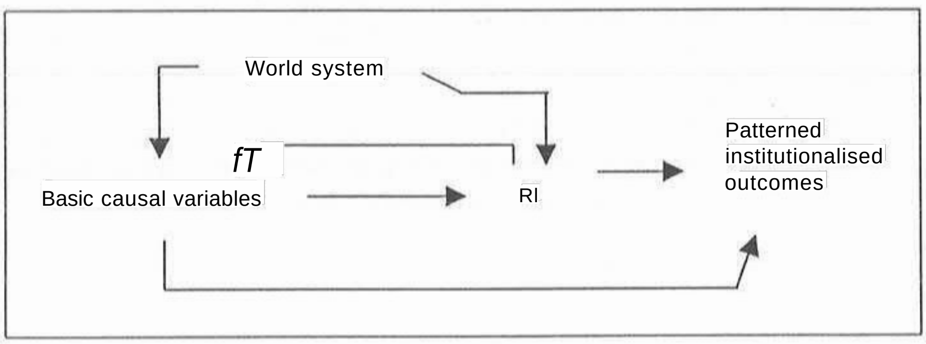
In Figure 3.1, the starting point is the perception of regionalism as an international regime (Krasner, 1982), that is, as a policy-making process which is an intervening variable between causal variables and patterned outcomes. Behind the idea of an international regime lies the possibility of maintaining particular values and norms.

Figure 3. 1 Regionalism as an international regime



The concept of an international regime, however, does not account for exceptions to the regime and does not explain causal variables and their influence. Nor does it take into account the impact of the world system on a specific type of international regime, or the regime's autonomy and responses to the basic causal conditions from which it originated. Figure 3.2 would be more appropriate for the research.

Figure 3.2 Regionalism within the world system'



In Figure 3.2, the world system was added as a variable to accommodate globalisation and economic restructuring. Further, Krasner's 'related outcomes' in Figure 3.1 was revised as 'patterned institutionalised outcomes' in order to include the prospect of institutionalisation and power relations.

Figures 3.3 and 3.4 depict negotiations. Basic causal variables shape firms' interests and strategies in relation to regionalism and to governments' negotiations. Firms in industries with high economies of scale, facing liberalisation that brings an external threat of foreign imports, and given the world context of competition that includes networking and difficult market access, would favour securing access to regional markets and RJ partners. In Milner's argument, 'high levels of scale economies in competitive industries and high levels of export-orientation promote liberalisation within [a RIA, in Milner's case NAFTA]' (Milner, 1997:100).

In such cases, and within regionalism, firms may pursue not only the traditional paths of intra-firm trade and FDI, but also co-operative strategies that may give them leverage in their demands across governments while obtaining the means for industrial restructuring. However, since firms' foreign links and strategies are uneven within each sector, and the firms' demands undergo a process of national negotiation, firms' demands are neither even within the sector nor necessarily satisfied by their national governments. Negotiation occurs within the sector as well as with the government, according to the degree of State autonomy and the political influence of the sector as well as of the individual firms. Finally, at the level of international negotiations between national governments, other considerations (i.e. elections, macro-economic stability) may influence policy outcomes. At this stage, Putnam's two-level analysis was thought to be useful (Putnam, 1988). For this reason, the analysis has been explained in subsection 2.3.2, 'Incorporating the meso-level in IPE Theory'.

Figures 3.3 and 3.4 show the possible relations among the various variables at the national and international levels. Included are the actors' interests, preferences and demands, and the industry's political influence. State autonomy is considered as State officials' values, interests and preferences as featured in the public vision of the regional attempt. Finally, the author contemplated negotiators as both public and private actors. The idea was thus that of a continuum extending from a negotiation process at the sub-national level up to national level.

3.3.2.2 Regionalism in terms of ideal types

Table 3.1, on ideal types of RI, was devised in 1994 to help understand the policy preferences of State negotiators in relation to the regional construction of a larger market. The 'ideal types' are embedded in the competing agendas for a hegemonic public RI project.[12]

The final purpose of these ideal types was to understand how a *public RI project* was related to values, visions and agendas. RI visions may be defined as idealised and stylised rationalisations that crystallise what regionalism should be like. Each vision conceives regionalism as a response according to how the economy and the State are perceived in broad terms.

Figure 3.3 Variables at the national level

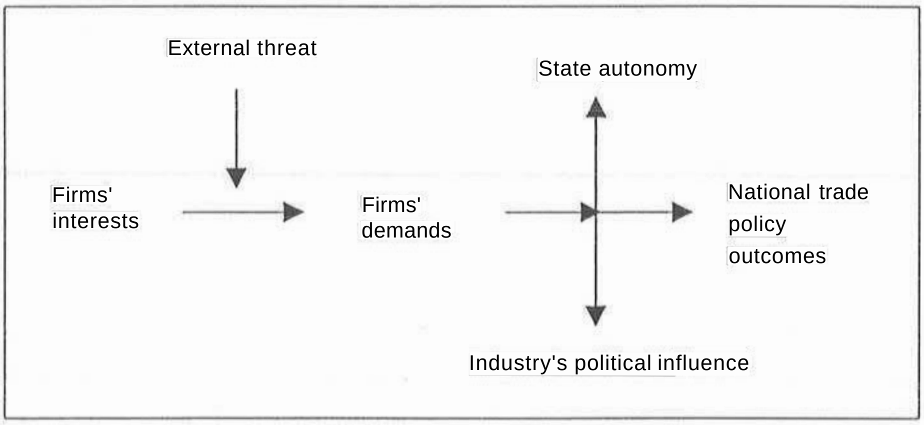


Figure 3,4 Variab/es at the bi/ateraJ/internationa/ /eve/

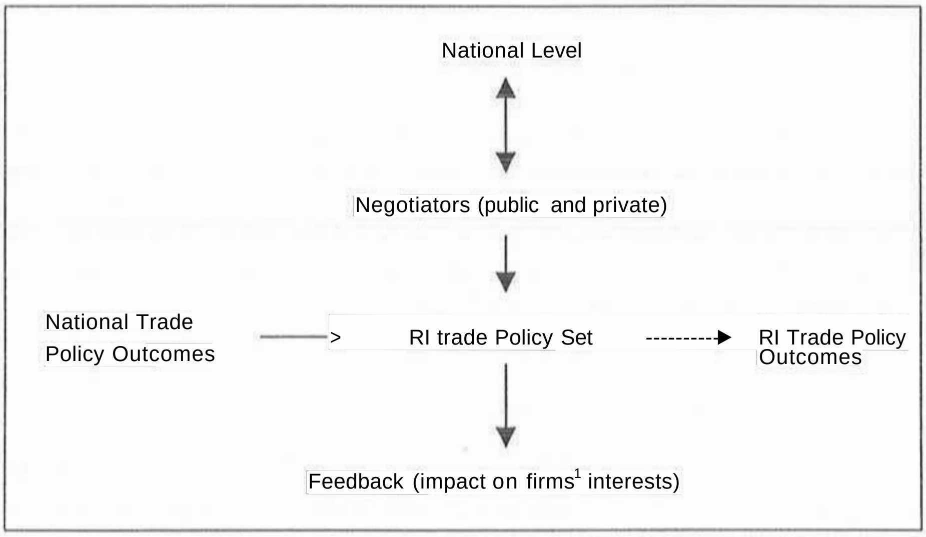


Table 3. 1 Ideal visions of regional regulation

Degree of cooperation (linkages and externalities) in the economy	Degree of regulation according to the State's role	
	High	Low
High *	1. Neo-developmentalist	2. Liberal-Functionalist
Low **	3. Protected bloc	4. Neo-liberal

Notes: * High degree of co-operation, flexible system of production.
** Low degree of co-operation, Fordist system of production.

The *public RI project* may be defined as the formal declaration of State representatives for the establishment of a new socio-economic, legal and political RIA. The public project can be found in the objectives given in legal documents and norms, public discourses/statements, and interviews with State officials, including national presidents, national ministers and State officials in charge of regional matters. Observation of political parties' actions in the national parliaments is also possible. Such research may be done not only during the establishment of any regional entity, but also during the subsequent governmental attempts to modify the *RI public project.*

Given the focus on two industrial sectors, the 'ideal visions' concern possible approaches to industrial regulation. Neo-classical economic theory only permits the argument for State regulation when there are market failures that lead to serious misallocation of resources. Thus, the first factor influencing the preferences of State negotiators for a particular 'ideal vision' of regionalism is the degree of State regulation that is perceived as necessary.

However, the demand to establish regional regulation may also be based on the potential competition posed to existing firms by new entrants to the industry. In this case, private firms may regulate competition through the consolidation of entry barriers at the economic and/or institutional levels. The extent and importance of externalities and linkages in the production system become another decisive factor influencing actors' ideal visions of what regional regulation should be and where priorities should lie. This second factor is connected to the debate on globalisation as well.

Considering these two factors (the preference for State regulation, and the perception of the need for promoting and sustaining linkages within the economic system), there seem to be four ideal visions related to regional regulatory policies and globalisation.

The liberal-functionalist and neo-developmentalist types see RI as a priority State policy in the context of globalisation. In a regional context under shared sovereignty, a regional policy may increase structural competitiveness and sustain macro-economic stability, certainty and growth. Both types perceive a global transformation of the Fordist production system with new 'Toyotist' practices, and a need for a high degree of industrial co-operation (Oman, 1994, 1996; You, 1994).

In 1991, in the context of a Uhl WIDER's research project, researchers from the Mercosur region discussed changes in world capitalism and their possible implications for the region (see Pries-Conosur, 1991). Post-Fordism and future relations between capital and labour were discussed, with the researchers expressing the view that the crisis started when the USA, EU and Japanese firms had become equally competitive. Worsened by rising oil prices, the crisis stimulated a search for economies of scale in exports. The previous macro-Fordist regulation, based on salaried work in internal markets, gave way to micro-Fordism and regulation through trade. Micro-Fordism implied broader control of inputs, in particular labour, and meant a turn to supply-side policies in the 1980s, seeking recourse in neo-liberal ideology. Some countries like Germany and Japan managed to combine this process with Toyotist practices, whose major challenge could come from unstable financial systems. The Mercosur region still had to face the new competitive environment after the 'lost decade' of the 1980s. Further, Ruigrok and van Tulder (1995) have discussed macro- and micro-Fordism and Toyotism as rival concepts for industrial restructuring. Their table (Ruigrok and van Tulder, 1995:141), reproduced in Chapter 8 of this dissertation, presents the general characteristics of the three concepts.

Returning to the ideal visions, both liberal-functionalist and neo-developmentalist formulations contain a substantive regulatory role for the State. The liberal-functionalist type accentuates the role of the State in dismantling the power of oligopolies and implementing a regional competition policy. It supports increase in co-operation at two separate levels: between firms and between States.

The neo-developmentalist type may rely on the promotion of linkages among firms to be competitive, but also emphasises a broader co-operation between the private and public spheres for a joint projection at the international level - as in the East Asian examples of the 'developmental state' (Amsden, 1994). Evans has explained such co-operation in terms of embeddedness: 'Development states must be immersed in a dense network of ties that bind them to societal allies with transformational goals. Embedded autonomy, not just autonomy, gives the developmental state its efficacy' (Evans, 1995:248).

The RI vision of a protected bloc would tend lowatds a Stale-regulated and closed regional bloc, possibly with a more conflictive relationship with regions external to the RIA. This third type could follow import substitution industrialisation policies along Fordist lines of production, while striving to increase regional autarchy. This vision is closer to Latin American regional integration attempts before the 1980s.

The fourth neo-liberal formulation pursues individual competition rather than co-operation within the economy. It seeks a minimal role for the State in a multilateral international system, and would tend to restrict the concept of RI to liberalisation of exchanges.

3.3.2.3 The process of field-work: design and technique of data collection collection

Field-work and data collection were mainly conducted in 1995 in both Argentina and Brazil. Most interviews took place in 1995, with some additional ones being conducted in 1997 and 1998. In 1997, some interviews were conducted in Washington, In 1995, the author spent one year in the Mercosur region, approximately five months in Argentina and four-and-a-half in Brazil. In Argentina, FLACSO, and in particular Dr. Diana Tussie, provided support during field-work. In Brazil, FUNCEX played the same role, especially through Ricardo Markwald and Joao Bosco Machado. In both countries, the author visited the capital cities to meet with State officials, as well as those in parliament working on Mercosur. In each country, various cities as well as some of the largest steel and petrochemical complexes were visited (in particular, the Bahia Blanca petrochemical complex in Argentina, Usiminas (steel) in Minas Gerais, and the Cainacari petrochemical complex in Salvador, Brazil, as well as firms in Sao Paulo and Buenos Aires).

Annex 3 contains two lists of interviewees. One list includes the names of and comments on those interviewed, the other list shows the categories and number of interviews. Respondents were chosen according to their expected role in the policy-making process, and their degree of representativeness. State officials within the ministries of industry, economy and foreign relations, and members of national parliaments were included. Technical bodies within the State, and bureaucrats dealing with Mercosur issues within the Mercosur working groups, were also contacted and interviewed. Within firms, managers dealing with regional issues, whether financial, technological, commercial or managerial, were questioned. Trade chambers, including the bilateral trade chamber for Mercosur and Latin

American chambers, sectoral organisations, and research centres specialising in industrial issues were visited, and their representatives and managers interviewed. Specialists in industrial sectors in both research and policy-making, as well as business historians and sociologists researching business culture and regional integration were consulted. In addition, engineers working in the steel and petrochemical sectors, who also teach postgraduate courses, gave further technical and contextual explanations. A few actors not related to the sectors under study, but nevertheless involved in 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. The aim was to cover as much as possible the 'power map' of main actors involved in Mercosur policy-making. Unfortunately, during the period under study, the regionalisation process revealed a democratic deficit in that other actors from civil society, along with labour, were outside it. Hence, interviews were concentrated on States and firms.

As is well known, interviewing power-wielders is difficult.[13] Interviews were organised as in a 'tree design', which developed into a 'snowball method'. Starting with a few, to whom the field advisors had good access and with whom there was mutual trust, new lines of contact were opened. Often knowing each other, interviewees were able to reveal others' strategies and their perceptions of them. An informal triangulation was then possible. 'More generally, triangulation can be understood as a way of using independent pieces of information to get a better fix on something that is only partially known or understood' (Ragin, 1994:100).

Further, data on firms' linkages (i.e. joint ventures, mergers and acquisitions) is not easy to access. The central office of KPMG in The Netherlands, whose data is used in World Bank global reports, was approached in this connection. In the case of Argentina, there was no obligation in the 1990s to register FDI, so reports must rely on first-hand sources and media information. Large consulting companies that specialise in company restructuring, such as KPMG, are in a privileged position to access first-hand information.

The awareness of a gap in theory and in existing literature between the macro and micro levels (the firm), and the economic and political spheres, led to collection of literature on the business people's political actions in the region, institutional economics, business history, and internationalisation of firms.

3.3.2.4 Analysis of evidence

The field-work analysis focused on the responses related to the policy process. To some extent this was the result of the almost unanimous agreement among those interviewed that the nature of Mercosur’s regionalism was not primarily based on trade. In analysing the interviews, a qualitative approach based on ‘grounded theory’[d] enabled the research to be grounded in history as well as in the voices of major actors. The data for a grounded theory may come from various sources. The data collection procedures involved interviews, observation and statistics, as well as other sources such as government documents, newspapers and books, with the aim of designing an integrated set of concepts in order to provide a comprehensive theoretical explanation of the phenomenon.

> The aim is ultimately to build a theoretically grounded explanation by specifying phenomena in terms of conditions that give rise to them, how they are expressed through action/interaction, the consequences that result from them, and variations of these qualifiers. The aim is not to generalise findings to a broader population per se. Concepts arc the basic units of analysis. The work is done with conceptualisations of data, not the actual data per se. The incidents, events, and happenings are taken as, or analysed as, potential indicators of phenomena, which are thereby given conceptual labels. (Corbin and Strauss, 1990)

Using a hermeneutic approach, the interviews were examined with Atlasti computer software. This qualitative software has been developed after the conception of grounded theory. Following Strauss’ approach, ‘coding is grounded in data on the page as well as the conjunctive experiential data. This grounding - in both sources of data - gets the researcher away from too literal an immersion in the materials and quickly gets him or her to thinking in terms of explicit concepts and their relationships’ (Strauss, 1984). In this way, a means was found to relate, analyse and check values and perceptions against economic and political strategies. Broader structural conditions were also analysed and integrated into the theoretical explanation.

At a later stage of analysis in Atlasti, through axial coding, categories were related to their sub-categories. Further development took place when, finally, the core concepts were selected through the testing of the categories against the data, and were related through a ‘coding paradigm of conditions, context, strategies (action/interaction), and consequences’ (Corbin and Strauss, 1990). As we may see, this type of analysis was probably the best-suited to achieve the main goals of the research, and was in accordance with the ontological alternative discussed previously.

Analysing the field-work interviews, some concepts emerged as fundamental: institutionalisation, political leadership, policy network, business scales, and standardisation. Each of these was checked against the interviews. Then, bibliographical sources related to the concepts were researched. Finally, an attempt was made to critically relate these two (qualitative and theoretical) analyses together. The core conceptual category became ‘institutionalisation*, which had the function of integrating the coding paradigm and emerging theory, as well as relating the behaviour patterns of both the public and private actors in policy-making, to regionalism.

Reproducing the actors* political stands *in tempore* makes it possible to comprehend the existing options for Mercosur in terms of institutionalisation. Within such a historical reading, the voices of major actors provide evidence of the alternative competing policy agendas, which in turn point to alternative configurations of forces and power relations based on particular *visions* of regionalism.

Since a qualitative grounded analysis does not depend on particular disciplinary perspectives, in addition to being holistic, it was in all probability the best method applicable to this political economy case study.

NOTES

[1] Economies of scale mean that marginal costs decrease as firms expand their output.

[2] This was what the USA did in the case of the U.S.-Canada Auto Pact. This GATT requirement held for services only after the Uruguay Round. The ABEIP and Mercosur are legally included in ALADI (Latin American Association for Integration), which in turn was approved by both parliaments and recognised by GATT.

[3] NAFTA’s origins lie in sector-based negotiations between the USA and Canada between 1983 and 1985. These countries entered FTA negotiations after the failure of the automotive sectoral negotiations (Schott, 1989:5, 15). Tire failure was one of the reasons for Canada’s proposing a more comprehensive FTA approach (see also Smith, 1988, Chapters. I and 2), while concerns about the efficiency of sectoral accords in services may have led the USA to shift to a general approach. According to Schott, the FTA then became a code word for different levels of coverage and policy instruments (Schott, 1989:13),

Within the European Union, agriculture, steel and energy have had market regimes. In the case of steel, the structural crisis in the sector and its large spare capacity led to a restructuring policy of orderly rundown of production capacity, together with demands for modernisation and monitoring of the installation of new capacity. State aid was given under a code which expired in 1985, while the quota system was reduced between 1986 and 1988 and voluntary import restraints (VERS) with third countries were maintained. Productive capacity utilisation was reduced by 31 million tonnes between 1981 and 1986, reaching a utilisation rate of 70% capacity. The Commission’s proposal affirmed that there was still 30 million tonnes of spare capacity in 1988. There were complementary measures: (a) internal: production quotas (Article 58 ECSC), setting of minimum prices (Article 61 ECSC), and social support measures for the iron and steel plant closures; and (b) external: bilateral agreements with the principal trading partners (within GATT regulations) for VERS and maintenance of import prices at the same level as internal ones. International prices were not considered an adequate reference point.

[4] The Argentinian Deputy Secretary for American Economic Integration affirmed that the sectors under negotiation had been chosen according to the ‘sensitivity* surrounding their production and restructuring (Sabra, 1993:551).

[1] Namely, the Brazilian groups 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 Argentinian groups Perez Companc, YPF, Astra, for petrochemicals, and Techint and Acindar for steel.

[6] As the exception to the rule, the only FDI of Argentinian small and medium enterprises (SME) in Brazil was in the plastics sub-sector. Two plastics SME from Santa Fe and San Luis provinces put up 60% of the total capital, while the Brazilian Belquimica put up the other 40% of the USS 6 million for establishing a plant to manufacture plastic packaging for meats. This was to open in 1997 (*Clarin*, 24 November 1996, economic section:11).

[7] Until the 1980s, Argentina and Brazil had a history of confrontation and distrust, as shown in this excerpt from an interview: ’When Argentina built Somisa, they thought of El Mutun, close to the river in order to import iron ore from Brazil, but somewhat more in the hinterland for military security reasons’ (PDI 49:21, PDI 82:85).

[8] Technical notes:

Products

In the petrochemical industry, all petrochemical products are derived from three groups of compounds:

- methanol
- olefinic hydrocarbons (ethylene, propylene, butadiene)
- aromatic hydrocarbons (benzene, toluene, styrene, xylenes, etc.)

Final products were classified according to their use. Within final products, thermoplastics, synthetic fibres and elastomers are the most consumed. Ammonia, obtained in great part from natural gas, is considered an input in the fertiliser industry, which consumes 80% of its total production. There is a high degree of interdependence and vertical integration among products, so that any problem in the chain of production has an impact on the whole chain (Pessoa de Andrade, 1995:65).

Cracking and co-production of petrochemicals

'With the partial exception of ethane, the cracking of petrochemical feedstocks results in a broad variety of primary products. Co-production together with economies of scale acts as a 'strong objective factor' towards large investments and concentration with a high degree of technical integration ... accentuated further by the physical characteristics of numerous petrochemical products[1] (Oman, 1984:117). Petrochemical 'poles' or complexes in South America therefore provide this technical integration in which the site includes the entire production process chain, notably thermoplastics.

It is possible to identify three types of petrochemical complexes. One is based on gas and centred on steam reforming that ends in fertilisers and resins. Olefinic complexes are centred on steam cracking, which can begin with gas or oil to produce basic ethylene, and, depending on the raw materials used, other co-products. The third, aromatic complexes, is centred on steam reforming, with naphtha as the essential raw material, to produce mainly benzene and xylenes. (Chauvel *et al.*, 1989)

[9] Beginning in the nineteenth century, the industry's cunent characteristics took shape in the 1920s and 1930s in the USA. World War II accelerated its development. At the end of the war there was high demand for the new products in the USA, in particular plastics. Because of that, the U.S. industry grew more than 10% annually during the next 20 years. In the 1960s, the European industry became an important competitor while Japanese growth took off It was only in the 1970s that some oil-rich countries such as Saudi Arabia, Iran, Canada, Algeria and Norway, as well as some Latin American countries such as Argentina and Brazil, established large petrochemical industries (Pessoa de Andrade *et al.*, 1995:63-4).

[10] Economies of scale actually increase over 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 500,000 tonnes per year. In Europe, 25% of the crackers had such capacity. In contrast, not one plant had such capacity in the Mercosur region in 1995, although there were plans to expand in Argentina and Brazil. Camacari's capacity was the highest.

[11] Of the costs in the two sectors, the most important are raw materials and the initial fixed capita! investment. In the case of petrochemicals, raw materials represent between 40% and 60% of the total cost (1PA, 1988, in Ramal and Lopez, 1992). Transport constitutes the other major part of the total cost. This cost structure has a strong impact on decisions concerning fixed investment location, which must be close either to the raw materials or to the major markets. Labour costs are less important, since the two sectors are capital- rather than labour-intensive. The relationship between investment and capacity is the following: IA/IB= (CA/CB) n, where IA and IB are the investment costs for two plants A and B, while CA and CB are their respective capacities. The cost of building a plant is directly proportional to the capacity taken to the power 0.6. 'The "n" exponent is between 0.6 and 0.8 for most of the petrochemical plants' (Ramal and Lopez, 1992). 'That is, if capacity of a plant A is twice the capacity of plant B using the same process, the investment necessary for plant A is … 1.5 times that for plant B' (UNIDO, 1973:16). Apart from static and dynamic scales, there are important

economics of scope in R&D, finance, management and commercialisation, and vertical and agglomeration economies,

[12] In the second half of 1995, an article by a Brazilian economist, Fabio Erber, had a similar conception in terms of agendas for industrial policy in Brazil (Erber, 1995).

[13] In an extreme case, the author was not able to interview one Brazilian because his son had been kidnapped.

[14] Grounded theory derives its theoretical underpinnings from Pragmatism, and 'would contribute towards 'closing the embarrassing gap between theory and empirical research' … Grounded theories and their possibilities were posed against dominant functionalist and structuralist theories […] which Glaser and Strauss regarded as inordinately speculative and deductive in nature (Strauss and Corbin, 1994:275). Its initial work was *The Discovery of Grounded Theory,* by B. Glaser and A, Strauss (1967), and 'is a *general methodology for* developing theory that is grounded in data systematically gathered and analyzed … A central feature of this analytic approach is a 'general method of [constant] comparative analysis' (ibid.:273, brackets in the original text).

Part Two:

The Regional Integration Arrangement of Mercosur

4 Context, History and Structure of Mercosur

4.1 Introduction

Mercosur, formed by Argentina, Brazil, Paraguay and Uruguay, covers a total surface area of 12m. sq km (60% of South America). Since 1996, it has included Chile and Bolivia as associate partners. Despite all critiques, Mercosur has been perceived as the most successful regional integration arrangement created by less-developed countries. In a very short period it has achieved a near-complete customs union status while its trade (both intra- and extra-regional) has shown impressive growth. It thus appears to simultaneously exhibit trends of both regionalism and global openness. As a result, 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 in the economy.

The two countries, which had initiated a bilateral attempt at regionalism in 1986 (the Argentinian-Brazilian Economic Integration and Co-operation Programme - ABEIP), form the axis of Mercosur in economic as well as political terms - yet another major reason why this dissertation focuses almost exclusively on them. (Section 3.2.2 explained the focus in terms of the choice of sectors.) Argentina and Brazil together represent 96% of the bloc's GNP (Leipziger, 1997:2), and ranked first (Argentina) and sixth (Brazil) among economies with the fastest growth rates between 1990 and 1996 (Markwald and Machado., 1999:64) The two countries accounted for the most dynamic growth rate of Mercosur's intra-regional trade. In 1990, they represented 50.3% of total trade, while in 1996 they accounted for 67.8% of the total, which itself had grown four-fold ('Brazil Market Atlas', The Economist Intelligence Unit, 1998:84). Paraguay has no local production of petrochemicals, and in Uruguay the supply of petrochemicals is very limited, although there is a chemical industry of some significance, which is highly dependent on imported inputs (Hasenclever *et al.,* 1999:208, 193). In the steel sector, the situation is similar.

This chapter reviews the conceptual origins and concrete results of Mercosur as a regional integration arrangement, with the aim of providing an understanding of the environment in which the meso-level actors operated and evolved. This review will extend in the following chapter to trade and investment issues, with the same purpose. The chapter is divided into two main sections. The first, ‘Mercosur in context’ (section 4.2), starts by laying out the macro-level context and policies that affected political attitudes and outcomes, since these have changed greatly in the 1990s as compared with previous decades. It then looks at the main differences between the new regionalism and past conceptualisation and experiences of RI in the Mercosur region. The second section, ‘Brief history and structural profile of Mercosur’ (section 4.3) describes and examines the historical development and public institutions in Mercosur.

4.2 Mercosur in context

4.2.1 Global and regional context: Multiple paths into the world economy, multiple regional blocs

The period since the 1970s has witnessed a drive towards financial globalisation and economic restructuring, boosted by a technological revolution in communications and computer science. This has closely resembled the fast internationalisation experienced from the 1870s until the 1920s (Bairoch, 1996). In an unprecedented way, transnational firms have gradually changed their investment and competing strategies towards a world restructuring of production and distribution (Dicken, 1998). The Fordist tnode of production has entered a period of crisis, and the ongoing world economic restructuring is characterised by intensifying competition among industrial complexes organised according to different institutionalised relations of production, which are based in turn on different concepts of control and sources of co-ordination, which Ruigrok and van Tulder call flexible, Fordist and Toyotist (Ruigrok and van Tulder, 1995:36-62). Meanwhile, the debt crisis of the 1980s in less-developed countries has led to the implementation of policy reforms and international institutional surveillance from institutions such as the World Bank (WB) and the International Monetary Fund (IMF). This package of policies has become known as ‘structural adjustment’.

Since the mid-1980s, Mercosur countries have followed three main paths of adjustment to these changes: multilateral, regional and unilateral. The multilateral path was enhanced by the negotiations of the last GATT round. Starting in Uruguay in 1986 and ending in 1994, the negotiation process was marked by doubts about its success, which encouraged adoption of the regional path.

The European Community became an economic union in January 1993 through the 1987 Single Act and launched a common currency in 1999. Meanwhile, the United States negotiated the NAFTA, or North American Free Trade Association, with Canada and Mexico. Likewise, South-east Asia, following a different regional approach, strengthened ASEAN. An increasing multipolarity seemed likely through emerging trading blocs. Although APEC is normally included in comparisons with the EU and NAFTA, it is excluded here because of its different nature. APEC may be better compared with the EU-Mercosur or EU-Mexico negotiations and agreements. Their thrust is negotiating the regulation of production and distribution that cover spaces bordering a common ocean, and they tend to establish a division of labour between more technologically advanced partners and regions that have already achieved a high degree of industrialisation. Hence, APEC's focus on standardisation and harmonisation of norms (Wilson, 1995).

Last but not least, the collapse of State-planned economies in the Soviet bloc was a contrast to the economies of Chile and South-east Asia. Both were used by the World Bank to convince LDCs about the advantages of export-led growth as the result of free-market and open-door policies. These two policies encouraged a unilateral approach while raising the costs of alternative paths to liberalisation (Keohane and Milner. 1996:257). In effect, unilateralism in both Argentina and Brazil, implemented since 1987 and 1988 respectively, became predominant under the Carlos Menem and Collor de Mello governments.

Mercosur's beginnings were therefore perceived as a political signal and instrument for integrating the region into the global economy. Accordingly, Mercosur might also be seen as a response to the two main U.S. initiatives towards Latin America, both upholding the regional path. The 1990 Bush Initiative for the Americas and NAFTA were expected to enlarge and include other American countries, thus forming WHAFTA (Western Hemisphere Free Trade Agreement). Mercosur has also been encouraged by the renewed dynamism within the EU (Sanchez Bajo, 1999).

There are some major differences between Mercosur and the other regional integration models. It basically differs from NAFTA not only because of its common trade policy towards third parties since 1995, but also because it is a non-hegemonic decision-making system. Comparing Mercosur and the EU, there are two essential similarities: both are customs unions and both have generally counted on a bilateral axis for decision making (France-Germany, Argentina-Brazil). However, the two arrangements show a number of significant differences. First, the EU, formed by developed countries (DCs), is an important power broker in the international system. Mercosur, formed by less-developed countries (LDCs), is struggling to integrate itself at the international level. Second, there are considerable differences in the degree of institutionalisation. The EU, initiated in the 1950s, has so far been the most accomplished and most institutionalised process of regional integration in the world, having reached the stage of monetary and economic union. Mercosur institutions, launched in 1991, exercise neither delegated nor transferred powers from member states. The bloc remains an inter-govemmental decision-making process based on consensus. Mercosur norms have to be ratified and incorporated by all the nation-states' legal systems before they can be implemented. To solve conflicts, Mercosur has used diplomatic means and arbitrators only as a last resort. Furthermore, unlike in the EU, there are no development funds to ease the cost of internal adjustment for less-developed areas within each nation-state.

Mercosur is different from ASEAN, too. The South-east Asian governments exercise little regulation over the regional integration process, even though they provide strong and stable signals in terms of their strategic choices. Thus, the Asian economies are usually portrayed as more informal and led by private family firms. At the same time, the Asian governments hold greater power over their national economies with regard to industrialisation, labour, trade and investment policies, even after the shock of the 1997 'Asian' financial crisis. Latin American countries experienced the debt crisis in the first half of the 1980s, and drastic structural reforms, including liberalisation, deregulation and privatisation, from the second half of the 1980s; however, the East Asian newly industrialising economies (NIEs) were spared these shocks until the late 1990s. Thus, an UNCTAD report noted,

> In two respects, the nature of liberalisation and deregulation in Latin America differed sharply from that in the most successful NIEs in East Asia in the 1980s. In East Asia such reforms followed from a successful implementation of industrial policy. Moreover, East Asian liberalisation was a selective, gradual and controlled process whereby the results were continuously monitored vis-a-vis their objectives, and new mechanisms and/or new areas of support and control introduced as the old ones were dismantled. *(Trade and Development Report. 1995:73-4)*

From this brief comparison, Mercosur appears, amid multiple emerging or revitalised RIAs, as a non-hegemonic, non-supranational and inter-govemmental institutional system which gives high priority to the market. However, it must be remembered that Mercosur began with an extremely low volume of trade. As a consequence, the private sector is a fundamental actor, while co-ordination is an even more pressing necessity because there are no hegemonic or supranational institutions to piuvide and enforce common regional regulation. Mercosur governments saw themselves as competing on two levels: (i) for foreign investment, particularly at a time when Eastern Europe, China and South-east Asia were also major seekers of foreign capital; and (ii) between themselves, for capital investment to go to areas in their individual countries (a process which from here on will be referred to as 'localisation' of investment). From the trade standpoint, it was expected that a radical increase in exports would repay the foreign debt and at the same time be the engine of growth. It is interesting to recall that, during the first phase of Mercosur's existence, from 1991 to 1994, the member countries enjoyed much easier access to foreign capital and were recognised as 'emerging capital markets'.

To summarise, Mercosur emerged as a political strategy of governments. First, governments engaged in unilateralism and wanted to secure structural reforms. Second, multiple regional blocs were emerging and governments sought to position themselves in the new environment. Third, financial globalisation increased the volume and speed of capital flows, and governments desired to attract them to the region. Fourth, the global economic restructuring stimulated national firms to engage in the emerging type of competition.

4,2.2 Past versus new regionalism

From the discussion in subsection 4.2.1., it appears that the present world context has been the most decisive variable in framing Mercosur's regionalism and business actors' behaviour within it. This having been said, neither Mercosur's regionalism nor business actors' behaviour can be fully understood without looking at the historical background. Indeed, both are also a reaction to the past. In addition, the conceptualisation of 'open regionalism' put forward by the UN Economic Commission for Latin America (ECLAC/CEPAL) has been elaborated while bearing in mind the regional history as well as ECLAC's past rationalisation of regional integration.

Mercosur has a different conception of policy-making from those of previous regional integration attempts in the region. This is because it is imbued with an economic philosophy closer to that which dominated between the end of the nineteenth century and the pre-1930s, than to the assumptions and beliefs underlying the previous regional integration (RI) attempts in the Southern Cone.[1] The crisis of the 1930s undermined the region's belief in *laissez faire* economics and spurred it towards import substitution industrialisation (ISI) policies, in which the State had an important role in allocating and regulating the national resources in order to achieve self-sufficient national development. Subsequently, States attempted to achieve national industrialisation by following a basically macro-Fordist pattern of co-ordination, to use the terminology of Ruigrok and van Tulder (1995).

The RI debate had already started in Latin America in the late 1940s, in the context of ISI and a strong regulatory State role. In the 1950s and 1960s, Latin America experimented with RI as a logical extension of ISI. It was conceived as a necessary step towards promoting reciprocal trade in industrial exports that would break the Centre-Periphery model that Prebisch and ECLAC had depicted.[2] In their rationale, RI was part of a deliberate policy to promote industrialisation, aimed at efficient economies of scale and the production of all the intermediate and capital goods needed for economic development.

The attempt to establish a common market within ISI had three main goals: First, stabilisation of national balance of payments fluctuations, to break through the typical economic and political crisis cycles in the region (Diamand, 1989). Second, a balanced reciprocal intra-regional trade, not only to attain equitable distribution of benefits, but also to avoid inter-sector-based trade (i.e. manufactured goods in exchange for agricultural produce) which would have duplicated the type of commercial exchanges that Latin America had with the DCs (in which industry did not develop strongly because manufactured products were imported in exchange for agricultural products). Third, the achievement of economies of scale as a result of reciprocal regional preferences, in order to expand the national manufacturing base.

Therefore, this first wave of Latin American RI concentrated more on trade and the balance of payments constraint within the ISI strategy, than on efficient reallocation of production. The Latin American conception was that the State could achieve the latter efficiently. Before the debt crisis, the foreign exchange shortage and constrained economic growth explain why RI gathered strength during times of economic crisis and weakened during times of increasing exports and access to foreign financial capital. However, the economic gains were too low to make RI attractive. RI did not divert trade substantially from the existing pattern with the DCs, nor did it produce sufficient substitutes for imported industrial goods from the DCs. Intra-regional and intra-industry trade were both low, while reciprocity became a rigid tool only eased by 'clearing house' mechanisms. At the same time, divergent and unstable political systems (democratic versus military), strong protectionist policies based on both geopolitical strategic interests and political coalitions with labour unions and national entrepreneurs, and divergent foreign policies on the issue of alignment with the USA contributed to thwarting the first RI attempts.

The 1980s crisis, by breaking down the countries' capacity to regulate their relatively closed economies in a co-ordinated way, led to a reversal of the policies that had been evolving since the 1930s. In a second cycle of internationalisation of finance and production, Latin American countries re-inserted themselves into the world market. Mercosur's context is thus very different both at the global as well as regional levels. However, it remains hostage to stop-go cycles stemming this time from the financial sphere, to which there are no final solutions as yet.

As already discussed in Chapter 2, the 1990s regionalism is 'new' because its core issues are not related to trade (see Hettne *et al.,* 1999). It is multifaceted and contextualised by the so-called globalisation and a world process of economic restructuring, in which economic activity increasingly takes place within various information, production and trading networks. Global firms are different from the traditional transnational ones: in the 1960s and 1970s, subsidiaries were replicas of a mother company, while nowadays firms are linked into networks through diverse co-operative agreements by which a new type of competition is constructed. The latter type of competition has functioned as one of the most important incentives for business people to engage in regionalism (as will be seen in Chapter 5). At the regional level, Mercosur appears largely as a consequence of a decade-long unilateralism? As observed earlier, Argentina started unilateral liberalisation in 1987 and has been by far its most fervent implementer, while Brazil has followed a similar path since 1988, though more slowly. Thus, Mercosur was established amid an ongoing and general reduction in trade barriers.

By the beginning of the 1990s, Mercosur countries had diversified and industrialised their economies, but, owing to the 1980s debt crisis, they had undergone an interconnected fiscal, political and institutional crisis. Since the 1980s, high inflation rates had increased their sense of urgency and the need for effective stabilisation. Based on a policy of sound macro-economic management, namely controlled budgets (including a fixed exchange rate in parity with the dollar, as may have been the case before with the gold standard), the strategy required representative governments. Such governments (unlike military govemments)would liberalise the economies while increasing accountability. Bringing together 'trade and peace', the combination necessary to attract foreign capital, Latin American countries deregulated capital flows, labour and land in a new 'great transformation' (Polanyi, 1957)? Smith and Korzeniewicz observe that,

> The extent of cunent changes in the organisation of commodity chains evokes what Polanyi labelled the great transformation experienced by the world economy in the nineteenth century. Now as then, the widespread introduction of *laissez-faire* policies has served to promote new levels of integration of production networks on a global scale. Careful observers of Latin America in the late nineteenth century would find a similarly intense process of globalisation. (Smith and Korzeniewicz, 1997:10)

Therefore, the recent shifts in economic policy were not simply imposed from outside; they also had significant domestic roots (I-Iurrell, 1994:174). These shifts were based, first and foremost, on consensus among the new national elites, expanded to the rest of the political system by gathering strong popular support during the first phase of stabilisation plans. Argentinian minister Domingo Cavallo implemented the new policy in 1992, imposing parity between the peso and the U.S. dollar. In Brazil, then-minister Cardoso adopted very similar adjustment measures with the 'Real Plan' of 1994. The governments of both countries cited monetary stability as the *raison d'etre* of the policy. The plans sharply slowed inflation, led to immediate renewal of internal credit, and increased the purchasing power of salaries, stimulating a consumption boom. In the 1990s, a new style of democracy was created in the region, defined by O'Donnell (1994) as 'delegative democracies', which arc less accountable. It was also described as a new partnership between State and business (Peres Nunez, 1996). Altogether, these shifts provided the foundation for Mercosur's 'open regionalism', explained in Chapter 9.

As for regionalism, particularly after 1985, there were important moves towards RI in the whole of Latin America, based on the perception that the internationalisation of the economies was irreversible and that very large markets were necessary to attract capital flows. During the 1980s, three main lines of RI initiatives were undertaken:

- An evolution of RI concepts: The re-establishment of democracy developed a sense of solidarity and a renewed interest in RI, so that it was relaunched first at the political and then at the economic levels (the Rio Group, ABEIP, and then Mercosur).
- Integration instruments such as the Latin American Association for Integration (ALAJDI) regional round of negotiations, were adapted, enabling subregional bilateral arrangements to be made.
- These bilateral agreements, which could later be enlarged to cover all ALADI members, opened the way for the ABEIP, on the basis of which Mercosur would be built. In addition, bilateral relations between Argentina and Brazil improved from the 1970s (for the history of their

bilateral relations and past regional integration attempts, see Sanchez Bajo, 1992; and Moniz Bandeira, 1987).

The Mercosur of the 1990s can only be understood in the context of sweeping structural changes effected against the background of the so-called ‘globalisation’ and the demise of past ISI policies. Chapters 6 and 7 will further examine the background from the analytical perspective of political economy, paying particular attention to the petrochemical and steel sectors.

4.3 Brief history and structural profile of Mercosur

4.3.1 The development of Mercosur: Institutional structure and historical evolution

The Mercosur institutional structure has three basic characteristics. First, it is inter-governmental and not supranational. Second, decisions can only be made by consensus among the four member countries. Third, it has a minimal structure, and has almost no bureaucracy unique to Mercosur. With the exception of the Administrative Secretariat, all civil servants have a double role as national administrators in addition to their Mercosur responsibilities. There is a *pro tempore* presidency which is rotated every six months among the presidents of the Mercosur member countries. The current structure comprises several bodies, whose powers and structure are described in Annex 1 of this dissertation. Table 4.1 presents the most important Mercosur institutional bodies.

Table 4. 1 Mercosur's institutional structure

Decision-making bodies	Parliamentary representation body	Advisory body	Support body
1. Common Market Council 2. Common Market Group 3. Trade Commission	Joint Parliamentary Commission	Economic and Social Consultative Forum	Administrative Secretariat

This structure was established by the Ouro Preto Protocol, which was signed by the four presidents on 17 December 1994 and came into force on 1 November 1995. Although the protocol did not transform the Mercosur bodies into regional institutions as such, it added the Trade Commission and the Economic and Social Consultative Forum, and defined the regional institutions more clearly; that is, it institutionalised the process further. More importantly, it gave Mercosur a legal identity and therefore made it subject to international law, enabling the member countries to negotiate as a group at the international level, through articles 34, 35 and 36.

Mercosur's historical origins can be traced back to 1986, when Brazil and Argentina started a new RI attempt called the Argentinian-Brazilian Economic Integration and Co-operation Programme (ABEIP), which was characterised by a gradual, sector-based approach and bilateral negotiations promoting liberalisation.[5] Agreements called 'protocols' became the pivot of the RI process, and 24 were signed between 1986 and 1989, concerning capital goods, automobiles, food products and investment, among other issues. Never legally rescinded to date, some were actually implemented during the subsequent presidencies in Argentina and Brazil.

The first timetable was decided at the end of 1988, when Argentina and Brazil signed the Treaty of Integration with the aim of establishing a common market in ten years' time. The treaty also established a Joint Parliamentary Commission of four deputies and four senators from both countries, which began to work under the Menem and Collor governments. From the start, the whole RI attempt has been incorporated into the ALADI system, and since all Mercosur member countlies have legally ratified the ALADI Treaty of Montevideo, decisions on regionalism have been basically left to the Executive sphere.

In August 1989, the new Argentine President, Carlos Menem, and Brazilian President Jose Sarney signed 15 agreements. Both presidents supported similar stabilisation policies and long-term strategies of integration into the international economy, though their implementation showed certain differences (Ferrer, 1991:136). Until then, the RI process had appeared to be a continuation of the ABEIP.

Paraguay and Uruguay had started expressing interest in joining the RI attempt in 1988, and discussions over their incorporation into the process ran parallel to the ABEIP negotiations. Indeed, the institutional pattern of bilateral negotiations between Argentina and Brazil has been pursued to date.

In August 1990, the foreign ministers of Argentina, Brazil, Chile and Uruguay met in Brasilia to decide on a draft treaty to establish a common market in the short term. Paraguay was invited to join the proposed common market. Chile was the only country that chose not to join. In an effort to address the lack of technical support, nine technical support teams were created in September 1990 to work towards harmonisation of macro-economic policies *(Integration Latinoamericana,* no. 161-2, 1990:78). This meant that regulation was to be limited to the national, inter-governmental sphere.

In December 1990, the new governments in both Argentina and Brazil radically changed the vision and model of RI through the Buenos Aires Act, later translated into the Partial Accord for Economic Complementarity no. 14 (ACE 14).[6] This accord became part of the ALADI system and therefore was open to enlargement with other ALADI countries after five years. In principle, all ALADI members have to satisfy the same conditions for entry to Mercosur after renegotiation of already existing trade agreements under ALADI.[7] The only exception to the five-year rule was made for Chile.

The ACE 14 devised an automatic across-the-board progressive tariff reduction effective from 1 January 1991 to 31 December 1994, which so far has been the only supranational Mercosur policy instrument. Thereafter, negotiations concentrated on determining tariff preferences and defining priorities and mechanisms to advance towards policy harmonisation. This was necessary because neither the treaty nor the governments had established political priorities or mechanisms beyond the across-the-board automatic liberalisation.

Mercosur was finally bom in 1991, when, on 26 and 27 March, Argentina, Brazil, Paraguay and Uruguay signed the Asuncion Treaty to establish a common market in the Southern Cone. This was to be called Mercosur (in Spanish) or Mercosul (in Portuguese). The Asuncion Treaty was incorporated into ALADI on 29 November 1991, through ACE 18 (which came into force that day). The period from then until 31 December 1994 was officially called the ‘transition period’.

The Asuncion Treaty established the following goals:

- A free trade area, creating a single market among the four countries based on the free movement of goods and services, capital and labour.
- A common external tariff and common external trade policy.
- Co-ordination in regional and international economic and trade forums (e.g. in GATT and later WTO).
- Co-ordination of macro-economic and sector-based accords.
- Harmonisation of legislation in the appropriate areas.

Trade liberalisation became across-the-board, progressive and automatic. From 1 July 1991, intra-regional tariffs were reduced by 47%, and subsequently they fell by 7% every six months. At the same time, the negotiation set included formulation of a list of exceptions to the automatic liberalisation, safeguard clauses, sector-based accords and procedures for complaints and consultation. These were deliberately sought as 'mitigation' instruments (Guadagni, 1993). They were 'safety valves' during the process of coalition building in support of RI, suitable for negotiating the timing and degree of liberalisation with the private sector.

National lists of exceptions to this schedule included 'sensitive' products.[8] Brazil presented 324 items while Uruguay had 960. These lists, however, were to be reduced by one-fifth every year, ceasing to exist in 1995. Non-tariff barriers could be applied only if they had been previously declared and were to be eliminated at the end of the 'transition period'. However, as will be seen, under exceptional circumstances the period was extended until 30 June 1995, and some exceptions were later included in new policy instruments such as the Adaptation Lists. The tradition of 'sensitive lists' also continued after 1995.

The Annexes to the Asuncion Treaty dealt with the schedule for general tariff liberalisation, rules of origin, the system of conflict resolution, the safeguard regime, and the definition of the working groups. As regards the sectoral accords, only the steel sector accord was approved. This will be analysed in depth in Chapter 9.

A system for conflict resolution was created in 1991 and later confirmed by the Ouro Preto Protocol, although no permanent court of justice or creation of regional jurisprudence was envisaged in the medium term. By 1996, the conflict resolution system covered all disputes related to Trade Commission directives. The system is embodied in the Brasilia Protocol and follows four consecutive stages of technical review, direct negotiations, arbitration and *ad hoc* tribunals.[9]

In mid-1996, the Argentine Supreme Court of Justice unilaterally constituted itself as the International Court for Mercosur, to which trade-related conflicts could be presented on the basis of extraordinary appeal. This may include conflicts between individuals or companies located outside Argentina *(Eurosur,* May 1996:3).

Sector-based agreements partially reintroduced an RI sector approach. This was the result of a trade-off between the political reputation of the Argentine government (after the 'Convertibility' stabilisation plan implemented in 1991) and renewed pressures from industrial sectors after production costs (such as services, labour, privatised raw materials inputs) rose within the newly stabilised economy.

Brazilian industry was not particularly concerned over the competition from the other Mercosur partners. Rather, there was anxiety on the one hand regarding the future outcome of the common external tariff (CET), which in

1995 was to replace the national tariffs, and on the other, over future competition from both TNCs and the renewed foreign investment in the region.

The difficulties related to co-operation and co-ordination of macro-economic policies led to a sector-based approach being proposed again. However, the purpose and duration of sector-based agreements remained undefined, as well as the role of the governments and the specific instruments to regulate agreements, because they had not been given priority in the Asuncion Treaty and the Buenos Aires Act. According to Lopez (1994:6), governments accepted the agreements as a 'necessary eviT while keeping control of trade practices. As a result, a high degree of autonomy marked the functioning, negotiations, and results of the sector-based agreements, which tended more towards management of trade.

The issue of transition became one of the main aspects of conceptualising the sector-based agreements, but it also created formidable problems for approval and implementation of agreements reached through negotiation. It was not legally and politically clear what 'transition period' meant. There was no clarity as to whether sector-based agreements ceased after 31 December 1994 or were extended to the next phase of the customs union. This uncertainty created urgency in the approval of agreements reached through negotiation. Finally, only the first sector-based agreement on steel was ever legally approved.

During 1992, the main decisions related to sectoral pressures and defence of the firms' market shares, as well as to a comprehensive timetable for policy co-ordination and harmonisation - the Las Lenas Schedule. A mechanism for complaints about and consultation over illegal practices (e.g. dumping) was sanctioned. Also approved were import regulations, harmonisation of technical norms for food products and industrial goods (such as automotive products), the Sao Paulo Criteria for negotiating the enlargement with ALADI countries, and the Recife Accord on Customs with a common customs declaration and unified border controls.

The Las Lenas Schedule, signed in June 1992, created eleven working groups (WGs), which were given the tasks of co-ordinating and harmonising trade, customs, technical norms, fiscal and monetary policies, transport, industrial and technological policies, energy, macro-economic policies and labour relations before December 1994. The working groups lagged behind schedule. On 28 December 1992, the Common Market Group (following presidential decisions) decided to concentrate on the definition of Mercosur's common external tariff during 1993. From then on, the common external tariff became the focus of the Mercosur negotiators.

Also during 1993, tensions mounted as the competitiveness of firms was being defined and modified by national ‘asynchronic stabilisation plans’. In April, the Common Market Group (CMG) created an *ad hoc* group composed of the deputy economy ministers to analyse the conflicts. Analysis and solutions were worked out within WG No.10 on macro-economic policy co-ordination, and WG no. 1 on trade.

In early 1993, as firms were concerned over the different timing of stabilisation plans, negotiations on sectors and products became the thrust of private bilateral negotiations. Later these gave way to unilateral protectionist measures (such as the ‘statistical tariff in Argentina, and safeguard and anti-dumping measures). There were also questions as to the appropriateness of the regional integration form itself as a development strategy for a strengthened international economic insertion. When, finally, the projected customs union came into being, there were recurring conflicts between Mercosur partners because of competition over the localisation of investment (e.g. in the automobile industry) and different government stands towards growing deficits in the balance of trade. In general, solutions were provided by ‘presidential will’.

At the end *of* the year, Decision 13/93 of the CMG presented a document on ‘Consolidation of the Customs Union and Transition to the Common Market’. The document reaffirmed a customs union as from 1 January 1995. It defined a schedule for the CET and gave priority to all trade issues. Exceptions of about 15% on all tariffs were accepted, and for those products there was to be a transition of convergence up to the years 2001 and 2006.

During 1994, the agenda focused on three main areas: trade, industry and macro-economic policies.[10] Mercosur adopted a common framework on foreign investment. This was considered essential not only to encourage capital inflows into the region, but also to provide a safe environment for companies engaging in cross-border mergers with a regional business strategy. Two protocols were approved to this effect. However, Mercosur did not adopt a regional policy. The goal was to set a common minimum standard aimed at harmonising legal rules in order to prevent predatory competition over investment localisation.

The Colonia Protocol of December 1993, a reciprocal investment promotion and protection agreement, gives intra-regional investors non-discriminatory treatment without establishing any performance criteria. With regard to non-member states, Mercosur countries agreed on another protocol to limit the use of national incentives to attract foreign capital. In August 1994, within the context of unilateral liberalisation of the national foreign investment regimes, Mercosur countries signed the ‘Protocol on the Promotion and Protection of Investments from non-Mercosur Member

States'. The Trade Commission's technical committee on public competition-distorting policies was to harmonise incentives. At the end of January 1996, this protocol was still awaiting national parliamentary approval in Argentina, Brazil and Uruguay. Paraguay was the only country that had ratified it, in September 1995.

Already in 1991, Mercosur and the USA had signed an agreement on trade and investment. Additionally, in January 1994, the Common Market Council (CMC) agreed on the adoption of the Basle Committee criteria for the minimum level of capital for financial institutions, based on risk assets.

On 5 August 1994, a decisive Buenos Aires presidential summit determined the future of Mercosur. The CMG meeting in August 1994 reached a compromise on trade issues, and the Ouro Preto Protocol was signed on 17 December 1994. Thus, on 31 December 1994, Mercosur officially completed its 'transition period' and became a customs union, although it came into force only on 15 December 1995. The customs union is usually referred to as 'incomplete' because it is in the process of completion. Hence, in 1998, Mercosur is a free trade area and a customs union-in-formation while the mechanisms to attain a common market are still largely undefined. As regards the institutional structure, a Commission on Trade and a Consultative Forum on Economic and Social Issues were created.

The common external tariff (CET) was established for about 88% of all tariffs with an average rate of 11%. There are eleven levels of duties, ranging from 0 to 20%. Special tariff arrangements were also approved for: national lists of exceptions as well as lists of tariff convergence for products excluded from the CET, and special intra-bloc regimes on sugar, automotive products, information technology and capital goods." Automotive products and sugar are not yet among the products benefiting from the customs union and remain subject to special trade regimes. The sugar trade regime will end on 1 January 2001. The automotive regime is bilateral between Argentina and Brazil. In January 1996 the two countries ended a six-month conflict over reciprocal market access (the 'automotive crisis') by signing a transitional accord on the production and importation of vehicles until December 1999. Argentina gained larger quotas in the Brazilian market, while the two national motor regimes were to be merged on 1 January 2000. There was to be an accompanying CET on automotive imports from third countries (IRELA, 1996:4-5). So far, sugar and automotive products have remained a source of conflict within Mercosur and still await permanent regional regulation.

A Regime of Adaptation established transitional rules in Decision 05/94, by which the already implemented quotas and non-tariff barriers were maintained. By this regime, the current tariffs on many ‘sensitive’ products (e.g. steel, paper, textiles, and agricultural produce) were to be maintained until 1999.

Rules of origin require a minimum of 60% local content. Uruguay is the exception, requiring only 50% due to previous bilateral accords with Argentina (CAUCE) and Brazil (PEC) which had been included in Mercosur. Decision 08/94 on free zones kept the special treatment given to Manaus and Tierra del Fuego, while all the other free zones in the region had to start paying the CET.

A distinct period unfolded from the end of 1994. This period was characterised by three new features, each bringing new challenges to Mercosur. First, Mercosur became a customs union and the question of institutionalisation, or rather the lack of it, a pressing issue. Second, with the 1994 Mexican financial crisis and the Barings Bank collapse, financial flows started withdrawing from the so-called ‘emerging markets’. The belief that only macro-economic and exchange rate stability would spare Mercosur countries from the new trend has led to unilateral measures of economic restraint that have engendered internal conflict in Mercosur (e.g. see *Sucesos,* 21 August 1998). Third, Mercosur is involved in two negotiating frameworks (the EU-Mercosur and the AFTA) to establish wider free-trade regions. The existence of so many simultaneous challenges has created increasing tension in Mercosur.

> In spite of the more than tliree years that have passed since establishing the Customs Union, some domestic policies have been identified which maintain or create new obstacles in consolidating the free trade system in the subregion. Policies such as the use of trade defense measures that limit imports into the zone, or the passing of other non-tariff restrictions on imports, such as the establishment of limits on financing of external purchases and the use of pre-import licensing mechanisms have generated complaints and disputes from various countries. (Mercosur Report No.4, IADB-INTAL:1998)

In 1995, Argentina as well as Brazil justified temporary exceptions. In March, after the 1994 Mexican crisis and its effects on the Argentine economy, Argentina reinstated the 3% ‘statistical tax’ on extra-regional imports while raising tariffs on imports of capital goods and telecommunications hardware. In April, Brazil increased its list of CET-exempted goods for a year, while raising tariffs on vehicles and durable goods by between 30% and 70%, with the objectives of limiting the sharp rise in imports as well as controlling inflation (IRELA, 1996:6).

At the beginning of 1996, one year after the ‘transition period’, there were four priorities for the Mercosur *pro tempore* presidency: first, to incorporate the Regime of Adaptation into the ALADI system; second, to elaborate the list of products that require intra-regional certificates of origin; third, to remove and harmonise non-tariff restrictions; and fourth, to identify 'public policies that distort competition, consumer protection, and competitiveness' *(Eurosur,* April 1996:2).

By 1996, the regulatory and institutional definitions were already appearing as urgent tasks. The Mercosur bodies still had to define their internal regulations, and the Administrative Secretariat had yet to be located permanently and reorganised. An option was to merge the Secretariat of the Plata River Basin system into Mercosur while giving it more governing powers (Guadagni's idea, broached at the Brussels seminar, June 1996).

Also in 1996, Mercosur countries signed a 'clause of democratic commitment'. The clause established that regionalism must proceed only with democratic political systems. Any member country suspending its democratic institutions would be automatically excluded from Mercosur. The clause was a response to the Paraguayan political crisis caused in April 1996 by Oviedo's coup d'etat. Although Argentina and Brazil contained the conflict, it remained unresolved (see 'Golpe Aberto', *Jornal do Brazil,* 11 March 1998) and in March 1999, Paraguay experienced intensified political destabilisation.[13]

The 1996 and 1997 presidential summits recognised the need for institutionalisation, and to a certain degree provided support for it. An additional external factor, the continuous eruption of financial crises in the so-called emerging markets, convinced Mercosur governments that they needed to display a common stand. In 1997, Mercosur's Administrative Secretariat was finally located in Montevideo, and Mercosur had its first exclusive officials. A Mercosur bulletin started publication and mechanisms to improve the dissemination of information improved. A code against dumping by third parties, following WTO rules, was approved in the context of negotiations for an anti-dumping and anti-subsidies protocol and the beginning of a systematic anti-dumping policy by Brazil. Meanwhile, State purchasing was brought onto the agenda by creating an *ad hoc* group to work on an agreement.

A major development of the Mercosur integration process in 1998 was the approval of the Montevideo Protocol on Trade in Services. This protocol defines an intra-subregional negotiation framework which will allow countries to present specific bids which, within ten-years, will complete the trade-in-services liberalisation programme.

Even decision-making procedures could be reconsidered when new countries joined. The main reason for the consensus-based decision making had been the asymmetry in size of the four countlies. Brazil's GDP is-1.8 times higher than Argentina's, while its population is 4.6 times larger

(*Noiicias*, 4 December 1994:67), In such a context it is difficult to implement a weighted or majority voting system. Under the present system the smaller countries can veto any negotiation or regulation.

Compensatory arrangements for sectors and regions negatively affected by the RI were other issues which would probably be discussed in the long term. The fact is that, because Mercosur lacked financially autonomous common institutions, common sources of funding as well as financing mechanisms had to be decided first. Brazil in particular has ruled out this discussion (Marques, 1997).

As already observed, although a Mercosur Tribunal was to be constituted, no supranational court of justice has been envisaged. Paraguay had been promised the seat of the Mercosur Justice Tribunal. Two options were under discussion: dispute settlement panels covering specific economic sectors, or the establishment of a Mercosur Ombudsman to deal with companies' and individuals' complaints. A Mercosur parliament was not envisaged in the medium term (IRELA, 1996).

The main objective of Mercosur, namely insertion into the global economy, emerged as the main thrust of the 'Mercosur 2000 Action Programme', which was approved by the national presidents on 6-7 December 1995. The document set the priorities and agenda for enlarging RI links and expressed the intention to

- ensure Mercosur's compatibility with the WTO regulations;
- promote economic ties with the EU after the interregional framework agreement;
- seek common policies and strategies in order to engage in Western Hemispheric integration; and
- reach association agreements with neighbouring Latin American countries.

4.3.2 Mercosur's quest for openness

There have been questions about whether Mercosur leans towards free trade or towards protecting the regional market for internal producers. What cannot be doubted is the speed with which Mercosur has engaged in enlargement and multiple negotiations for free trade within the American continent and beyond, through two main forms of joint initiatives - the co-ordination of national actions, and negotiations by Mercosur as a single entity. In external negotiations, co-ordination of national actions occurred when Argentina and Brazil undertook joint action in the Uruguay GATT round. Mercosur has negotiated as one entity with both the USA and the EU, as well as with multilateral credit organisations like the World Bank, the International Finance Corporation and the Inter-American Development Bank (IADB). For example, the IADB financed a USS 4 million technical co-operation project while the European Union strongly supported Mercosur's institutional development through the CEFIR and AL INVEST.[13] There was also a special agreement between Mercosur and the USA for technical and advisory support.

On 19 June 1991, Mercosur signed its first treaty with the USA to create a Trade and Investment Council with the objective of liberalising trade and promoting investment. Joint talks were also held with NAFTA, although Mercosur countries were increasingly divided on the issue of joining NAFTA. The USA repeatedly declared the impossibility of a NAFTA bilateral accord being negotiated with Mercosur, and sent out mixed signals about Mercosur.

On the one hand, the Bush Initiative for the Americas of June 1990, aiming at establishing a 'free trade zone from the port of Anchorage to Tierra del Fuego', supported negotiations with Latin American countries already engaged in regional liberalisation. In this context, the treaty referred to above, which became known as the Rose Garden Agreement, was a legal framework requested by the USA before undertaking any free trade negotiations. This framework covered macro-economic policies, trade and investment issues.

On the other hand, even though NAFTA was always seen as the first step towards Bush's 'Western Hemisphere Free Trade Area' (WHAFTA), its approach was that of an axis and rays, or hub and spokes. Thus, NAFTA negotiations on accession could only be held with individual countries. With its two additional agreements on labour and environment, NAFTA widened the scope of requirements for negotiating a free trade accord by linking social issues with economic ones. Although these shifts corresponded to similar changes in multilateral organisations such as the WTO, the idea of a free trade area based on the 'hub-and-spokes' model was creating both interest and concern within the Southern Cone. These concerns were related to the viability of enlargement *ad infinitum,* particularly in terms of management. NAFTA already had five lists of products with different 'liberalisation timings' for each country. In 1995, NAFTA countries already had 16 Framework Agreements with their own Trade and Investment Councils, the first one with Mexico in 1986 (presentation by Peter Whitney, U.S. Embassy Trade Councillor in Argentina, 1995). Besides, during negotiations for Mexico's entry, the U.S. Congress, which is highly sensitive to sector-based pressures, had created 38 sector-based committees. To obtain congressional approval, two supplementary agreements on environment and labour had to be added. In any case, NAFTA's enlargement was postponed twice up to 1999 due to internal U.S. politics, and the negotiations to grant access to Chile have been put off. Already at the beginning of 1997, it was clear to the U.S. administration that NAFTA would not have a real chance of enlargement, and therefore their ideal was to use it as a 'template' for a WHAFTA, renamed as AFTA (American Free Trade Area) (seminar on Regionalism in the Americas, Georgetown University, Washington, April 1997).

The conflict between a weakened political leadership and a powerful financial system in the USA has created an ambivalent situation, which tends to place the biggest Mercosur partners under strain. In addition, the NAFTA template is based on the U.S. vision which, while accepting a regional path for the first time and promising access to its internal market, restricts regionalism to free trade in goods and services, and capital flows, coupled with low institutionalisation. This explains U.S. pressures against further institutionalisation of Mercosur.

An Americas Summit of 34 countries was held in Miami (9-11 December 1994), setting an agenda for negotiations focused on 'facilitating trade': tariffs, customs and certification of origin (Interview with Secretary Enrique Ferrer Vieyra at the Argentine Embassy in Washington, 24 April 1997). The purpose of the meeting was to agree on a comprehensive draft for the establishment of AFTA in 2005. Since June 1995, there have been follow-up meetings of foreign trade ministers in Denver to approve working plans and preliminary agreements. Negotiations were officially inaugurated in 1998. Eleven working groups have been established to draft documents on specific issue-areas. Argentina chaired the working group on subsidies, anti-dumping and compensatory rights. In 1999, Brazil, as the most important Latin American trade partner of Germany and the whole European Union, was to preside over the 1999 EU-Latin American Summit, while Argentina played a key role in negotiations for the AFTA.

As Paiva de Abreu explains, the U.S. vision of regionalism urges Latin American countries to fix at a supranational level an extremely broad array of issues that are not even covered by the WTO (Paiva de Abreu, 1997:164-5). The U.S. demands create a second ambivalent situation (i.e. its promises versus inability to deliver), by which supranational fixed rules are expected to pave the way to exogenous enforcement, with a necessary abandonment by States of their own regulatory and co-ordinating capabilities. Such demands have led to opposing positions within AFTA.

> The positions of Brazil and the USA, as expressed in the negotiating proposals of Mercosur and the USA, diverge in terms of schedule, level of commitment, format and scope. Brazil prefers a slower pace of integration, with tariff liberalisation from 2005 onwards, the date of reference decided in the Miami Sum-

> mil … Tlie negotiation process would be distributed in three stages: a first one, essentially for business facilitation, until the year 2000; a second one, concentrated in the harmonisation of norms and disciplines, between 2000 and 2002; and a third one, including market access, between 2003 and 2005. (Paiva de Abreu, 1997:165)

In August 1995, the Mercosur CMC decided to adopt a position based on consensus among the four Mercosur countries. Since the Mercosur summit held on 19 June 1997 in Asuncion, the prevailing view has been that its integration process must be consolidated before the bloc participates in a concrete AFTA. On the U.S. side, president Clinton acknowledged Mercosur's 'open regionalism' during his visit to Argentina and Brazil. Furthermore, at the 1998 Santiago Summit of the Americas, the USA accepted gradual negotiations in three stages, as Mercosur wanted. However, after the 1999 financial devaluation in Brazil and in view of Mercosur's share in the world financial crisis,[14] it remains to be seen how strong Mercosur emerges from the only area of challenge (the financial sphere) that can disrupt all its public and private co-ordinating means.

All along, Mercosur kept striving towards its main objective: 'international insertion'. The public authorities in Mercosur countries agreed with European Commission Vice-president Manuel Marin's definition of 'open regionalism', without mentioning the ECLAC definition. This could mean two things. First, that the concept of open regionalism had been legitimised through Mercosur's relation with the EU. Mercosur and the EU, the two most important customs unions in the world, are envisaging a free trade area. Moreover, this was Mercosur's first external formal commitment to free trade. Second, it could also mean that the bi-regional relation between Mercosur and the EU itself had been legitimised through recourse to the concept of open regionalism explicitly mentioned in the 1994 Joint Declaration. The latter could diminish concerns over US-EU competition for influence in the region. Above all, by agreeing with Marin's definition of 'open regionalism', the Mercosur governments wanted to signal their decision that the bloc would not discriminate against outsiders.

An Inter-regional Framework for Co-operation Agreement was signed with the European Union in Madrid on 15 December 1995. Its aim was to enhance political co-operation and progressive reciprocal trade liberalisation through a political and ministerial dialogue. This framework is to lead to the preparation of a draft interregional association agreement, and it deals with trade,[15] economics,[16] and a system for exchange of information. Three bodies were created: a Co-operation Council,[17] a Joint Co-operation Committee,[18] and a Sub-committee on Trade. The first meeting of the Joint Committee was held in Brussels on 11-12 June 1996. The Framework

Agreement is the outcome of efforts that started in 1992 with an Inter-institutional Co-operation Agreement. Joint Commissions have also been established with Argentina as well as Brazil. However, the traditional North-South trade divide and the persistence of the EU agricultural protectionism has created resistance and stalemate. In June 1999, there was little expectation that the much-waited EU-Latin American Summit in Rio de Janeiro would achieve progress.[19]

Mercosur efforts to strive for an open bloc, with extended linkages, took place in three institutional spaces: within ALADI, the European Union, and the WTO. These efforts led to the creation, by CMG/ Resolution 34/95, of an Ad-Hoc Group in Charge of Foreign Relations with Third Parties, Regional Groups and International Organisations.

The treaty had a mechanism for renunciation in articles 21 and 22, by which, even when formal rights and obligations cease after renunciation of the treaty, the trade liberalisation programme and special treatment given to the other Mercosur partners are to be maintained for two years.

On 25 July 1996, Mercosur added two associate member countries, Chile and Bolivia. Implementation of the agreement with Chile began in October 1996. Even more than a free trade area, the main goals have been to achieve integration of the energy sector, infrastructure and communication, while bringing cultures closer together (for the first two goals, see TNTAL Report' no.4, 1998; IRELA, 1997). Implementation of the agreement with Bolivia started on 1 January 1997. A free trade area would encompass 80% of goods after automatic tariff reductions within a 'ten-year' term. The free trade agreement is the follow-up to the Economic Complementarity Agreement signed on 7 December 1995, which reduced tariffs for 90% of Bolivian exports to Mercosur, while giving free access to 600 Mercosur exports to Bolivia. At the same time, Bolivia was participating in several technical meetings of the Andean Community with Mercosur. Bolivia remains part of the Andean Community, having negotiated a waiver for its agreement with Mercosur.

Chile was the most strategic other country for Mercosur, because of its location on the Pacific Ocean and its links with the dynamic Pacific economies (a third of Chilean exports go to Asia). Moreover, Mercosur's trade with both Chile and Bolivia amounted to USS 5.4 billion in 1995. By 1995, over 10% of total FDI in Argentina was from the Southern Cone. Argentina and Brazil each accounted then for more FDI stock in Chile than Canada, France, Japan, Spain or the UK. However, Chile did not apply for Mercosur membership. Its main strategic interest is directed towards North America.[20]

The agreement with Chile covered reciprocal access for goods, services and investment, and conflict resolution mechanisms. Since the agreement was regarded as a continuation of the ALADI bilateral preferences, new products were included, with initial tariff cuts of 40% which would be reduced to zero in the year 2004. 'Sensitive' products (dairy, flour, fruits, oils, rice, sugar, and wines) will only benefit from tariff reduction in 2006, with a three-year grace period until 2010. Therefore, about 60% of trade will have zero tariffs by 2006, and the rest by 2011 (except for wheat and wheat flour, which will have an extra three-year period).

On 12 March 1996, Peru initiated official free trade negotiations with Mercosur, while Venezuelan President Rafael Caldera discussed economic links with Mercosur during his official visit to Brazil. Venezuela's main interest is in energy and oil exports, first to Brazil and then to the Mercosur bloc, while Brazil's is in the process of developing the north-eastern region and the Amazon.

As Latin American countries chose to enter into subregional RIAs (Mexico into NAFTA, and the Southern Cone into Mercosur), the ALADI was gradually perceived as an empty shell. Its members were to discuss its future existence and role after the 1999-2002 secretary-general, Venezuelan Juan Francisco Rojas,[21] assumed the post in March 1999. The outgoing secretary-general, Brazilian Antunes, recognised that the 'fundamental management orientation was to consider the secretariat as a service firm for the needs and political will of [the member] countries,' explaining that 'in spite of uncertainties and financial crises, … the time has come for the region to engage in productive global capitalism'. ALADI's new tasks would be the multilateralisation of existing RIAs, the provision of support to the negotiations for the AFTA and within the WTO round, the provision of special treatment to less-relatively developed member countries (which Mercosur has rejected), and the incorporation of 'total quality management' stemming from Japan (*Sucesos,* 26 March 1999).

All these have enhanced the perception of a possible 'South American Free Trade Area' (SAFTA), also to be completed by 2005 (which is when the final drafts for free trade areas such as those with the EU and the USA are expected to be ready). Brazil proposed SAFTA for the first time in 1993, and it could be seen as the extension of Mercosur. It was then conceived as a means of enhancing bargaining power before free trade negotiations with the USA. SAFTA may have increased northern fears, concerned over the two failed U.S. attempts to lead a continental process of regionalism. It could also be seen as a strategic response by both the Brazilian governments and Mercosur business people. For Brazil, it was a question of security and State regulation over the Amazon region. For business people, it was part of their strategies, as will be explained in Chapter 6. As business people entered the newly emergent type of competition, expanding long-term business networks was a priority and SAFTA already a reality in 1995.

In addition, Mercosur signed a Trade and Investment Agreement with the Central American Common Market, and in June 1998, a Co-operation Agreement on trade and investment as well as an Action Plan with Canada. In the second half of the same year, there were initial discussions on free trade with South Africa. However, in the first half of 1999, all negotiations with the Andean Community and the EU faced deadlock. Worse, individual initiatives in foreign trade relations, such as Argentina's agreement with Mexico and the different positions of Brazil and the other three Mercosur members concerning relations with the Andean Community, were worrying signs (Bouzas, 1999b; 'Mercosur, dividido, se encamina a un periodo de reflexion', *Sucesos*, 26 March 1999).

A 1998 INTAL Report states: 'The Mercosur international agenda shows signs of overload due to the overlapping of extended and complex negotiations. During the first six months of 1998, the bloc was committed to: (i) the defining of preliminary agreements for the negotiation of a Mercosur-Andean Community Free Trade Zone; (ii) activities in preparation for the Fourth Ministerial Meeting on Trade, which was carried out in Costa Rica; and (iii) opening negotiations for the creation of the Free Trade Area of the Americas (AFTA), which took place at the Summit in Santiago' ('INTAL Report' no.4, 1998).

At best, the latest Mercosur negotiations may serve the purpose of strategic positioning rather than swift liberalisation. Restrained enlargement or subdued liberalisation may be a general trait for RIAs at the end of the twentieth century, a slowing down which APEC, NAFTA and the EU are also experiencing. Other challenges, such as unaccountable financial markets and the 1999 multilateral WTO round, amid military and socio-political conflicts in LDCs and increasing trade hostility among DCs, will demand greater attention before economic integration and co-operation can proceed to any substantial degree. Weakened international institutional means to sort out needs and frictions (whether the WTO, the UN, the IMF, or the WB), may first require reconstruction of global, democratic and accountable means of co-ordination.

Two conclusions stand out in this section on Mercosur's quest for economic openness: (i) It is clear that Mercosur countries have perceived enlargement as urgent. This urgency has not been a mere challenge to U.S. influence on the continent or for trade benefits, (ii) Prioritised countries have raised less internal resistance to enlargement as a free trade area. The first category of countries which participated or were interested in participating in this enlargement included those that offer access to wider strategic regions rather than trade benefits *per se*\ Chile for the Pacific and Asia, Venezuela for the whole of the Caribbean basin (from Panama to Florida and southern USA), and Bolivia for the Amazon region. Besides, these three countries are rich in minerals and energy resources, and they display trade patterns that are the most similar to those of Mercosur's intra-regional trade. 'In both cases, commodities and semi-processed goods together accounted for approximately 43 % of total exports, and manufactured goods accounted for 56% of export flows' (Markwald and Machado, 1999:65). There are additional political and security reasons for the inclusion of these countries, but they are beyond the scope of this research (see Bouzas, 1999a). A second category of countries include EU members, where the balance of the EU-Mercosur relationship has rested on the side of industry (Sanchez Bajo, 1999). Although primary exports remain of great importance to the region, a major reason for Mercosur's quest for economic openness has been the need for Mercosur industry to increase economies of scale. Concerning the Chile-Mercosur free trade agreement, as in the case of negotiations with the EU, 'The balance [in favour of the agreement] was tilted by strong support from other potential beneficiaries, mainly manufacturing and service-producing industries with large export potential to the enlarged market' (Bouzas, 1999a:83).

This section was not meant to be a mere description of Mercosur's external negotiations, but to observe that Mercosur's quest derived from its own rationale. First and foremost, the rationale has been a response to the needs of the private sector, which has been the force underlying Mercosur's enlargement, as detected during fieldwork while studying business actors' strategies and their meso-level sectoral organisations.

4.4 Conclusion

The history and development of Mercosur and its international relations enable a number of substantive points to be made about its institutional development. Regulation in Mercosur has been largely limited to the inter-governmental sphere, with a minimal public institutional structure, and has rested on the bilateral Argentina-Brazil axis. No supranational regulation has yet been allowed and Mercosur's political sustainability is thus said to rest on the Executives' resolve. Hence, there is a democratic deficit in terms of representation of interests and accountability that remains to be bridged.

Economically, the Asuncion Treaty was presented as a continuation of ABEIP. However, the regulatory approach was radically changed into a general across-the-board liberalisation. The adoption of unilateral trade reforms and persistent high inflation rates created an urgent need for credible competition rules.[1] The search for certainty and sustainability was the major justification for abandoning ABEIP's sector-based approach. Mercosur's economic rationality has been based on open-door trade policies and compatibility with multilateralism, converging under the concept of 'open regionalism*. The Asuncion Treaty was not conceived as a politico-constitutional basis for the proposed common market. Negotiations for an institutional political structure started only in 1994. On the one hand, Mercosur focused on economic issues, while social ones were included in only one of the eleven working groups. Only in the second half of the 1990s was the issue of public institutionalisation emphasised - which may be defined as a moderate success and a challenge to come. On the other hand, Mercosur concentrated on negotiations for reciprocal economic access and linkages with other countries and regions, in a quest basically favoured by industrial interests.

NOTES

[1] This was explained during two personal interviews in 1995, one with Dr. Luiz Alberto Moniz Bandeira, then adviser to the Brazilian Ministry of Foreign Affairs, and the other with Dr. Rosendo Fraga, adviser on political and security matters to the Menem government in Argentina. Dr. Moniz Bandeira has analysed die struggle to revive such a conception since the 1915 ABC treaty between Argentina, Brazil and Chile (Moniz Bandeira, 1987), and Dr. Fraga has written several newspaper articles on the same subject. A distinction must be made, though, between the conception of the ABC treaty and regional integration attempts, since the former was an alliance among nation-states primarily for political and security reasons. Although a regional division of labour was contemplated, movement of production factors within the region (with the exception of goods) was not considered, nor was a united economy created out of the existing ones.

[2] According to Prebisch, Latin American competitiveness and the willingness of the centre to grant market access to Latin America determined the expansion of industrial exports. Indeed, RI gathered momentum when there was a foreign exchange shortage in the late 1950s and early 1960s, in the attempt to overcome the already visible ISI limitations by lessening the external vulnerability of exports.

[3] Shahen Abrahamian (officer- in-charge of the Global Interdependence Division at UNCTAD) has affirmed that neither multilateralism nor regionalism was the main force behind the liberalisation of trade in Latin America. Tt seems to me that the main impetus is basically unilateralism.' Percy Mistry (chairman of the Oxford International Group), agreeing with him, states: '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, 1995:30-1). See alsoTussie, 1998:9L

[4] Privatisation has extended from the previously considered strategic resources, such as oil, to others, such as national parks. The breakdown of subregional economies was brought about by the breakdown of the provinces' or States' finances, unemployment and underemployment, etc. Indebted after the first years of stabilisation, and without access to national credit, farmers have also sold their land to old and new latifundistas, national as well as foreign.

[5] See Sanchez Bajo (1992).

[6] Acuerdo de Alcance Parcial de Complementacion Economica No. 14, known as ACE 14.

[7] The Asuncion Treaty provided some rules for Mercosur enlargement within ALADI. Under article 8, until 31 December 1994, negotiations with other states, including those within ALADI, were on an autonomous basis. However, consultations had to take place if the negotiations were related to free trade, while every treatment given to products coming from or destined for third countries outside ALADI were automatically extended to the other Mercosur partners. With respect to negotiations with other ALADI countries, it was decided (in Sao Paulo, July 1992), that every accord was to be renegotiated after 1 January 1995. Maximum preference should not exceed 50%. This point was based on article 20 of the Asuncion Treaty, which affirmed that the treaty would be open to other ALADI countries after five years and throughout negotiations. Approval had to be unanimous.

[8] For example, steel, paper, textiles, and agricultural produce.

[9] First, there is a technical review. Second, direct negotiation between the parties in conflict during an initial period of 15 days, whether the problem relates to two governments or is a private complaint brought forward by one government against another. It should be noted that companies could not bring disputes directly to the system, as in the EU or NAFTA. Third, a review by the Common Market Group during a 30-day period, and if no settlement is reached, arbitration. And fourth, *ad hoc* tribunals. Judges can be nationals as well as foreigners, and they may be different for each case. The tribunals being *ad hoc,* no previous court ruling can be used as a precedent.

[10] In trade: non-tariff barriers, customs administration, free trade zones, and the establishment of the Mercosur Trade Commission as an inter-governmental body, With regard to third parties: rules of origin for products not included in the CET, anti-dumping and safeguard measures, and the negotiations with ALADI countries. In industry: competition and consumer protection policies, national treatment for investments by firms from member countries, free trade zones and special customs areas. In macro-economic policies: mechanisms for consultation, and co-ordination of exchange rate policies.

[11] Arrangements included national lists of exceptions for about 300 products for each country (399 for Paraguay); the list of tariff convergence for those products excluded from the CET, which fall at a constant rate until they become equal to the CET in 2001. Special intra-bloc trade regimes for the sugar and automotive sectors, and capital goods imports into Argentina and Brazil, remained outside the CET, converging to common duties of 14% after 2001 (2006 for Paraguay and Uruguay). Tariffs on information technology will converge to 16% by 2006.

[12] See *Courrier international, 29* March 1999, at the following website: http:ZAvww.courrierint.com/aujour/pays/payspar.htm. Paraguay's Parliament reacted to the assassination of Vice-president Argana. Under pressure from citizens, the Church, and notably the U.S. and Brazilian governments, Paraguayan President Cubas resigned on 28 March after one week of conflict. Paraguay was risking the loss of military and economic aid, as well as exclusion from Mercosur. The new risk is from those who felt represented by the populist regime of Cubas, and who will now be excluded (see Guillemi, 1999; *La lucha por la vicepresidencia amenaza el pacto logrado en Paraguay tras huir Cubas', *El Pais.* 11 May 1999).

[13] CEFIR is the EU training centre for Mercosur, established in 1993 in Montevideo. AL-INVEST I and II, and ECIP, are the EU third-generation co-operation agreements to promote European investment in Latin America, including Mercosur countries.

[N] The Mexico-cum-Barings 1994-95 crises, Asia in 1997, Russia in 1998.

[15] The main issues are agriculture, food and industrial goods, as well as customs and intellectual property rights.

[36] The main economic issues included investment, energy, transport, science and technology, and environmental protection.

[17] Its members are those of Mercosur's Common Market Council and Common Market Group, and of the European Union Council and Commission.

[18] Formed by representatives of the Commission and of the Member States of the EU, and representatives of Mercosur.

[19] See Tnfructuoso esperar resultados especificos de la cumbre de Rio de Janeiro', Swcesos, 26 March 1999, at http://www.mercosur.com; 'Francia Trata de retrasar la negociacion de un pacto comercial de la Union Europea con America Latina', *El Pais.* 2 June 1999.

[20] Chile was officially the next country scheduled to join NAFTA, which was expected to occur around 1998. It preferred to stay within the ALADI framework while asking for an 'ALADI waiver', as Mexico had done after joining NAFTA. Furthermore, Chile had obtained cancellation of tariffs on most goods traded with Mexico since 1 January 1996, and with Colombia and Ecuador since 1997. Chile has a different tariff structure from Mercosur's, with uniform average tariffs which are only a little lower than Mercosur's, with 11 as the average (IRELA, 1996:11).

[21] Juan Francisco Rojas was at the same time alternate Venezuelan representative to the Andean Community Commission and director of the Corporacion Andina de Fomento.

[22] Both Argentina and Brazil had halted debt repayments. In Brazil there had been a publicly declared unilateral moratorium since 1987, and in Argentina a *de facto* one after 1988. International credibility was linked to an overall commitment to general liberalisation and disassociation from a sector approach more related to past import substitution policies. General and timely automatic tariff reductions would give a clear sign to the private sector, with the objective of not only avoiding sector-based pressures but also controlling internal prices in Argentina (FIEL, 1993:54).

5 Mercosur's Economic Dynamism

5.1 Mercosur's growth

At a Mercosur seminar held in Brussels on 10-11 June 1996 (a side event of the first official meeting between Mercosur and the European Council), Mercosur was presented to the EU as a remarkable success towards the triple interlinked objectives of long-term sustainable growth, macro-economic stability and subregional economic convergence (Brussels conference, 1996).

The figures are impressive. Mercosur's average economic growth was 3.5% annually from 1990 to 1995, in spite of the economic slow-down in Argentina following the 'tequila effect' of the Mexican financial crisis of December 1994. As Table 5.1 shows, during 1990-95 Argentina's average annual growth rate was 5.6%, the highest in Mercosur. Brazil only experienced 2.6% growth in the same period. The immediate effect of the 'tequila shock' on Argentina was negative growth in 1995, but the economy improved after that.

Table 5.1 GDP trends in Mercosur, 1990-95 (constant 1990 US$ m. and percentages} oercentagesj

	US$ m.	% of total	Annual growth	Av. annual growth	Cumulative growth
	1995 *	1995	1995	1990-95	1990-95
Argentina	** 276,000	16.6	** -4.4	5.6	31.1
Brazil	429,257	35.7	4.0	2.6	13.4
Paraguay	7,187	0.6	4.0	3.1	16.3
Uruguay	11,343	1.0	-1.5	3.4	18.3
Mercosur	648,642	53.9	1.8	3.5	18.5
Other Southern Cone countries:					
Bolivia	6,997	0.6	3.5	3.7	19.8
Chile	48,362	3.7	8.0	7.0	40.0
Latin America	1,182,334	100.0	0.6	3.1	16.4

Notes: • Preliminary estimate. **Source: Argentina Economic Trends, http:/www.tradeport.org

Sources: IADB, *Statistics and Quantitative Analysis, 1995;* ECLAC (1995b); and IRELA calculations in IRELA (1996:35).

Table 5.2 shows that the subregional gross domestic product grew by 3.7% in 1996 and 4.5% in 1997; then, owing to the 'Asian' crisis and later the Russian one, growth slowed again. Mercosur has faced continuous conflict since then with Brazil's adoption of harsh policy measures to prevent outflows and the loss of prospective capital investment. Brazil devalued finally in early 1999, causing Mercosur's worst crisis and Argentina's worst recession.

Table 5.2 *Average annua! growth rate of Mercosur GDP, 1990-99 (%)*

1990	1995	1996	1997	1993	1999
- 3.3	2.0	3.7	4.5	1.5	-0.7

Note: GDP in constant 1990 USS.
Source: IADB, *Statistics and Quantitative Analysis,* updated on 21 February 2000.

In spite of the regional growth, Mercosur has not been able to achieve sustained development, being hampered by lack of policy co-ordination among its members and external financial shocks. Although Argentina and Brazil both implement macro-economic policies favouring privatisation and price and exchange rate stability, broadening the base of fiscal regimes, the two countries have maintained differences over the regulatory role of the State, acceptance of current account and trade deficits, and national industrial development.

The two countries suffered hyperinflation in 1990, but the annual inflation rate fell drastically after they implemented stabilisation plans. In March 1996, the annual inflation rate was 20% in Brazil and almost zero in Argentina. Moreover, 'the subregion's average inflation rate, measured by the evolution of the consumer price indices of the four member countries, fell from 6.9% in 1996 to 3.4% in 1997, [alongside] ... a phase of expansion of subregional economic activity' (IADB-INTAL 1998:3)..

Table 5.3 *Average annual growth rate of consumer prices in Mercosur, 1990, 1995-98 (%)*

1990-	1995	1996	1997	1998
2574.9	57.8	13.4	5.8	2.6

Source: IADB, *Statistics and Quantitative Analysis,* updated on 21 February 2000.

The negative side of the picture was a depressed regional aggregate demand and increasing unemployment and underemployment. In addition, the trade and current account balances of Argentina and Brazil cast doubt on the sustainability of their economic policies. The economic growth that took off in 1991 continued unabated until 1994, at an accelerated rate for Argentina of 8.25% per year between 1991 and 1994. The rate was more moderate for Brazil: only 2.5% in 1991-94, when the ‘Real Plan’ was implemented. The Real Plan brought inflation down from around 50% per month to only 2% or 3%.

High growth with low inflation has been the highest economic objective of the political administrations in the 1990s. This was achieved through similar economic policies, using the exchange rate as a nominal anchor. The appreciation of the currencies, however, brought about a trade-off between stability and competitiveness (ECLAC, 1995a:11). Moreover, the fundamental goal of macro-economic stability has rested on the stability of exchange rates and adjustment through monetary policy, with two main consequences. First, with each world financial crisis, the defence of such stability provokes internal recession with high social costs and increasing unemployment (ECLAC, 1999:20-1, 26-7). Second, since 1995, the major goal of sustaining macro-economic stability has prevailed over the institutionalisation of the CET, and thus the certainty of access to the members’ markets within Mercosur. Therefore, major problems have arisen with the so-called ‘flexibility’ in governmental decision making, and with the lack of institutionalisation of regional norms. These are especially connected with the rules of origin, and non-tariff, bureaucratic, and infrastructural barriers. Solutions have been lagging behind, given the lack of a standard interpretation and internalisation of norms at the national level, as well as of efficient conflict resolution mechanisms. These aspects will be discussed in Chapter 8.

Due to the stability plans and trade liberalisation, trade has expanded enormously, most of all for imports. Regional exports have lagged behind imports while becoming a magnet for foreign investment. Brazil had a bilateral trade surplus of around USS 950 million in 1993. However, the ‘Real Plan’ boosted imports and internal sales to satisfy the increase in internal demand. This success produced increasing deficits in the balance of trade and current account balance, as shown in Table 5.4. The deficit was reduced by 1997, according to former Economy Minister Da Nobrega. Brazil managed to improve its export earnings during the 1990s by resorting to a slow currency depreciation of the Real while firms undertook restructuring (Garcia, 1998). IADB calculations show a deficit of less than U$ 7 billion.

Table 5,4 Key economic indicators for Argentina and Brazil, 1990-98 (1995 constant US$ and percentages)

Country	GDP growth (% variation per year)			Inflation at consumer price index (% variation per year) [3]			FDI inflows!$ billion)	
	1990-94 average	1995-97 average	1998 '	1990-94 average	1995-97 average	1998	1992-97 [4]	1998
Argentina	8.25	3.10	4.97	28.20	0.66	0.7	31.228	6.510
Brazil	2.50	3.63	0.20	1245.80	11.80	2.5	40.347	28.502
Total Latin America [2]	4.10	3.33	2.40	456.05	18.13	10.3		

Notes: [1] Preliminary estimates. [2] Cuba not included. [3] Latin America and the Caribbean. [4] Cumulative sum.
Sources: ECLAC (1999). Brazil Central Bank (2000) for FDI in Brazil. Argentina Central Bank (2000) for FDI in Argentina.

Argentina's trade deficit has also grown, accompanied by large current account deficits which have been financed by inflows of foreign capital. These capital inflows drastically slowed down, or were even reversed, following the Mexican 'tequila effect' of December 1994. The situation improved thereafter, but the systemic threat remains. Devaluation of the Argentinian currency (which is pegged by law to the dollar) has not been a political option, and the supply of money remains fixed to the level of foreign reserves. By upsetting the chain of payments, this has drastically contracted domestic credit and economic activity, and has led to bank insolvency. Brazil's need to reduce imports was a major cause of Mercosur's first crisis (the 'automotive crisis'), heightening 'regulatory competition' to attract and localise the more reluctant investment. Easily reversible capital flows were attracted by privatisation and high interest rates, as well as by debt-equity swaps. However, the policy package was extremely successful from a political viewpoint, as it spurred a consumer boom.

5.2 Global traders and regionalism

Between 1990 and 1995, Mercosur's intraregional trade grew by more than 250% *(World Investment Report,* 1995:83). The average annual growth was 27% (or 28.8%, according to the IMF), compared with 11% for the region's trade with the rest of the world. Intraregional trade rose from just one-tenth of Mercosur's total exports in 1990 to one-fifth at the end of 1995 (IRELA, 1996:7). Therefore, the excellent rates of regional trade growth are beyond doubt - although it should be noted that regional data come from various national statistical bureaus, and the different methodology followed by the bureaus leads to slightly different figures.

Between 1989 and 1990, Argentine exports to Brazil doubled in value from USS 700 million to USS 1.4 billion. While in 1985 (when the governments declared their first major political commitment to RI) bilateral trade between Argentina and Brazil accounted for USS 1 billion, in 1994 it reached approximately USS 7.5 billion. After the Ouro Preto Protocol, the first six months of 1995 showed another important increase in bilateral trade. Nevertheless, it is difficult to separate this from the impact of the simultaneous consumption boom that took place after the 'Real Plan'. However, the decision to start implementing the customs union in line with the Ouro Preto Protocol was correlated with the 'Real Plan', while the Plan corresponded to a new consensus within Brazil in which regionalism was of

Table 5.5 *)Cey economic indicators for Argentina and Brazil, 1991, 1994, 1997 (USS bn.)*

Country	Trade balance (FOB)			Exports (FOB)			Imports (FOB)			Current account balance		
	1991	1994	1997	1991	1994	1997	1991	1994	1997	1991	1994	1997
Argentina	4.419	-4J 39	-2.123	11.978	16.023	26.431	3.726	20.162	28.554	-0.647	-10.949	-12/035
Brazil	10.578	10.861	-6.652	31.619	44.102	53,189	21.041	33.241	59.841	-1.4450	-1.153	-30.491
Latin America	11.808	-14.490	-16.081	141.404	193.002	290.307	129.595	207.494	306.388	-17.611	-50.938	-65.629

Note: Totals reported for Latin America are based solely on the available country data reported. See http://www/iabb.org/int/sta/ENGLISH/ipaxnet/cd

Source: IADB, *Statistics and Quantitative Analysis,* based on official statistics of member countries.

primary interest. Compared with the first six months of 1994, Argentine exports rose from US$ 1,496 million (1.496 billion) to USS 2,918 million (2.918 billion). The percentage annual increase was 95.1%. Brazilian exports grew from US$ 1,907 million to USS 2,007 million, the percentage annual increase being 5.2% (Argentinian Embassy in Brasilia, 1995, 3rd edition:25).

In monetary terms, intraregional Mercosur trade has 'grown fourfold since the beginning of the 1990s' (Tussie, 1998:85-6). Moreover, with 200 million people and a GDP of almost USS 850 billion in 1995 (IRELA, 1996), Mercosur showed a promising potential for the year 2005 in terms of GDP, trade and investment. If a moderate growth rate was sustained until the end of the century, say 4% or 5%, intra-Mercosur trade could account for USS 18 to 20 billion in the year 2000, and total Mercosur imports over USS 100 billion. At the same time, Mercosur countries badly needed foreign funding for the modernisation and interconnection of their energy sources, ports and telecommunications. Being able to attract the FDI, Mercosur was seen as an ignition key for development (Fritsch, Brussels conference, 1996).

Yet, between the end of 1996 and during 1997, Mercosur endured harsh criticism in a report by a World Bank official (Yeats, 1997) as well as from the U.S. trade representative. Economists reject RIAs in the belief that they weaken multilateral trade. Thus, Yeats focused on Mercosur's static trade effects. The fact is that Mercosur has engaged in both regionalism and unilateral liberalisation, by which Mercosur imports have not shown 'any worrying sign of trade diversion' or significant change in its external trade patterns (Devlin, in Machado and Markwald, 1997). Even the case of the automotive sector does not prove Yeats's arguments, which will be reviewed in Chapter 8.

Analysing the dynamic gains of regionalism would be a major step towards increased understanding of Mercosur. As Machado and Markwald (1997) recognise, there are no analyses as yet because of the short period that Mercosur has been in existence and the complexity of determining the 'learning curves' and results in economic and technological terms. Dynamic gains are generated under the impact and prospect of increasing economies of scale (and here should be included the notion of business scales, which incorporate skills in internationalisation, securing access to export markets, and export experience, among others).

With regard to the dynamic gains that may determine future comparative advantages, the Yeats report (1997) dismissed the possibility of Mercosur being an important factor in the strategies of firms, while a recent ECLAC report on FDI in Argentina's manufacturing industry (Kosacoff and Porta, 1997:13, 22-3, 24-33) reaches the opposite conclusion. Chapter 8 will discuss dynamic gains in relation to business involvement in Mercosur's regionalism in the petrochemical and steel sectors. The qualitative analysis provides evidence of a changing business culture and, at the very least, an inescapable challenge to business management that is stimulating multifaceted strategies by business actors.

In the antithesis, non-tariff barriers restrain both economies of scale and dynamic gains. In this respect, harmonisation and standardisation enable the attainment of economies of scale, intra-industry trade and specialisation. Similarly, they enable the emergence of financial as well as productive and distributive networks. Firms can insert themselves into the emerging networks as contractors, suppliers, etc. These are the major reasons why institutionalised norms play an important role in the competition for regional market shares. Firms foster this process, creating an impact on the States' regulatory capacity, e.g. on industrial and technological policies.

Therefore, regionalism is substantially a proactive response to economic globalisation, as well as part of it. This response has been argued from two perspectives, in the 1988 Cecchini report (on the 'Costs of non-Europe' - a project that surveyed 20,000 enterprises) in connection with the EU's Single Act, and in relation to global standardisation and harmonisation of norms. As the Cecchini report showed, the first three main barriers to trade within the European Community, according to the industrialists' perceptions, were technical standards, regulations, and administrative and customs barriers (Commission of the European Communities, 1988:44). These non-tariff barriers do not permit the expected advantages of a larger market in which economies of scale and scope would enable market share to be increased.

At the global level, harmonisation of norms within and between regions may enhance trade and investment flows between them for the same reasons given above. At the same time, they decrease or prevent future non-tariff barriers (e.g. technical, quality and environmental ones). In this context, perceptions of regionalism, and concerns and strategies of private actors within Mercosur were related to this proactive response, while public actors seemed more concerned about a regional reactive response. This point of view will be analysed in Chapter 7.

However rapid Mercosur's growth in trade has been, we can see in Table 5.7 that it has maintained a roughly similar pace to that of Latin America and the Caribbean. More striking is that the value of total intra-Mercosur trade increased at a surprising rate of 28.8% per year (according to FUNCEX figures, in Machado and Markwald, 1995) or 27% (according to IADB figures) (see Tables 5.6, 5.11 and 5.12). Both sets of figures are a

Table 5,6 Value (In US$ mJ and percentages of Mercosur's intrarcgiona! trade, 1985, 1990, 1994, 1996

Year	Argentina-Brazil		Argentina-Paraguay/Uruguay		Brazil-Paraguay/Uruguay		Mercosur total	
	Value	%	Value	%.	Value	%.	Value	%
1985	1,044	53.5	254	13,0	654	33.5	1,952	100.0
1990	2,076	50.3	534	13.0	1,516	36.7	4,126	100.0
1994	7,382	65.1	1,466	12.9	2,494	22.0	11,342	100.0
1996	11,373	67.8	1,919	11.5	3,478	20.7	16,770	100.0
Annual variation in percentages 1985/1990								
	14.7%		16.0%		18.3%		16.2%	
Annual variation in percentages 1990/1994								
	37.3%		28.7%		13.3%		28.8%	

Sources.■ IMF, Directorate of Trade Statistics (1992, 1995), Machado and Markwald {1995:6); The Economist Intelligence Unit , *Brazil Market Atlas* {1998:84),

Table 5.7 Percentage growth in Mercosur's intraregional and world exports, compared with Latin America and the Caribbean and the Western Hemisphere, 1990-95

Exports	1990	1991	1992	1993	1994	1995 '
Mercosur						
Exports to the world	-0	-1	10	7	15	14
Intra-Mercosur	11	24	42	39	19	27
Intra-Mercosur as % of the total	9	11	14	19	19	20
Latin America and The Caribbean						
Exports to the world	10	-1	21	7	17	23
Intra-LA and Caribbean	9	22	26	20	18	25
Intra-LAC as % of the total	13	16	17	19	19	19
Western Hemisphere [3]						
Exports to the world	8	5	8	5	13	17
Intra- Western Hemisphere	9	6	15	11	18	15
Intra-WH as % of the total	46	46	49	51	53	52

Notes: [1] Preliminary estimates.
[2] High intra-Western Hemisphere exports as percentage of the total were accounted for by intra-NAFTA trade (46% of exports from Canada, Mexico and the United States were intra-bloc in 1995).

Source; IADB, 'Integracion Economica en las Americas, Nota Periodica', February 1996, contrast to the growth rate of extra-regional trade, which was only 4.6% between 1990 and 1994 (ibid., 1995).

Between 1990 and 1997, intraregional exports increased almost fivefold, attaining almost 25% of total Mercosur exports.

Table 5.8 Mercosur's total exports (USS m.) and intraregional exports (USS m. and % of the total), 1990, 1994-98

Year	1990	1994	1995	1996	1997	1998*
Total exports	46,425	62,112	70,401	74,997	83,210	82,931
Intraregional exports	4,123	11,955	14,394	17,038	20,650	21,394
Intraregional exports as % of total exports	8.9%	19.2%	20.4%	22.7%	24.8%	25.8%

Source: IADB, 'Integration and Trade in the Americas, a Preliminary Estimate of 1998 Trade', periodic note, December 1998.

By 1994, Mercosur exports amounted to USS 62 billion while imports were worth roughly USS 64 billion (see Table 5.9). In the same year, Europe was Mercosur’s largest market (as can be seen in Table 5,9), with exports to the EU accounting for more than a quarter of the total, while intraregional exports were only about 20% (as shown in Table 5.8). In contrast, intra-EU trade reached 60% of total EU trade, while intra-NAFTA trade was about 50% (70% for Canada and Mexico) of total NAFTA trade. In spite of their impressive expansion, intraregional exports may yet be considered low. In 1995, they only represented 2% of Mercosur’s GDP, compared with 4.5% in NAFTA and 14% in the EU (IRELA, 1996:2).

The diversification of trade flows (see Tables 5.9 and 5.10) supports the notion that Argentina and Brazil are ‘global traders’ (though this perception is stronger in Brazil, particularly at the governmental level). This diversified articulation explains Mercosur’s interest in ‘open regionalism’ as well as in a solid multilateral system under the surveillance of the WTO. A strong WTO may not only help LDCs to maintain the multilateral system as such, but may also enable the Mercosur countries to defend their interests without being excessively dependent on just one developed country or region.

Mercosur still has ample room for trade expansion, for three major reasons. First, the ‘Regime for Final Adaptation to the Customs Union’ and the inclusion of more sectors in the common market, in compliance with the Ouro Preto Protocol, will gradually expand intraregional trade. Second, Mercosur negotiations and agreements with different countries and regions will continue to liberalise trade. Third, it has been calculated that if regional

Table 5.9 *Mercosur's trade with the EU,[1] USA, Japan and Latin America, 1994 (US$ m. and percentage of total)*

	Total exports	EU[1] %	USA %	Japan %	LA 20[2] %	Total imports	EU[1] %	USA %	Japan %	LA 20[2] %
Argentina	15,108	26.8	11.0	2.6	41.9	21,199	31.1	23.2	3.5	28.2
Brazil	44,530	28.8	19.0	6.7	22.1	36,741	26.7	24.3	5.6	16.1
Paraguay	820	21.0	9.4	3.3	46.3	3,016	10.0	26.3	5.7	24.3
Uruguay	1,913	20.9	6.9	1.1	54.2	2,773	20.3	9.4	2.8	54.2
Mercosur	62,372	27.9	16.6	5.5	28.2	63,729	27.1	23.4	4.8	22.2
Other Southern Cone countries:										
Bolivia	1,123	25.8	26.9	0.2	36.6	1,207	15.0	19.9	14.4	43.4
Chile	11,658	24.3	17.3	16.9	20.9	11,319	20.5	23.3	8.9	25.8
LA 20[2]	177,142	18.0	43.5	4.6	17.4	199,239	19.0	44.2		

Notes: [1] EU refers to 12 EU member states (excluding Austria, Finland and Sweden).
[2] Latin America: 20 countries.

Source: IMF, *Direction of Trade Statistics,* Washington, DC.

economic growth continues to be similar to the average for the first five years (3.5% per year), the regional market will reach a trillion-dollar threshold in 2001 (Fritsch, Brussels conference, 1996). These three possibilities have sustained the hope of further expansion in not only trade but also intra- as well as extra-regional investment. However, the opinion of other economists is that this surprising rate of growth of intraregional trade may be explained in terms of geography and lower transport costs (Machado and Markwald, 1995:4; 1997) as well as in terms of the complementarity among the regional national economies.

Table 5.10 Percentage of total exports to and imports from Mercosur's main markets, 1996

Total (US$ bn.)	EU	USA	Japan	Other LA countries	Other	Within Mercosur
Exports (75)	23.4	14.6	5.3	8.6	26	22.1
Imports (86.7)	29.1	23.1	3.7	6.1	21.4	16.6

Source: The Economist Intelligence Unit, *Brazil Market Atfas:* {1998:85).

Tables 5.11 and 5.12 present the growth rates of Mercosur trade flows with major trading partners during the 'transition period', from 1990 to 1994. Table 5.11 displays the export flows, while Table 5.12 summarises the import flows. In these tables, elaborated by FUNCEX in Rio de Janeiro, the growth rates for the 1990-94 period are presented in the bottom row. The other rows display trade values and shares of total flows for 1990, 1992 and 1994. The tables show that the highest rate of growth for Mercosur exports was in trade with LDCs (6.8% per year). In comparison, exports to DCs grew by 3.6% per year. Among DCs, exports to the USA were the least dynamic, with an increase of 1.8% per year, while among the LDCs the most significant countries were in Latin America and the Caribbean, as well as Asia (growth of more than 12%).

Imports also reflected the national processes of liberalisation, growing by 205% per year, thereby reducing Mercosur's surplus from USS 17 billion to approximately USS 2.5 billion, due largely to Argentina's policies (until 1994). Imports from DCs were more important (growing by 20.5%) than those from LDCs (growth of 13.5%). Mercosur's trade with the USA showed a deficit, while its trade with the EU and Japan resulted in a surplus. With regard to LDCs, Asian imports grew by 55% per year.

Tab/e 5.7 1 Growth of intra-Mercosur and extra-Mercosur export flows, 7990-94 (US$70 [6]. and percentages)

Year	Intra-regional total	Extra-regional exports										Total all export flows
		Total DCs+ LDCs	Developed countries					Less-developed countries				
			Total DCs	USA	EU	Japan	Other[1]	Total LDCs	West	Asia	Other[2]	
990 value	4.126	42.004	28.594	9.638	14.453	2.768	1.735	13.410	4.036	3.927	5.447	46.130
hare of otal exports	8.9%	91.1%	62.0%	20.9%	31.3%	6.0%	3.8%	29.1%	8.7%	8.5%	11.8%	100%
992 value	7.208	44.059	28.868	8.639	16.202	2.703	1.324	15.191	6.151	4.234	4.806	51.267
hare of otal exports	14.1%	85.9%	56.3%	16.9%	31.6%	5.3%	2.6%	29.6%	12.0%	8.3%	9.4%	100%
994 value	11.342	50.368	32.927	10.338	16.708	3.414	2.467	17.441	6.542	6.203	4.696	61.710
hare of otal exports	18.4%	81.6%	53.4%	16.8%	27.1%	5.5%	4.0%	28.3%	10.6%	10.1%	7.6%	100%
990-94 growth	28.8%	4.6%	3.6%	1.8%	3.7%	5.4%	9.2%	6.8%	12.8%	12.1%	-3.6%	7.5

Notes: ' Canada, Australia, New Zealand, and European countries outside the ELL

[2] Africa, Eastern European countries, Russia, Middle Eastern countries and others.

Source: Machado and Markwald (1995), based on IMF, *Direction of Trade Statistics* (1994).

Table 5.72 Growth of intra- Mercosur and extra-Mercosur import flows, 1990-94 (US$$10^{\&}$ and percentages)

Year	Intra-regional total	Extra- Mercosur imports: Total DCs+ LDCs	Developed countries: Total DCs	USA	EU	Japan	Other[1]	Less-developed countries: Total LDCs	West	Asia	Other[2]	Total all import flows
1990 value	4.126	25.080	15.896	5.671	6.397	1.975	1.853	9.184	2.192	1.112	5.880	29.206
Share of total imports	14.1%	85.9%	54.4%	19.4%	21.9%	6.8%	6.3%	31.4%	7.5%	3.8%	20.1%	100%
1992 value	7.208	31.368	21.586	8.628	8.707	2.089	2.162	9.782	3.311	2.274	4.197	38.576
Share of total imports	18.7%	81.3%	56.0%	22.45%	22.6%	5.4%	5.6%	25%	8.6%	5.9%	10.9%	100%
1994 value	11.342	52.834	37.642	14.898	16.193	3.060	3.491	15.192	3,875	6.412	4.905	64.176
Share of total imports	17.7%	82.3%	58.7%	23.2%	25.2%	4.8%	5.4%	23.7%	6.0%	10.0%	7.6%	100%
1990/94 % growth	28.8%	20.5%	24.0%	27.3%	26.1%	11.6%	17.2%	13.4%	15.3%	55.0%	-4.4%	21.8%

Notes: [1] Canada, Australia, New Zealand, and other European countries outside the EU.
[2] Africa, Eastern Europe, Russia, Middle East and others.

Source; Machado and Markwald, 1995, based on IMF, *Direction of Trade Statistics* (1994).

5.3 Bilateral trade axis between Argentina and Brazil

Bilateral trade between Argentina and Brazil started from a very low level. In 1990, as in 1980, trade between the two countries amounted to less than 10% of their total trade (as shown in Table 5.11). The 1980s debt crisis decreased trade substantially, and in 1985, just before the start of ABEIP, bilateral trade was USS 1 billion. By 1990, this trade had doubled to the same level as that of a decade earlier.

Table 5.13 Argentina's and Brazil's main export markets, 1990

Argentina's markets			Brazil's markets		
Ranking	Country	% of total exports	Ranking	Country	% of total exports
1	USA	13.5	1	USA	24.2
2	Brazil	11.5	2	The Netherlands	7.9
3	The Netherlands	11.1	3	Japan	7.5
4	Germany	5.2	4	Germany	5.7
5	Italy	4.3	5	Italy	5.1
6	Iran	4.1	6	Belgium	3.1
7	Soviet Union	4.0	7	United Kingdom	3.0
8	Chile	3.7	8	France	2.9
9	Japan	3.2	9	Spain	2.2
10	Spain	2.7	10	Argentina	2.1
	Rest	36.6		Rest	36.3

Source: Argentinian Embassy in Brasilia (1995:34).

The volume of bilateral trade has multiplied almost fourfold since 1990. By 1995, Brazil had become Argentina's first export market, while Argentina was the second-biggest for Brazil (after the USA), accounting for some 9.5% of total Brazilian exports (compare Table 5.13 with Table 5.14). The bilateral relationship appeared stable, growing along the same path, as Table 5.15 shows. Rankings may vary to some extent, depending on the source. According to the Bilateral Argentinian-Brazilian Trade Chamber, Argentina was the eighth-largest Brazilian export market in 1990 (Argentinian-Brazilian Trade Chamber, 1995:10). According to the Brazilian government, however, Argentina was its tenth-largest export market (Argentinian Embassy in Brasilia, 1995:34-5).

Table 5.14 Argentina's and Brazil's main export markets, 1994

Argentina's markets			Brazil's markets		
Ranking	Country	% of total exports	Ranking	Country	% of total exports
1	Brazil	22.8	1	USA	20.2
2	USA	10.9	2	Argentina	9.5
3	The Netherlands	7.5	3	The Netherlands	7.1
4	Chile	6.3	4	Japan	5.9
5	Uruguay	4.1	5	Germany	4.7
6	Italy	4.1	6	Italy	3.8
7	Germany	3.9	7	Belgium	3.1
8	Spain	3.7	0	United Kingdom	2.8
9	Paraguay	3.1	9	Paraguay	2.4
10	Japan	2.8	10	Mexico	2.4
	Rest	3.7		Rest	38.0

Source: Argentinian Embassy in Brasilia (1995:35).

Table 5.15 Argentina's and Brazil's main export markets, 1996

Argentina's markets			Brazil's markets		
Ranking	Country	% of total exports	Ranking	Country	% of total exports
1	Brazil	27.7	1	USA	19.2
2	USA	8.1	2	Argentina	10.8
3	Chile	7.4	3	The Netherlands	7.4
4	The Netherlands	5.1	4	Japan	6.4
5	Spain	3.0	5	Germany	4.5
6	Italy	3.0	6	Italy	3.2
7	Uruguay	3.0	7	United Kingdom	2.8
8	Iran	2.7	8	China	2.3
9	China	2.5	9	France	1.9
10	Paraguay	2.4	10	Mexico	1.4
	Total (US$ bn.)	23,811		Total	47,745

Source: Percentages calculated on the basis of data from The Economist Intelligence Unit (1997).

Tables 5.16 and 5.17 show the value and percentages of bilateral trade growth between 1990 and 1996. In 1990, bilateral trade amounted to roughly U$ 2 billion, while in 1994 it was almost U$ 8 billion.

Table 5.16 Argentina's exports to and imports from Brazil, 1990-94 (US$ m.) EXPORTS FOB / IMPORTS CIF

Year	Exports		Imports		Trade balance	Bilateral trade	
	Total	% change	Total	% change		Total	% change
1990	1423	26.6	718	■0.4	705	2141	16.0
1991	1489	4.6	1527	112.6	-38	3016	40.9
1992	1671	12.2	3339	118.6	-1667	5010	66.1
1993	2814	68.4	3570	6.9	-756	6384	27.4
1994	3595	27.7	4284	20	689	7879	23.4

Sources: Calculated on the basis of INDEC, Intercambio Comercial con el Mercosur, First Term 1994, except for 1994, which are from Argentinian Embassy in Brasilia (1995:72) as well as being based on INDEC.

Table 5.17 Brazil's exports to and imports from Argentina, 1990-94 (US$ m. FOB)

Year	Exports		Imports		Trade balance	Bilateral trade	
	Total	% change	Total	% change		Total	% change
1990	639	-11.5	1412	14.0	-773	2051	4.6
1991	1476	131.0	1615	14.3	-139	3091	50.7
1992	3070	52.0	1687	4.4	1383	4757	53.9
1993	3659	19.2	2623	55.5	1036	6282	32
1994	4136	13.0	3612	37.7	524	7748	23.3

Source: Calculated on the basis of Brazil Central Bank (1995:126-7).

From 1990 to 1994, Argentine exports of primary, oil and agro-industrial products to Brazil steadily grew more than exports to the rest of the world.[2] The flow of industrial manufactures to Brazil also swelled from 1991 to 1993, particularly in 1993 with 85% growth compared with the previous year, while exports to the rest of the world grew by only 16% (see Table 5.18). The much-feared Brazilian ‘invasion’ of goods did not take place due to the ‘Real Plan’ which boosted internal consumption. The consumption boom not only reversed the trade flows, but also used up the production stocks (accumulated during the recession) that would otherwise have been exported to Argentina. This was the case until the Brazilian government began to devalue the Real.

The composition of trade reveals a high percentage of industrial exports. From 1991 to 1993, industrial manufactures amounted to 36.3% of total sales to Brazil; this figure was 25% in sales to the rest of the world, due mainly to the automotive sector. This tendency was counterbalanced in 1994, with a 24% increase in industrial goods exported to Brazil and a 27% increase in sales to the rest of the world (see Table 5.18). The ‘Real Plan’ made the difference: if the trade in the second half of 1994 is disaggregated, industrial manufactures to Brazil grew by 34%, and to the rest of the world by only 21%. In 1994, the main exported products were vegetables (27%), automobiles and spare parts (18%) and minerals (16%).

With respect to imports, in 1991 and 1992, Argentina’s purchases of capital goods from Brazil grew at a higher rate than from the rest of the world. However, in 1993 imports from Brazil grew by only 14%, compared with a 36% growth in imports from the rest of the world. In 1994, in contrast, the products purchased from Brazil increased by 56% while those from other countries rose by 46%.

Table 5.18 Argentina's exports to Brazil and the rest of the world according to type of goods, 1990-94 (USS m.)

ear	Total	% change	Raw mat., MOA [2] and oil	% change	MOI [3]	% change
xports to Brazil						
990	1423		872		551	
991	1489	5	955	10	533	-5
992	1671	12	1074	12	596	12
993	2814	68	1712	59	1102	85
994	3595	28	2230	30	1366	24
xports to the rest of the world [1]						
990	10930		8116		2813	
991	10489	-4	8039	-1	2451	-13
992	10564	1	8337	4	2227	-9
993	10304	-2	7727	-7	2577	16
994	12144	18	8877	15	3266	27

/Votes; [1] Total exports minus exports to Brazil.
[?] Agricultural manufactures.
[3] Industrial manufactures.
Source: INDEC

Table 5.19 summarises the value and growth percentages of Argentine imports by type of goods (raw materials, manufactures of agricultural origin or MOA, and oil in one column; and industrial manufactures or MOI in another column).

It should be noted that Argentinian trade flows are important to some Brazilian states, just as Brazil's are to some Argentine provinces. The exports to Argentina from the state of Sao Paulo alone accounted for 52.2% of all Brazilian exports in 1994. The other states with large flows of exports to Argentina were Minas Gerais (11.6% of the total) and Rio Grande do Sul (10.3 % of the total). These three states accounted for 74.1% of the total. In 1992, they represented 76% and in 1993, 73% of the total. The rest (25.9%) was from 19 states, of which the most important were Rio de Janeiro (5.7%), Santa Catarina (4.6%), Parana (4.3%) and Bahia (3.9%). It is clear, then, that the south-east and south of Brazil are heavily engaged in Mercosur (together they supply 92.3% of total exports). Bahia state was an important exception between January and May 1995, when it took fourth place (Argentinian Embassy, 1995).

Table 5.19 Argentina's imports from Brazil and the rest of the world according to type of goods, 1990 94 (US$ m.)

ear	Total	% change	Raw mat*, MOA [2] and oil	% change	MOI [3]	% change
mports from Brazil						
990	718		64		654	
991	1526	113	167	161	1359	
992	3339	119	414	148	2925	108
993	3570	7	473	14	3097	115
994	4280	20	736	56	3544	14
mports from the rest of the world [1]						
990	3359		572		2787	
991	6749	101	1268	122	5481	97
992	11533	71	2681	111	8852	62
993	13214	15	3642	36	9572	8
994	17264	31	5303	46	11961	25

Notes: ' Total exports minus exports to Brazil*

[2] Agricultural manufactures.

[3] Industrial manufactures.

Source. INDEC

Argentina was particularly important to the Brazilian states during the 'transition period'. At the beginning of 1995, Argentina was an important purchaser of products from three Brazilian states: Sao Paulo (which sent

14.8% of its total sales to Argentina), Rio de Janeiro (14.7%) and Bahia (15.8%). After that came Amazonas (9.8%), Rio Grande do Sul (7.8%), Santa Catarina (7.7%) and Minas Gerais (7.4%) (Argentine Embassy in Brasilia, 1995:55, calculated on the basis of Brazil's DTIC).

Argentine exports to Brazilian states have also been geographically concentrated. From 1992 to 1994, the south-eastern and southern Brazilian states accounted for almost 90% of total imports from Argentina (87.6% in 1992, 86.4% in 1993, and 88.1% in 1994). The most important products sold to the south-eastern region were oil, automobile parts, automobiles and trucks, rice, synthetic fibre, soy oil, fresh fruits and cod fillets. To the south went oil, leather, automobile parts, soy oil, wheat, cotton, rice, onions and beans (Argentine Embassy, 1995:56-8).

5.4 Maturing intra-industry trade patterns

Most of the increasing bilateral trade occurred through mechanisms of managed trade. 'Most of the trade corresponded to the products negotiated during the first period (automobiles, capital goods, wheat, oil combustibles)' (FIEL, 1993). The Automobiles Protocol was implemented at the beginning of the second period, and the Wheat Protocol could only be implemented in cases of trade imbalance or emergency, depending on political decisions at the top, which did happen in 1993.

Three mechanisms of managed trade were designed: first, bilateral government accords when huge deficits appear, which tend to stabilise trade flows (as in 1993 when the Brazilian State bought cereals and oil from Argentina); second, the intra-firm trade concerning mainly TNCs led by the automobile, food and chemical sectors; third, the sector agreements negotiated until 1994.

The higher proportion of intraregional industrial exports could be partly explained through intra-industry trade, that is, trading within the same industrial sector. This trade is the first indicator of possible dynamic gains from regionalism, since it may lead to specialisation, economies of scale, and higher productivity.

Substantial intra-industry trade has been observed between Argentina and Brazil, particularly in chemical products and transport equipment. This should be considered a significant aspect of Mercosur since the most important element in the trading volume and growth rate of the region has been the bilateral trade between the two countries. In products where economies of scale and product differentiation prevail, intra-industry trade becomes highly intense.

Lucangeli's (1992:65) conclusion was that oligopolistic sectors and TNCs tended towards trade agreements and institutional arrangements that increased specialisation. Manufacturing activities that showed more competitive conduct needed governmental intervention to push for RI while permitting regional specialisation.

The intra-industry coefficients are particularly high for transport machinery and equipment, and for chemicals, as shown in Table 5.20. Since 1990, the coefficient for chemical products has exceeded 60%. Meanwhile, the coefficient for machinery and transport equipment (mainly vehicles and office equipment), after reaching almost 60%, fell to 35% in 1992, to pick up again later.

In Mercosur's case, intra-industry flows are more important intraregionally than extra-regionally, and have been increasing. Although the transition period was short and no categorical assessment is possible, intra-industry flows were stable in the early 1990s, though they declined slightly in 1994 (Behar, 1993). While Argentina and Brazil presented the highest rates, Uruguay showed a high intra-industry coefficient due to the bilateral preferences given by Argentina through the CAUCE (Economic Co-operation Agreement between Argentina and Uruguay) and by Brazil through the PEC (Economic Co-operation programme between Brazil and Uruguay). The increase in intra-industry flows was confirmed during the transition period, when the coefficient for total trade went from 18.0 in 1984 to 37.8 in 1994.

Table 5.20 Argentina-Brazil intra-industry coefficients by product, 1984-90, 1994-96

Section	Products	1984	1986	1988	1990	1994	1995	1996
5	Chemicals	18.2	31.7	32.4	67.0	50	57	62
6	Manuf. with Raw Mat.	6.0	8.2	13.6	34.4	27	42	46
7	Transport Machineryt	30.9	52.9	45.0	63.2	65	73	66
8	Manuf, diverse	55.8	63.8	51.4	37.6	\ 33	60	66
	Manu-factures *	22.2	35.1	32.2	54.5			62.2

Note: * Manufactures: share of sections 5,6,7,8 in % of bilateral trade.
Sources: Lucangeli (1992) and Markwald and Machado (1999) for 1994-96.

On a global level, intermediate products accounted for 54.8% of world trade in 1992 (Fontagne *et al.*, 1996) so it appears that a great part of global value and wealth may be produced within a system of interconnected networks. In the case of Mercosur, Machado and Markwald (1997:201-2) affirm that between 1990 and 1996 more than 60% of total trade in manufactured products constituted intra-industry trade (of which intra-firm trade was a significant part). They also argue that, since 1994, the increase in intra-industry trade, within which intermediate products and capital goods predominate, should not be attributed just to Mercosur. This appears consolidated in the chemical and transport sectors, which include petrochemical and steel production. With a coefficient above 40, these intra-industry flows accounted for approximately 30% of the 1996 total bilateral trade (ibid.).

5.5 Investment and capital flows

The term ‘globalisation’, used to synthesise a series of transformations in the world economy, involves the strategies of firms as well as public policies. The firms change their management strategies to compete at world level, specialising their FDI by product and geographical zone. Their investments bring a new model of industrial organisation with them, based on horizontal and vertical co-ordination networks, and the integration of new technological and organisational production strategies.

As far as governmental policies are concerned, the traditional paradigm of public intervention loses efficacy and relevance when compared with that of ‘policies for competitiveness’ aimed at attracting FDI (Lisbon Group, 1995). As institutional practices and public policies increasingly condition competitiveness in each national space, competition for FDI takes place between different regulatory institutional systems within national and/or regional market economies. In this regard, while multilateralism dealt with tariff barriers at the state borders and was a conscious State policy, globalisation affects State regulation to an unprecedented degree. Globalisation emphasises the role of FDI, which in fact has been more dynamic than trade, showing that ‘the international rules on competition and direct investment, instead of trade policy, will become the most conflictual point in economic relations’ (*The Economist*, 30 March 1991:61). In this scenario, the agenda of international economic negotiations undergoes many changes: negotiations over products and tariffs give way to an agenda on national policies that goes beyond conventional trade policies. Furthermore, issues that were previously considered of exclusive domestic interest begin to constitute a source of trade tensions, motivating unilateral protectionist restrictions or a strong demand for policy on convergence of national regulations.

During the ABEIP attempt (1986-90), the international context was unfavourable in terms of access to foreign capital and high interest rates. The debt crisis remained unresolved, bringing about a State crisis and the subsequent abandonment of State-led development strategies based on import-substitution industrialisation. From 1986 to 1990, political and economic instability, plus low involvement of the private sector, were the key obstacles to RI.

The restrictions to accessing the international capital markets were eased during the Mercosur transition period, i.e. between 199! and the end of 1994. In addition, U.S. interest rates were reduced by half between 1990 and 1994, which decreased the debt burden? The first clear sign of a resurgence in interest rates was given by the U.S. Federal Reserve Board in February 1994, when it started tightening the monetary supply in order to prevent inflation in the wake of increased demand due to renewed economic growth since the end of 1993. The recession in DCs had begun in 1990 with the USA and Canada, and spread to Germany and Japan by 1992. In 1993, the U.S. economy grew by 3% while Europe had a negative rate of 0.5%. In 1994, economic growth was restored in Europe by 3%, in Japan by 1.5%, and in the USA by 3.5%.

From the recessionary economies of the DCs, and particularly from the USA, capital inflows came searching for new possibilities within the privatisation and stabilisation programmes in the so-called ‘emerging markets’ such as Argentina and Brazil. However, the recession in the DCs also meant that DCs were depressing world demand as well as commodity prices. For example, in the steel and petrochemical sectors, this meant an increase in worldwide surplus production and competition at lower prices.

The annual average total FDI flows towards Mercosur doubled after 1990, and flows from the USA even tripled, clearly outstripping the EU between 1990 and 1994 (see Table 5.21). From 1990 to 1995, Mercosur attracted 40% of total U.S. and Japanese FDI, and 50% of all European investment in Latin America (IADB-IRELA, March 1996).

Capital inflows contributed to price stability, particularly in Argentina after implementation of the Convertibility Plan in April 1991, and Brazil after implementation of the ‘Real Plan’ in July 1994. These plans provided an anchor for expectations, and therefore inflation slowed drastically while credit reappeared (in Argentina, Peru, Mexico and Brazil, the last after July 1994), although at very high interest rates. During 1990-93, foreign capital flows in Argentina amounted to more than 50% of total export eamings. Between 1994 and 1998, Brazil received approximately US$50 billion of FDI *(Garcia,* 1998).

Brazil increased its investment in Argentina, although the latter remained fifth in the league table of Brazilian investment abroad. It rose from US$ 77 million in 1990 to US$ 85 million in 1991 and USS 106 million in 1992. However, investment in Argentina as a percentage of total investment abroad slightly decreased from 1990 to 1992: in 1990 it was 3.07%, in 1991 it was 2.06%, and in 1992 it was 2.89% (Brazil Central Bank, 1993:113).

Table 5.21 Foreign investment flows to Latin America and the Caribbean 1985-94 (USS m. and percentages)

	1992	1993	1994	1985-89*	(%)	1990-94*	(%)
EU	1,398	916	4,446	1,265	53.7	1,952	21.5
USA	5,568	8,325	11,582	941	40.0	6,732	74.2
Japan	270	132	568	149	6.3	386	4.3
Total	6,966	9,241	16,028	2,355	100.0	9,070	100.0

Notes: * Yearly average during the period.
These flows do not include offshore centres.

Source: IADB/IRELA, 'Foreign Direct Investment in Latin America in the 1990s'. Madrid, 1996.

Table 5.22 FDI flows to Mercosur, 1980-94

Origin	Average annual net flows (US$ m.)		
	1980-84	1985-90	1990-94
USA	678	893	2,918
Europe	812	846	1,015
Japan	233	194	154
Europe + USA + Japan	1,724	1,933	4,087

Source: IAD8, 'IRELA, Foreign Direct Investment in Latin America in the 1990s'. Madrid, 1996.

In March 1994, the financial context changed with the reactivation of the DC economies, shifting capital flows away from countries like Argentina, where investment was mostly short term and in the stock market. Capital inflows slowed and/or were reversed, while Argentina’s current account deficit continued to grow.

Then came the Mexican ‘tequila shock’ in December 1994, exposing Mercosur’s Achilles’ heel, namely the incapacity to raise internal savings instead of relying on foreign capital. The need for new institutions (regulatory, export-promotion, and consumer protection agencies and policies, as well as an independent judicial system, together with strong educational and R&D centres) appeared.

Since Mexico has traditionally led the formation of international investors' expectations in Latin America as a whole, this last crisis, like the one in 1982, provoked a U-turn in the assessment of the 'risk level' of the region {*Vision*, 16-31 July 1995:13-15). On the one hand, the new context placed new demands on the 'emerging markets' for attracting and retaining foreign capital. On the other hand, a stronger world demand created new opportunities for intra- and extra-Mercosur exports.

Investment protection was the priority. In August 1994, Mercosur countries signed the Protocol on the Promotion and Protection of Investments from non-Mercosur Member States, which complemented another protocol signed in 1993 on promotion and protection of reciprocal investments within Mercosur. The new protocol aimed at harmonising legal rules in order to prevent predatory competition over investment localisation. Already in 1991, Mercosur and the USA had signed an agreement on trade and investment, and in January 1994 the Common Market Council had agreed on the adoption of the Basle Committee criteria for the minimum level of capital for financial institutions, based on risk assets.

In 1994, net capital flows dropped for Latin America as a whole. However, in the same year, Brazil (and Colombia) experienced increases of almost 50% {*Trade and Development Report*, 1995:79). Currency reform in accordance with the 'Real Plan' of July 1994 fixed the nominal exchange rate in relation to the dollar (as in Argentina) while supporting it with very high interest rates. Nominal appreciation rose by 15%. As prices continued to rise (as in Argentina), there was a real appreciation of the new currency by 33% in the last half of 1994.

By mid-1995, investors were again convinced of the governments' will to meet debt repayments (at least short-term ones) as well as to contain inflation. However, the governments' tactic of inducing an inward recession while betting all on the fiscal balance started to take its toll politically and socially. At the same time, corporate eamings were threatened as equity markets plummeted (in relation to the high interest rates), while small and medium-sized enterprises were strangled by the expensive credit and reduced internal market. National economies had to export within the Mercosur region or risk complete stagnation. Argentine exports doubled from US$ 12 billion in 1994 to USS 24 billion in 1996, thanks to new investments in food, oil and gas, the automotive sector and mining. GDP decreased by 4.4% in 1995, but rose by 3.5% in 1996, when the government signed a new 21-month standby agreement with the IMF in April. At the end of the year, this was replaced by an extended funds facility arrangement (http:Wwww.tradeport.org).

Meanwhile, the regional capital markets, particularly Brazil's, developed rapidly in three ways. To begin with, privatisation increased the volume and liquidity of the Mercosur national stock markets. The Sao Paulo and Rio stock exchanges provided high returns in 1993, with 110% returns in dollars, attracting Argentinian interest. In June 1993, Brazil authorised its stock exchanges to trade in stock deposit certificates issued by companies with headquarters in Mercosur countries (Brazil Central Bank, 1993:142). Actually, Brazil had already authorised investments in the Mercosur stock exchanges by individuals and legal entities, through the floating exchange rate market. In 1994, the Argentine National Value Commission recognised the value titles issued in the legally recognised stock markets of Brazil, Paraguay and Uruguay (Mercosur), as nationally issued value titles. Immediately afterwards, a 'Brazil Equity Fund' was created, which could have up to 75% of Brazilian shares, the rest being Argentinian. Its value was to be between USS 25 and 50 million.

Furthermore, the economic opening and establishment of Mercosur prompted the traditionally closed *sociedades anonimas* (limited liability companies) to issue shares and medium-term debt titles, by which they also achieved mergers and acquisitions as well as exchanges of shares. Some companies issued not only national shares, but also international ones. In mid-1994, there were six Argentine companies, the most important of which was YPF (the privatised oil company), which appeared on the New York Stock Exchange through ADRs. Through the ADR mechanism, the companies improved their visibility in the financial markets, expanding and diversifying their shareholder base. The prices of their ADRs became easily comparable with those of companies within the same industry, since they are all linked to global offer and demand. The Securities and Exchange Commission of the USA lowered the requirements for issuing ADRs in the country, increasing liquidity as well as the market. From 1994, companies had to present the annual reports of only two years instead of five. The result was that all the major industrial companies obtained access to capital, particularly through leading managers such as Citibank, the Chase Manhattan Bank, Merrill Lynch, and Chemical Bank.

Finally, the stock markets developed their information systems. For example, the Buenos Aires Stock Exchange signed a co-operation agreement with its Brazilian counterpart. Meanwhile, the banks and financial institutions expanded within Mercosur with new services, financing and advising on intraregional joint ventures, mergers and acquisitions, as well as exchanges of shares. At the same time, they made 'strategic alliances' among themselves. Access to the Brazilian financial market was difficult because of Article 192 of the federal Constitution. The establishment of new foreign branches of financial institutions was prohibited, as was increase in the percentage participation by foreign individuals or legal entities in capital or financial institutions with headquarters in the country (Article 52, transitional provisions, in Brazil Central Bank, 1993:141). Only after a constitutional amendment or regulation of Article 192 could this state of affairs be changed.

5.6 Business reactions to Mercosur

This section reviews general business reactions and the existing major analyses of business behaviour and strategies. The objective is to build up an overview of business reactions to regionalism, since the focus thereafter will be on the petrochemical and steel sectors.

The dynamism of firms has been confirmed as the major factor in Mercosur's success story, and their initiatives have been classified as commercial and/or productive (Motta Veiga, 1995:115; Chudnovsky and Porta, 1995:300). The transformation of business behaviour appears reflected through the indicator of intraregional Mercosur investment flows, which 'have acquired remarkable dynamism' (Bouzas, 1997:14-15). In 1997, recognising a lack of systematised information on the issue, Bouzas cited two sources: the Argentinian embassy in Brazil and the Central Bank of Brazil. The first source shows that 'a survey to May 1996 identified a total of 313 joint Argentine-Brazilian ventures, 60% of which were linked to the goods sector ... [these had] tripled in a little over three years' (Bouzas, 1997:14). The second source states that Brazilian stock investment in Mercosur in 1995 (US$ 349 million) was double that of 1991' (US$ 180 million), and that Argentina received 75% of it. Argentinian stock investment in Brazil was even more dynamic: in 1995, it was USS 347 million .compared with just USS 36 million in 1991 (ibid.:15).

In the case of Brazil, given the difference in economic size between it and Argentina, Mercosur did not seem as vital for the firms. However, it appeared to be a vital step for the long-term. Interest in regionalism began to increase in Brazil from early 1993. Mercosur was regarded as one of the two most significant export markets by 41% of all national firms and TNCs, displacing the USA and the EU (Bielschowsky, in Chudnovsky *et al.*, 1995:299)

At the beginning of the 1990s, as already mentioned, global capital was looking for profitable opportunities. The 'emerging' countries seemed to be the most promising for several reasons. With regard to Argentina and Brazil, these were: unilateral import liberalisation, State deregulation, price stability resulting from the principal governmental goal of macro-economic stability, privatisation, and FDI liberalisation. In the case of FDI in Argentina, however, the main determinant in most cases was Mercosur. The most significant changes for firms took place when 'globalisation' formed part of the strategy, and where the logic of the reorganisation was based on the regional Mercosur market, (see Table 21 in Kosacoff and Porta, 1997).

Privatisation was the main engine for FDI through joint ventures between locals and foreigners. Thus, privatisation went hand in hand with the regional integration process, where firms set up links with one another. After that, autonomous operations occurred without being driven by privatisation, in many cases without even being registered because Argentina's legal requirement of registering FDI had been lifted. Negotiations took place at individual company as well as industry levels. The strategies of petrochemical and steel firms and the sectors as a whole will be discussed further in the following chapters.

Although it may be too early to assess the impact of Mercosur on business initiatives, some evaluations have covered the 1990-95 period. In Argentina, the Ministry of the Economy provided a first account in mid-1993 and the Secretary for Industry prepared a second one in 1995. The Argentine Invertir Foundation has also followed up the issue.

The research done by the Ministry of the Economy in Argentina provided a comprehensive account of economic co-operation between Argentine and Brazilian firms for mid-1993. It considered 99 cases, 75 of which dealt with production of or trade in goods and the rest with services. Of the 75 firms, 43% haded in goods and the rest were engaged in production. Firms producing goods of the same sector in which they invested, mainly in the consumer and automotive sectors, also carried out trade. National firms as well as TNCs undertook production initiatives, particularly in automotive and intermediate goods. Among the 29 TNC cases, the automotive sector was the most significant, with 60% of production initiatives. Service investment (banks), consumption (food and drink), intermediate products (plastics), capital goods (tractors and agricultural machinery), and construction followed.

The Argentine Secretary for Industry studied firms' initiatives between 1992 and 1995, observing 273 operations valued at about USS 10.914 billion of investment. In some cases, however, figures were not available. The official compilation met difficulties in obtaining information, showed some repetitions, and determined total FDI by summing up share participation at purchase price together with development investments made after acquisitions or associations. The Invertir Foundation has tried to carry out similar surveys since 1994, counting 181 FDI projects valued at almost USS 18.24 billion. Still, the total sum in dollars includes both acquisitions and later investment, and even projected investment.

Although banking appeared to be the main sector undergoing important restructuring (40 banks were restructured between 1994 and June 1995), a major conclusion was that big companies bought whatever was available because the purpose was to obtain a stake, a position, a brand, a market or a distribution line. In achieving long-term survival, short-term profit appeared to be less-important than increase in business scales. Many strategies seemed to be the result of a domino effect. The strong local economic groups did the same, trying to occupy spaces before their competitors, or, within Mercosur at least, with a foot in either Argentina or in Brazil.

According to a report published in August 1994, the biggest changes perceived by the Secretary of Industry were in the food and beverage sector (almost 30%), followed by automobiles and autoparts (17%), chemicals and petrochemicals (14%); paper and cellulose (6%), and construction materials and ceramics (6%). As far as bilateral business relations between Argentina and Brazil are concerned, 170 undertakings were listed in August 1994. From 1990, undertakings were mainly through joint ventures or mergers (partly or totally). Brazilian firms were national or managed by nationals, and most of the firms were already leaders in the national market. In the plastics sector there was Tigre S.A.; in autoparts there were Cofap & Co. and Freios Varga; in vehicles Agrale & Co.; in steel Usiminas, Compania Vale do Rio Doce, and Confab Tubes; in metallurgy Latasa, Latas Ahiminio S.A.; in petrochemicals Ciquine S.A.; in fertilisers Adubos Trevo. All these firms were among the biggest 500 in Brazil, according to 'Conjuntura Economica' of the Vargas Foundation. While investments from other countries were mostly in services, 40% of all Brazilian undertakings in Argentina were manufacturing companies.

In 1995, a fourth study was presented by KPMG, a Dutch consultancy firm *(La Nation,* 18 August 1995, section 3, page 1). In 1997, KPMG in Amsterdam provided new statistics to this author. Through its corporate finance division, KPMG has followed the process since 1991, within a global project. The data were compiled from first-hand reports. The KPMG 1995 account (1991 to June 30 1995) left out privatisation and FDI in new plants. There were 336 operations between locals, locals and foreigners, or directly between foreigners acting in the country. Although the valuation of many operations was not disclosed, the total sum was between USS 2,300 million and 2,500 million *(La Nation* 18 August 1995, Section 3, page 1).

The KPMG report of 22 January 1997 summarised joint ventures, mergers and acquisitions between firms in Argentina, Brazil, Uruguay and Chile between 1992 and 1996. Again, not all figures were disclosed. Mercosur was the target of 120 out of a total of 232 deals stemming from the countries involved (KPMG, 1997). [4]

As mentioned in Section 4.2, a 1997 ECLAC working paper on FDI in Argentina's manufacturing industry analysed the impact of Mercosur on firms' strategies (Kosacoff, and Porta, 1997). And a 1998 assessment by Brazil's Getulio Vargas Foundation argued that Mercosur's regionalism is more important than that of a WHAFTA.

At first, Mercosur was viewed by some as a political alliance rather than a real commitment to economic integration. TNCs in the automotive industry and foreign investors in the oil and gas sectors, however, had realised that this RIA was an opportunity to enlarge business scales in terms of production and distribution networks. 'The head of Autolatina, the holding company for Ford and Volkswagen in Brazil and Argentina, explained: "In many ways we have been positioning ourselves for this for years" ' *(financial Times,* 27 March 1991). This revealed a change in the attitudes of transnational companies from the early stages of RI efforts during the ABEIP period. A radical restructuring of the oil and gas companies was beginning to have an impact on the petrochemical sector, a point that will be analysed in Chapter 7.

5.7 Conclusions

This chapter has illustrated the fundamental characteristics of Mercosur that have been important in the actions and development of meso-level actors within regionalism. To summarise, these are that Mercosur was from its inception a non-hegemonic RIA giving high priority to the market.[5] Regarding industrial restructuring within the new environment, both the Argentinian and Brazilian governments recognised that Argentine industry was to bear much higher costs than Brazilian industry. However, the Argentinian government considered the problem of asymmetry within Mercosur to be only the result of 'governmental regulations' and took a liberal stand against State regulation. At the same time, though, 'safety valves' such as the lists of exceptions and sector-based agreements were allowed during the process of coalition building to marshal support for regional integration.

While institutional development has been minimal, trade growth has been not only impressive but also steady, though probably aided by lower transport costs and geographical proximity. Intraregional trade grew by more than 250% in five years (between 1990 and 1995), its average annual growth being 28.8%, The creation of an enlarged market, namely the regional market of Mercosur, in order to attract foreign investment, proved well reasoned. Investment flows have been extremely important in the process, especially because they were directed more towards manufacturing activities, thus increasing intra-industry trade within the region.

Mercosur has been confronted with bilateral trade and investment tensions after each financial crisis. The main one was the 'tequila effect' of 1994, and the last one stemmed from the Asian and Russian financial crises since 1997. It remains to be seen whether the impressive trade growth will be sustained, and whether the governments will develop the necessary regional supranational institutions and mechanisms needed to cope with these tensions.

At the same time, the strategies of firms seemed, in spite of all constraints, the most dynamic factor behind regional integration. These elements provide the essential background to the consideration of the more sector-specific governmental and regulation systems, which will be analysed in the next chapter.

NOTES

[1] Mercosur's intraregional trade in the automotive sector grew 'from US$198 million in 1990 to more than USS 2 billion in 1995', while extra-regional trade, mainly with the EU, increased from US$ 307 million in 1990 to US$ 3.6 billion in 1996. Imports from NAFTA rose from USS 122 million in 1990 to USS 1 billion in 1996 (see Machado and Markwald, 1997:183, fn. 3).

[2] Argentine exports are classified by 1NDEC into three categories: primary exports, manufactures of agricultural origin, and industrial manufactures. Argentine imports through INDEC are only classified into two categories: capital goods and others.

[3] At the end of 1992, U.S. short-term interest rates reached 50% of their 1990 value. They only rose in 1994, between January and November, from 3% to 5.5%. Treasury bonds of 30-year maturity fell from 8% in 1991 to 6% at the end of 1993, and then returned to 8% in November 1994.

[4] Chile, with 48 deals, had the highest percentage of intraregional deals {they comprised 81% of the value of all Chilean deals). Argentina had 33: only one in 1992, seven in 1993, five in 1993, 12 in 1995, and eight in 1996. Brazil had 37 deals, with a peak of eleven in 1994. Two-thirds of the value of all deals (69%) was directed towards Mercosur. The total value of deals that targeted Mercosur represented only 37% of all deals with foreign countries. However, the annual value was steadily increasing during the period. Uruguay had two deals targeted at Mercosur in 1995, representing 67% of die total value of Uruguayan deals.

[5] After Brazil's 'Real Plan', it may be possible to discuss the situation of relative regional hegemony, but not of an absolute regional hegemony.

Part Three:

Historical Evolution of Business Actors

6 Petrochemicals and Steel in the Twentieth Century: Historical Evolution of Business Actors in Argentina and Brazil

6.1 Introduction

As Chapter 4 has shown, Mercosur's most noticeable outcome - growth in trade and investment - has been delivered by the private sector's dynamism. However, while in theory industrial sectors with increasing returns to scale of production 'should be the ones who pursue a regional strategy' (Milner, 1997:80), and thus would be more likely to be involved in regionalism, in Mercosur these industrial sectors were expected to do the opposite. In order to explain Mercosur's business behaviour in the 1990s, with all its complexity and divergent theories, it is critical to start our analysis from a different angle. The emphasis needs to be placed on the *meso-level* at which business coalitions and strategies have been evolving. In order to achieve this objective, the historical evolution of business behaviour needs to be reviewed: only the historical evolution of business behaviour from a meso-level perspective can provide us with the key to understanding the rationale of their present-day strategies. Consequently, section 6.1. will present the historical development of the national regulatory and co-ordinating frameworks in which their strategies and identities matured. Subsequently, in section 6.2, the aspects of the 1990s political economy relevant to the petrochemical and steel sectors will be reviewed from a comparative perspective. Finally, those sectors' strategies within regionalism will be assessed in sections 6.3., 6.4. and 6.5.

6.2 Evolution of business actors before 1990

6.2.1 From the 1930s to the 1970s: Developmentalist States and industrialisation

From the 1930s to the 1980s, Latin American States played three main roles: those of producer, provider of public goods, and guarantor of welfare (Teitel, 1992:262). In addition, the States considered three types of goods as being of strategic interest: raw materials, and intermediate and capital goods.

Therefore, under import-substitution industrialisation (ISI) policies, the State formed the two industrial sectors that are the focus of this study through what is called 'assisted capitalism'. That was a system in which the State was embedded in both the economy and society, directly as a producer and indirectly by articulating and stimulating private groups. The fate of business people was linked to the State, but their profits were also protected. Industrialisation in the region was led by national public enterprises, while the protection and growth of the domestic market was the motor of development, ensured by the active participation of private firms, workers and the urban population. Growth expectations remained optimistic until the second half of the 1980s, and the steel and petrochemical plants were consequently designed to supply the domestic markets five to ten years ahead of expectations.

Brazil has the world's second-largest reserves of iron ore, and almost all other minerals required for making steel. From its beginnings in 1921, steel production was carried out with foreign participation, namely Belgian. The first coke-integrated mill (CSN) started operating in 1946 (Paschoal Guerra 1989). With the construction of Altos Homos Zapla in 1941, Argentina's steel, restricted to lamination or melting until the 1940s, began to be produced under military State control (through the Dirccion General de Fabricaciones Militares- DGFM). A second DGFM plant, Somisa, was constructed in 1961.

In the case of petrochemicals, foreign TNCs already had vertically integrated chemical production. In order to emulate them, States in the region promoted industrial complexes, or *polos,* as integrated production sites. States assumed control of basic petrochemical production and substituted themselves for the vertical integration of TNCs in the developed countries. In addition, 'because of the technical and economic interdependence of the petroleum and petrochemical industries, the institutional system for petroleum development in each country affected the institutional structure and development of its petrochemical industry' (UNIDO, 1973:49). In Argentina, the State was involved in petrochemical production as early as the 1930s, making it the oldest industry in Latin America. It was based on domestic feedstock resources exploited by the large State-owned corporation Yacimicntos Petroliferos Fiscales (YPF). The first petrochemical firm, Atanor, was established in 1938 by local private capital. It is important to stress that YPF never engaged fully in the sector before it was privatised in the 1990s. This was also true of the State gas enterprise (Gas del Estado). However, Argentina's military did get involved in petrochemical complexes just before and during the Peron government.[1] Brazil's petrochemical industry, in contrast, was closely connected with Petrobras, established in 1954 by mixed capital under federal State control. The federal government monopolised not only oil exploitation but also refining, which made Petrobras a necessary actor in the sector (Erber, 1995a:5). However, there was no mention of the petrochemical industry in the law that created Petrobras, and the sector's regulatory body, the National Oil Council (CNP), declared in 1954 that petrochemicals should primarily belong to the private sector. In 1957, the CNP authorised Petrobras to guarantee the supply of basic raw materials and essential products, creating a division of tasks between the State and the private initiatives that would crystallise in the 1960s.

Both Argentina and Brazil first tried to attract TNCs, but private FDI initiatives were negligible. In the 1950s, Argentina encouraged FDI in the petrochemical sector. This resulted in small plants and about 30 products for the local market. However, Brazil's attempt to stimulate private FDI initiatives failed, resulting only in a dominant paradigm of an intervening developmentalist State in which capital accumulation was based on enhanced human resources and the development of technological capacities. Nevertheless, advances occurred more rapidly in product and process technologies than within organisations (Kosacoff, PDI 34; Bresser Pereira, 1996:42).

After a supposedly 'easy phase' of ISI (until the late 1950s), the two countries experienced a 'deeper' ISI phase in which TNCs came to play an important role.[2] From the 1960s, and mostly under military regimes, a new alliance came into being between national and international capital, and civilian and military 'techno-bureaucracies'[5] (O'Donnell, 1973; on Brazil's petrochemical sector, see Alban Suarez, 1986). Protection of the internal markets continued to be the key to national growth, now associated with the performance of foreign TNCs. The incorporation and adaptation of technology from DCs and the establishment of large linns replicated the Fordist system of production. At this stage, macro-Fordism became the hegemonic mode of production in the two sectors.

Notably, while built within an 'assisted capitalism', both countries had important *connective* institutions up to the late 1980s: in Argentina the DGFM military complex; in Brazil Pctrobras-Petroquisa-BNDES for petrochemicals, and Siderbras for steel (Paschoal Guerra, 1989). Petroquisa, the petrochemical branch of Petrobras, had majority shares in almost all enterprises producing basic petrochemicals (Capiati, PDI 45). Argentina's DGFM connected the two sectors as a shareholder, but the achievement of both the DGFM and the YPF in terms co-ordination is debatable (Lopez and Chidiak, 1996:376-80). In contrast with Brazil, there was no attempt to develop national technology, nor were linkages promoted between the sector and R&D institutions. The only successful case of such co-operation occurred in Bahia Blanca, an initiative conducted during the past 30 years by a stable group of university professors, researchers, engineers and military people which has maintained a rather distant relationship with the capital Buenos Aires. Interviewees explained in detail how this R&D support centre developed several close links with the petrochemicals sector in Brazil from the late 1970s to the 1990s (Arcodaci *el al.*, PDI 45).

Brazil's steel production developed under Siderbras, which co-ordinated the purchase of raw materials, labour training, technological development, R&D and foreign sales *(Siderurgia Latinoamericana* no. 399, July 1993:3). In Argentina, steel regulation was under the DGFM military holding. One Argentine State company, Somisa, [4] 'accounted for half of the total local production from the 1960s onwards' (Barbero, 1997:383). Somisa and the other State plant, Altos Homos Zapla, were the only integrated firms, and they constituted the axis of the Argentine steel sector. The result was a coalition-type relationship between public and private firms in that sector.

The petrochemical, and metallurgical-mechanical (from steel to automobiles) sectors, chosen to become the engine of the economy, were at the core of the second ISI period from 1958 to the 1970s (Kosacoff, 1995:100). States conceived the sectors within the IS! idea of completing the national matrix of production according to their preference for an autarchic sovereign economy. The second main goal was to decrease the chronic deficits in the sectors' balance of trade. However, exports of petrochemicals and steel were not on the list of states' expectations since their production was destined for the internal markets.

Through State decisions and macroeconomic policies, steel and petrochemicals (together with aluminium, paper and others) received important support in the form of subsidies,[5] protection from imports, transfer of rent from the oil sector, and controlled prices for raw materials, basic products, intermediate products and services produced by the State.[6] Foreign credit was also available, and the World Bank supported the process, as with the Brazilian national steel plan of 1967.

Although there had been some sectoral activity before, it was from this point onwards that the two sectors became important in terms of investment, value added and exports. They developed as oligopolies based on increasing productivity and generating the highest returns in the economy. States were not only producers or providers of support, but also 'midwives': they imposed conditions on all private projects (both national and foreign), fostering particular private economic groups in each sector. In the case of Brazil's petrochemical sector, 'the growth strategy of the State techno-bureaucracy was based not on the ideology of statism, but on one of nationalism. Advocating nationalism in the name of the national private initiative, the techno-bureaucracy and the local bourgeoisie joined efforts to ... reduce the space for activities of transnational capital' (Alban Suarez, 1986:24). Conditions imposed by the States included the design of each project, [7] covering all aspects: financial, economic and technical, as well as the geographical location.[8] Depending on the type of interaction between the Executive and the regions, the projects were subject to regional pressures for furthering regional industrial development (as in the north-east and south of Brazil, or the north-west and Patagonia in Argentina)[9]

In spite of its search for FDI, the Brazilian military regime established in 1964 failed to reach agreement with Phillips Petroleum and Dow, among others.[10] Since Petrobras was forbidden by law to participate in joint ventures with private companies, Pctroquisa was established in 1967 and Brazil developed its 'tripartite model' (see Erber, 1995a:7-14). In this associative pattern, the ownership was divided between the State, private Brazilian capital and transnational capital, with each having roughly 33%."

Of the State investment, 96% was channelled through Petroquisa, and the sector was organised as a State holding of 37 companies (Ilasenclever, 1988). Two of the three main Brazilian petrochemical complexes were built in this period: in Sao Paulo (Petroquimica Uniao, with a core ethylene capacity of 360,000 tonnes per year, constructed over 1965-72), and in Bahia (the COPENE complex, with an annual ethylene capacity of 450,000 tonnes, constructed over 1972-78). In Rio Grande do Sul, the Triunfo/Copcsul complex, with an annual capacity of 420,000 tonnes of ethylene, was built between 1978 and 1982. The North-east Pole, the only one outside the southern region, was directed towards internal consumption. The investment made Brazil the tenth-largest world producer of ethylene and the largest in Latin America. (Ilasenclever, 1988). With each complex, the Brazilian State developed not only institutional capabilities, but also important financial, technological and human capabilities.

In the 1970s, there were two main petrochemical projects in Argentina: Petroquimica General Mosconi and Bahia Blanca.[12] A third project was developed at the same time in Rio Tcrccro (PRIII).[U] Until the 1990s there was no foreign equity in any recently established firm. This reflected the lack of TNC interest in Argentina's market and resources on the one hand, and the State's strategic interests on the other. Foreign participation was undertaken on a turnkey basis.[14]

Both Argentina and Brazil experienced enormous growth.[15] During the 1960s and 1970s, the Argentine petrochemical industry expanded with an annual cumulative growth of 17%, increasing installed capacity by 160,000 tonnes per year (Azpiazu and Basualdo, 1989). Between 1970 and 1988, the production of the petrochemical sector rose by an annual average rate of 13.5% in Brazil and 6.3% in Argentina, with a total cumulative investment of USS 11,000 million and USS 2,600 million respectively. With regard to steel, Brazil made its breakthrough after 1960, when production was 2.3 million tonnes of crude steel. In 1970, crude steel production amounted to 5.4 million tonnes. In 1982, with 25 million tonnes, Brazil was one of the ten largest producers in the world (Paschoal Guerra, 1989).

'rhe critique of the model is well known. At the macro level, economic cycles encountered the breaking point in the balance of payments. This was a period in which the State always had severe foreign reserve constraints (Barbero, 1997:381-2; Bresser Pereira, 1996). In Argentina, because of the inelastic supply of agricultural products and limited industrial exports, the sustainability of the mode! depended on devaluation, with consequent income transfers. The rent-seeking strategies of business were furthered not only by State support, but also by cyclical currency devaluations. At the micro level, firms produced short scries destined for the internal market. Hence, they had smaller scales of production than in DCs, while the scope and 'mix' of production were diversified. The industrial organisation of the sectors lacked specialised subcontractors and suppliers, which reinforced vertical integration and bigger firm size. Kosacoff (1995) described the typical Argentine enterprise of this period as adaptive, working within unequal industrial networks, and dealing with specific problems in terms of economies of scale, division of labour, technology and capital costs.[16]

Therefore, most firms in these sectors could not manage to achieve a well-co-ordinated 'individual industrial complex' (a concept proposed in Ruigrok and Van Tulder, 1995) around a core firm. Even the largest lOOsubsidiarics of foreign TNCs were small, with low capacity for autonomous decision making in the daily life of the enterprise (Kosacoff interview, 1995). They shared the same adaptive development path as national firms," as well as similar problems, including rent seeking and dependence on their lobbying capacity for growth. These particular characteristics of macro-Fordism in the region delivered a low degree of co-operation within the economic system. The resulting industrial organisation did not lead to the path experienced in DCs as described by Chandler (1990). It encouraged business people to embody economic transactions vertically within their organisations (family ownership and a diversified holding structure) and/ or between them and the Executive power.

In contrast to Argentina, Brazil developed a complex regulatory apparatus with a much higher degree of co-operation and co-ordination. In petrochemicals, the axis rested on Petrobras-Petroquisa and the development bank BNDES (see Erber, 1995a, for a list of regulatory mechanisms, see Erber, 1997:225). The structure of the Brazilian petrochemical industry was the result of joint strategic action by large DC chemical firms, the State oil enterprise and Brazil's own industrial policies. Brazil's petrochemical industry emulated international technological standards while maintaining national control of ownership through State participation by means of its successful tripartite associative model in the 1970s (Hasenclever, 1988).[18]

Business interaction with the State in both countries corresponded with the type of State and with the form in which the businesses were incorporated into the political system. Both States had strong corporatist, centralising and hierarchical tendencies, particularly between the 1930s and 1960s. Political centralisation raised the State's extractive and penetrative capabilities. Decision-making powers and control over resources (e.g. raw materials, credit, etc.) were expanded; and since the State thus also arrogated to itself the representation of interests and their mediation, its capability to intervene in and regulate class-distributive conflicts was reinforced. In Brazil, business adapted by 'preserving the already existing sectoral associations alongside the official corporative structure formed by labour unions, federations and confederations. A double system of representation was installed, which industrial business has maintained to date' (Diniz, 1992:36). This pattern is also a 'State-centred matrix' (Viguera, 1995:11). This type of articulation corresponds to macro-Fordism in presidentialist systems. As Diniz (1992:37-8) also noted, presidentialism in Latin America would lead to bilateral negotiations inside the bureaucratic arena of the State. This type of negotiation, less public, would give a lower and less-visible profile to business and had a sectoral focus, occurring within the so-called 'bureaucratic rings' (Cardoso, in O'Donnell *e(al.*, 1986:217-18).

In Argentina, because of the lack of a national industrial and technological policy tradition, industrial policy was unrelated and late in time and scope. The resulting policy style developed the industrial sectors through specific agreements between firms and the State in highly concentrated sectors. The agreements focused on specific projects and functioned as substitutes for an industrial policy.[19] The result was a series of 'institutional and legislative productive islands' overrunning the developments of the technological and industrial sectors that had been determined 'residually' by the macro-economic policies, especially those on trade (Azpiazu *et al.*, 1990:151-2).

In Brazil, similar 'policy islands' created executive groups that worked in a more co-operative way than in Argentina, obtaining far better results in policy implementation and co-ordination of the new industrial sectors (Schmitter, 1971; Geddes, 1990). However, in the case of petrochemicals, regional cleavages and the State's central role prevented the formation of any national co-ordinated firm or holding. Regional families and firms dominated in every complex. Thus, firms and groups remained small. In this period of implantation of the industry in a protected economy, Petroquisa could play the role of co-ordinator, since the State controlled labour, finance, technology, the supply of raw materials and capital goods to build the industry, and distribution.

However, Pctroquisa did not have strategic command of the industry. The interconnected shareholdings and 'tacit rules' gave many different interests a veto (Erber, 1995a). In the 1990s, these obstacles would be grouped under the concept of 'entrepreneurial scales' (or the lack of them) (Oliveira, 1994).

Paradoxically, State agencies, more prone to be influenced by dominant private interests, reinforced the disarticulation inside the State as a whole. In this situation, the State would find it difficult to deal with distributive conflicts within the business class (see Diniz, 1992; Sabato, 1991; O'Donnell, 1977). Structural heterogeneity would preclude unified business representation at the national level in Brazil and create weak national representative organisations in Argentina. This type of articulation with the State and a low visibility created the 'weak business-strong state paradigm' (see Payne and Bartell, 1995:2580). In a macro-Fordist system led by a State under serial military rule and a presidentialist political system, it was rational and to the advantage of business interests to behave in such a way. The economic and political costs and risks of dealing with labour, raw materials, infrastructure, and finance were taken up by the State while being minimised for business. This 'assisted capitalism' was 'a tine nationalisation of risk, which blurred the borders between public an private and carried capital accumulation to a higher level than would have sprung spontaneously from the free market' (Gcrchunoff and Torre, in Lopez andChidiak, 1996:356).

6.2.2 Regulatory crisis since 1978: the loss of policy co-ordination along with the retreat of macro-Fordisrn

The regulatory crisis, during which the previous co-ordinating frameworks were uprooted, evolved in the two countries from 1978 to 1992. This period may be divided into two parts, the first running from 1978 to 1988 and the second from 1988 to 1992. It can be seen as a passage from macro-Fordism to a new system of production and distribution in the region, not fully cohesive as yet, closer to micro-Fordism with Toyotist elements (as explained in Chapter 1). Or, as others put it, it was the 'passage from state regulation to a private one' (ECLAC/CIID, 1994:24).

In the 1970s, the Southern Cone of Latin America underwent drastic changes in policy-making, when bureaucratic-authoritarian states led by military regimes experimented with 'neo-conservative radicalism.[20] Neverthe-less, the ISI projects related to commodity-producers, which were carried over from the previous period, were almost all supported by both military and democratic governments. [21] The first oil crisis and technological developments led Lu die emeigeiice of global industrial restructuring and were also most significant for industries in the region (for effects on the Argentine steel sector, see Bisang and Chidiak, 1996:464-5).

From the 1970s, 'from the point of view of entrepreneurial leadership, a great advance of local economic groups took place at the same time that the share of TNCs decreased' (Barbero, 1997:385). The resulting conglomerates are called 'big economic groups', or BEGs, in the region. Defined as a central entity, a BEG is usually related to one family, which co-ordinates a group of firms. The group has certain corporate game-rules and hierarchy in decision making concerning long-term objectives. 'Summing up, this is a mechanism for action co-ordinated among firms that internalises market functions and operates with higher private efficiency (defined by cost reduction, production-maximisation, lower risks, etc.)' (Bisang, 1994:15).

The private national sectors in both countries became more autonomous, economically as well as politically. In Argentina, the largest private steel groups consolidated. They became the national 'core' firms after achieving integration of their production (Techint in 1977 and Acindar in 1979), and their struggle for investment subsidies established a relation of rivalry between the public and private firms in the sector (Azpiazu and Nochtcff, 1994:8-9).[22] Gaining in scales and competitiveness, they changed the dynamics and structure of the national market, becoming core firms in their sector. With increasing political visibility in the 1980s, business leaders formed the so-called 'Industry Captains' group (IC), turned later into the 'Group of Eight'.[21] In Brazil, the 17 shareholder firms of the second generation of COPENE in Cama ari created the NORQUISA holding (Nordeste Quimica SA) in 1980, to which they transferred their shares with the double objective of participating in decision making and consolidating investment resources. [24] Meanwhile, other local economic groups such as Odebrecht (since 1979) became transnational.

A retreat by TNCs could be observed in both countries. When TNCs pulled out of Argentina, big economic groups, benefiting from State promotion schemes, occupied the space (for developments in the petrochemical sector, see ECLAC/CIID CAN/93/S4E18). Simultaneously, TNCs withdrew from Brazil's petrochemical sector, where the tripartite joint ventures were being nationalised.[25] By the mid-1980s, only eleven of the original 24 joint ventures remained (Bastos, in Erber, 1995a:19). While TNCs pulled out of the petrochemical sector, Brazil continued to attract foreign equity capital in steel, reflecting the availability of international financial resources for the public sector during the international petroleum-surplus recycling period.[26] The major State mining firms supplanted foreign ones in terms of leadership in the mining sector, but few emerged as leaders in technology development, or with control over their own international supply and marketing networks.

The military incurred large debts in order to continue with their developmental objectives and also allowed the firms to do the same. In steel, the abundance of natural gas made Latin America the world leader in terms of production of iron by direct reduction. Although there were no new investments in the 1980s, a decade marked by the debt crisis, Latin Americans reconverted installations and entire plants, adapting some to state-of-the-art technology and scrapping others altogether *(Siderurgia Lalinoamericana* no.399, 1993:2-4). The Argentinian State also continued to invest in new petrochemical plants, to the tune of about USS 900 million (Schvarzer, 1993; Lopez and Chidiak, 1996:365). State support did not require any performance targets or control; the only requisite for building new plants was a minimum scale. 'It did not seem risky because interest rates were substantially negative, growth rates were higher from 1973 to 1980 than in the OECD countries, and inflation was considered merely a "nuisance" ' (Maddison, 1991).

Following the second oil shock of 1979, circumstances changed. Both the debt crisis and the States' fiscal crises brought internal recessions, slower GDP growth rates than in the 1930s, high inflation, capital flight, and public deficits, defeating all attempts to stabilise the national economics. In the 1980s, the international system headed towards greater economic interrelation, while planning appeared out of fashion. Moreover, the State in Argentina has never carried out sectoral co-ordination well. 'Particular interests of different State organisms and enterprises dominated over the objectives set by the political power ... Nor was there a coherent timing in State actions ... The problems of information and "capture" of State agencies by private interests, among others, seem to have contributed to [high redundant transference received by the sector].' There was a clear lack of co-operation between Argentine State enterprises (i.e. between YPF and PGM, PBB and Gas del Estado) (see ECLAC/CI1D 1994:22-3). Bahia Blanca and Ensenada, the two most important petrochemical complexes, started operations in distinct phases due to delays. Although characterised by a set of plants interrelated through input-product chains, this sector did not integrate nationally.[27]

The oil shock was followed by another major change in Argentina, which eventually had an impact on the petrochemical sector throughout the region. Until 1980, the State had regarded the oil sector as being of strategic importance and had regulated it heavily by setting oil prices, assigning geographical spaces for oil exploration and exploitation, etc.[28] As from 1981, it began to promote the growth of private oil firms. Ostiguy's table (in endnote 29) shows the growth in importance of private Argentine oil firms and the degree of their diversification in 1981.[29] This was followed by deregulation of the oil industry after 1989 and then its privatisation.

In the new context, industrial production, investment, and the internal market were reduced. Consumption of Argentine steel sector products reached a 'slump level' (Azpiazu and Nochteff, 1994:13-14). However, due to their 'growth culture', Brazilian business people still expected a rapid return to normality.[30] The Petrochemical National Programme for 1987-95 (PNP) was launched in 1987, based on a broad consensus taking every interest on board. It included expansion of all *polos* complexes plus a new one in Rio de Janeiro state, where natural gas had been discovered. The programme was to provide investment of USS 7.4 billion: 60% to the north-east, 27% to the south-east (Rio and Sao Paulo), and 13% to the south (Oliveira, 1990). However, the subsequent low growth rates in the 1980s had several consequences for both countries:

- State regulatory systems lost whatever capacity they had for co-ordination before their dismantling in the 1990s.[3,]
- Per capita consumption remained very low by international standards.[33]
- Profits decreased sharply between 1978 and 1987 in Brazil.[33]
- Investments were reduced.[31]
- Trade liberalisation started in 1988, halting the last strategic directives projected within the old regulatory framework..[35]

Brazil's petrochemical supply structure maintained its business concentration; however, the polyethylene and propylene subsectors were exceptions, with the number of firms growing and several expansion projects being envisaged at the end of the 1980s. Brazilian petrochemicals remained standardised products, commodities and quasi-commodities.

Just when the petrochemical and steel industries were reaching maturity in Argentina and Brazil, the economic crisis and other negative circumstances halted national industrial development. The final break with ISI was acknowledged around 1987. The fiscal contract was broken[36] and various social groups started competing for protection and tax privileges from the State.[37] Until then, there had been little foreign competition, mainly because of import licences and reduced imports. In Weiss' words, States retained their extractive and penetrative capabilities (Weiss and Hobson, 1995), but they no longer carried out co-ordination. The historical result was 'islands' of policy-making in the industrial sectors of both Brazil and Argentina. Given the States' fiscal crises and the debt crisis, these islands of bureaucratic rings became inconsequential during liberal democratic political regimes (e.g. between 1983 and 1985).

Continuing State support combined with the abandonment of the ISI model and domestic economic recession to make the films the best industrial exporters in the 1980s. The export boom peaked in 1990.[38] This was a period of learning and adaptation for each firm and plant, coupled with increasing autonomy from the State. Exports rose sharply, diversifying in products and markets, becoming an integral part of the 'operational horizon' of the sectors' strategies.[39] Latin American firms '[were] part of a rapid internationalisation process which gave rise to the export boom of the 1980s and also to the heavy private external borrowing seen in the 1970s' (Peres Nunez, 1993:55)/° Since the early twentieth century, Latin American firms had been involved in the world economy through international trade and the international capital market. In the 1980s, both were threatened at the world level,[41] and the firms responded by taking up new forms of international economic activity like targeting FDI in DCs. [43] FD1 allowed them to use intra-industry and intra-firm tools for market penetration, opening up new opportunities for investment as well as giving them a more thorough knowledge of the market and enabling them to acquire technologies unavailable at the national level, while simultaneously fostering regionalisation and globalisation processes (Perez Nunez, 1993).'[n] lliis response can be criticised on the grounds that there was no export development path; rather, it represented a counter-cyclical response to the slump in domestic consumption and investment in the consumer sectors (Azpiazu and Nochteff, 1994:15). The case of Argentine petrochemicals is mostly explained by the halting of investment in downstream plants (Lopez and Chidiak, 1996:375). The major effect of such a path was the increase in autonomy from the home State. By the late 1980s, many large regional firms had experience and linkages abroad, with North and South America and Europe as their main areas of expansion.

The transition to democratic government in Argentina and Brazil took place in 1983 and 1985, respectively (O'Donnell *et al..* 1986:37-9; Lamounier, 1988:1). It was accompanied by a movement towards liberal values in both political and economic spheres. Argentina and Brazil re-established liberal democratic political regimes 'characterised by free and open elections, with relatively low barriers to participation, genuine political competition, and ... protection of civil liberties' (Dahl, 1971).[44] In 1989, Argentina experienced a peaceful transfer of presidential power from one political party to another, land in 1990 Brazil elected its president directly, setting the seal on its transition to democracy.

'The search for answers ... led to the formulation of a neo-libcral strategy, equally idealised in its innovative potential ... symbolising the struggle of modernisation against backwardness, like statism that, in the 1930s, 1940s and 1950s, represented the instrument *par excellence* of renovation ... a tendency which ... [was] winning a generalised acceptance among the countries of the area.. Issues such as reduction of the State's role, economic opening, industrial competitiveness and deregulation, became the order of (he day ... Moreover, the State reform became a crucial component of the new agenda (Diniz, 1992:32).

At the same time, many nco-corporatist forms flourished, supported by each State (Teitel, 1992:264-6), [45] bringing about a deadlock and factionalism that could be traced to the failures in implementing stability plans until the early 1990s (Bresser Pereira, 1996) and efforts to establish democratic transition pacts (Dahlberg, 1993).[46] Yet, as the State was losing its co-ordinating capabilities, business elites started to assume a higher profile and act in a more co-ordinated fashion.

The period between 1987 and 1988 marked the end of the previous order, with Brazil declaring a debt moratorium and Argentina instituting a similar *de facto* moratorium. Two macro-crises, economic and regulatory, converged. Combined with the Brady foreign debt plan, structural adjustment started in both countries with the reform of trade policies (Tussie and Wagner, 1992; Berlinski, 1992), tariff liberalisation and timid efforts towards privatisation. In Argentina, the 'Regime of Previous Consultation with the Chambers of Commerce' was abolished following conditions imposed by the World Bank. In 1988 the Argentinian-Brazilian Integration Treaty was signed, requiring parliamentary approval and finally setting a concrete time period for the creation of a customs union (10 years). 'Hie consensus on a new policy agenda was entering the phase of consolidation, while all traces of State co-ordinating capabilities vanished. From 1988 to 1994, Brazil experienced a political vacuum, cabinets were unstable and policy-making was haphazard. The worst period, however, was between 1988 and 1992, when Collor was ousted after his impeachment. A fragmented parliament with centrifugal political interactions and unstable political affiliations created cyclical veto coalitions. Argentina also experienced a political vacuum after hyperinflation in 1989 and the sudden handover of presidential powers six months early from Alfonsin to Menem. Like Collor, Menem came from outside the Pcronist political party.

After the mid-1980s, Argentina and Brazil were both undergoing processes of elite convergence ,[47] The previously disunited elites converged on basic democratic procedures and norms, achieving a basic consensus on how to process main goals such as economic competitiveness and stable prospects for the long-term survival of the democratic regimes.[48] Procedural criteria ensured that all main groups accepted the same rules of the game. They also entailed a higher bargaining power *vis-a-vis* the state, since the elites became structurally unified through formal and informal networks that enabled them to defend and promote their interests peacefully.[49] In the process, they achieved higher 'political visibility'.[50] The national frameworks in which business-government relations had been embedded from the 1930s to the 1970s suffered continuous external and internal shocks. By the mid-1980s, there was a growing conscnsus about the inability to cope with the crisis and the need for a new regional agenda. As part of such consensus, Mercosur’s public agenda would not provide for any institutional mechanisms for supra-national integration or any public policy for industry.

6.2.3 Conclusions: Macro-Fordist developmental pattern of institutional co-ordination

As discussed in Chapter I (subsection 1.3.3.1), sustainable patterns of relations arc fundamental to any long-term coherent development of an industrial sector. In both Argentina and Brazil, the petrochemical and steel sectors successfully evolved under macro-Fordist patterns in which the State had a central role. Institutionalisation advanced with particular properties, encompassing four main dimensions (scope, values, division of labour - roles, and time-horizon). Undermined in the 1980s, co-ordinating mechanisms grounded in developmental value-consensus were discarded. And macro-Fordism gave way to a micro-Fordism in tunc with the rising competition based on increasing scales and internalisation of co-ordination and resources into chains of production and distribution (sec Chapter 2 for differences between macro-and micro-Fordism). The macro-Fordist pattern can be summarised as follows:

- The scope and boundaries of each sector were determined by specific State sectoral institutions, in Brazil in particular. Boundaries were kept rather closed within the so-called 'bureaucratic rings’ but began to shift in the late 1980s, when the financial-economic State crises led to the dismantling of State sectoral organisations and the halting of capital investment.
- The values were developmental, working out a path between dependent and autonomous development. These values were the basis for a coalition-type relation between the State and private groups favoured by the State. In particular, in Argentina there were no 'prizes and punishments for the entrepreneurs’ and ‘the economic success of various enterprises appeared closely linked to the political ability of entrepreneurs’ (Barbero, 1997:388). The coalitions of interests were shattered by the oil crises of 1979 and 1981, opening long and uncertain transitions within each sector.
- The authoritative path of co-ordination and control was in the hands of the State, and in particular the military. Representation of sectoral interests, however, grew in autonomy from the late 1970s, starting to coalesce into informal and formal networks and thus to heighten the visibility of business people. In Brazil, there was increasing conflict/ estrangement between state and sectoral interests. In Argentina, antagonism between

interests reached a climax through hyperinflation and the presidential power vacuum, ending with the hurried resignation of President Alfonsin. Thereafter, business people had constant access to President Menem, working closely together with him.

- From the 1930s to the 1970s there were long-term horizons of growth and expectations of rather stable norms and rules. From the 1980s, expectations of shocks and instability became internalised.

6.3 Evolution of business actors after 1990

6.3.1 Sanctioning (he shift of boundaries between public and private

Traditional business behaviour used to be sectoral and fragmented. Hirschman, *dependence* theorists and O'Donnell considered businessmen weak in relation to a strong State (sec Payne and Bartell., 1995). However, by the early 1990s, the BEGs had become the central actors in industry (Bisang, 1994:3) as the private sector gained autonomy *vis-a-vis* the State. These large firms have been important in terms of capital investment and share of exports within total exports, but even more in terms of their active role within the industrial network, and of their influence on the trajectory of the 'industrial model' of each country.

In contrast, States and civil society were in disarray: the States were financially broke, the political systems were riven with factions, and the increasingly Hobbcsian societies had sunk to a slump level of consumption and credit .[51] Since the end of the 1980s, the States' capacity for co-ordination had been reduced. This affected bureaucratic agencies as well as existing think-tanks, and State capacities ranging from dissemination of information to customs controls. Power had begun to concentrate in the economy or finance ministries within the Executive, while States were disengaging from society and the economy.

Uncertainty over the external debt, the fall in GDP and industrial production, and recurrent high levels of inflation, provided the other elements of the national crises. Moreover, the two sectors began another global downturn, which lasted approximately until the end of 1994.[52] Hence, business people saw the need for substantive consensus centred on macro-economic stability to guarantee capital accumulation. Thus, stability became the first priority for both States and the private sector. The priorities given above appealed to business peoples' coalitions, which publicly and strongly supported the cconomy/financc ministers in implementation of stability plans, as well as the election and re-election of presidents that would sustain them/[3]

O'Donnell (1994) argues that a 'new species' of democracy began in the two countries from 1990. He called it 'delegative' democracy: a type of polyarchy, less liberal and republican, thriving on the extent of the 1980s economic crisis. National presidents, appearing as 'strong, courageous, above parties and interests, machos - will save the country' (ibid. 1994:65) from the economic crises and hyperinflation. These presidents could govern in a highly arbitrary manner, constrained only by powcr-groups, through decrees 'of need and urgency', with little or no horizontal accountability (to other democratic institutions).[54] At the same time, the general perception of the role of the parliaments' was negative[55] because many of their members were absorbed in predatory competition amid a fluid institutional representation of interests and identities.[56]

In Brazil, predatory competition has been interacting with 'patrimonial ism'. Since the 1980s debt crisis, it has not been possible to have major policy reforms approved and implemented without a generous distribution of benefits, causing large budget deficits. In addition, while in Argentina nco-coqjoratism has interacted with a higher degree of centralisation in the Executive, in Brazil patrimonialism (Jaguaribe, 1992; Roett, 1992, 4[d‹] edition)[57] has brought about more decentralisation. Particular areas or topics within the Executive have been handed over to specific people or political parties in exchange for votes or support, reinforcing the 'island style' of policy while curtailing the discretion of the national Executive. However, the fact that the Argentine State was more centralised than the Brazilian one did not mean that there was a clear path of co-ordination and control. 'The bureaucratic politics docs not function [in Argentina], There is *caudillismo* at every level, followed by personal advisors' (Tussie, PDI 52:5; 36:39). When the *caudillo*-bureaucrats left or changed posts, they took their advisors with them, and frequently also their accumulated knowledge. As a result, few bureaucratic agencies could keep a memory resource bank to enable a dynamic and reflexive learning process to occur.

Delegative democracies in both countries reflected a policy-making style that combined neo-liberal policies with nco-corporatist practices.[58] However, compared with the past, Brazilian society had better institutionalised identities and interests and could be mobilised to a high degree. Collor de Mello did not remain president for long; his impeachment was brought about by a coalition that encompassed the entire society, including business elites. 'The difference also created different political realities, shown in two important types of relations:

(i) Between the Executive and the Legislative. In Argentina the relationship had a low profile, being almost unimportant until the mid-1990s. In Brazil, in contrast, there was permanent and significant bargaining at this level.
(ii) Between the Executive and the Legislative. In Argentina the relationship had a low profile, being almost unimportant until the mid-1990s. In Brazil, in contrast, there was permanent and significant bargaining at this level.
(iii) Between the Executive and the social, economic and political actors. In Argentina, negotiations with the social actors were hardly conflictive until the mid-1990s. In Brazil, the social actors displayed a higher capacity for negotiations, exacerbating a conflictive relationship. Every issue in Brazil was affected. There was no rapid legislative process. The number of actors and negotiations was endless. This dynamic had an impact on the Mercosur process - for example, Brazil was the last country to ratify the Asuncion Treaty (Hirst, PDI 29:39; 225:255).

The shifting of boundaries between State and market was conceptually articulated under neo-liberal values and enhanced the visibility of business people, who embodied the new consensus. As Gill explained, 'the conception of the instrumental state presiding over a liberal economy that supplants an older moral economy can be traced back to the ideas of Smith, Ricardo and Bentham, and Polanyi's account of the Great Transformation' (Gill, 1997:21). The 1990s process has also been commonly termed the 'Washington Consensus', and its contents are spelled out by the Institute for International Economics in Washington (Williamson, 1989). Its tenets postulated a monetarist discipline at the macro level through State enforcement of a stable exchange rate, a reduced public budget, and effective, widespread tax collection. It also rested on the independence of the micro-economic players, through financial, trade and investment liberalisation, deregulation and privatisation. After several financial crises, the World Bank increasingly began criticising the Washington Consensus tenets (for example, in a speech made by Joseph Stiglitz in Helsinki in 1998),[59] amending the paradigm to some extent by referring to institutions and institutional surveillance of the banking and judiciary systems (see Javed Burki and Perry, 1998).

The consolidation of national value-consensus among elites enabled new 'national' projects to be carried out. In Argentina, it coalesced around 1990, after hyperinflation shocks. The first attempts at stabilising the economy failed, including one in which the Minister of the Economy was a member of the Bunge & Bom BEG. In this policy alternative vacuum, Cavallo's economic team came to enjoy a high degree of autonomy in formulating and implementing policies (Dahlberg, 1993).

In Brazil, the process appeared more confusing until 1994. Brazilians staggered from one economic shock to another, slowly emerging from their economic morass during the transitional government of Itamar Franco, in which Cardoso was finance minister. In 1992 the crisis became political, ending with the impeachment of Collor de Mello. After Collor, a new cycle started *(Boletim do Banco Central do Brasil, Relatorio* 1993:7-12). 'In 1993, despite high inflationary rates, the country kicked off a new phase of economic growth, leveraged by a private sector striving to improve performance ... and by a public sector seeking to modernise...' (Campos Soares, 1995:3). Since 1994, President Cardoso in office, a coalition has been at work (mainly between Cardoso's PSDB and the liberal PFL with the north-eastern Magalhaes family that governs the state of Bahia). A convergence of political and economic elites was worked out, ensuring more stability. Even amid the shock of the 1999 devaluation, the new consensus did not collapse.[60] On the contrary, it lowered interest rates, eased exports and the pressure on the balance of trade, and cleared firms' debts.

Structural adjustment programmes were implemented through policies of trade and financial liberalisation, deregulation (especially in Argentina), and privatisation (including the entire petrochemical and steel sectors). Brazil, though more slowly, also leaned towards 'investment-driven development and a competitive integration model geared towards foreign markets' (Campos Soares, 1995:3). Investment was the key, and macro-economic stability the prerequisite. For business people, the debate on regulation shifted to systemic costs; and the reduction of labour, fiscal, infrastructure and financial costs was high on their national agendas. In addition, issues such as the enforcement of anti-dumping and safeguard mechanisms became significant, and protection was demanded for specific products by individual firms.

In Argentina, with the Convertibility Law that fixed the exchange rate of the peso to the dollar at parity (one to one), inflation fell to 0.5% in August 1991. There was an agreement with the IMF that signalled access to external credit and the start of privatisation. The stock market index rose by 100% in September 1991, and credit was re-established, increasing consumption of durable goods. Following import liberalisation, interna) prices of tradables decreased. From 1991 to 1994, the economy grew by 7.7% per year.

As in Brazil, such positive evolution was not immediately translated into new domestic investment. By 1992, Argentine firms reached a double limit: drastic reduction in world prices and full use of installed productive capacity. Only two new plants at the end of the 1980s (Petroquimica Cuyo and Petroken) had not resulted from promoted projects. The increase in productivity and the launching of new products were in conformity with the existing path, while higher internal prices in the energy sector (gas, oil, and electricity) became a hindrance to plant productivity. At the end of 1994, the Mexican crisis plunged the Argentine economy into recession, while its currency continued to be overvalued.

Fortunately for Argentine firms, Brazil began its economic recovery in the second half of 1993 and international prices for intermediate products began rising.[61] Therefore, given the performance of major users of steel and petrochemicals (automotive, construction, and durable consumer goods), the two sectors largely benefited from national consumption booms, from 1992 in Argentina and 1994 in Brazil, after the economic stability plans were launched.

There were five economic shocks during the first 18 months of Collor's government,. These resulted in political losses for the Federal Supreme Court and the Parliament; high inflation; a disorganised, half-accomplished administrative reform that nevertheless had a large impact on future policy-making; economic recession; and the worst industrial performance since the Second World War (Dos Santos, 1993). In 1992, Brazilian manufacturing contracted by 4.1% while the low investment levels in construction, especially public works, had impacts on steel, metallurgy and the transformation industry for the third consecutive year. Despite import liberalisation and reduction of *ad valorem* tariffs, imports were contained by the recession.[62] Yet, the automotive sector showed a favourable result. A 1992 tripartite accord between government, business and workers reduced automobile prices by 22%, triggering a gradual increase in internal sales[63] and the demand for steel.[64]. As mentioned above, the Brazilian economy improved from 1993, driven (like Argentina's) by the growth of automotive products, auto-parts and household appliances. Thus, the 19.3% expansion in apparent consumption of flat steel (10.6 million tonnes) helped to overcome the 1992 bilateral tensions, in this case concerning steel (mentioned in Chapter 3). In 1994, Brazil's per capita steel consumption reached 78.7 kg/inhabitant, up by 28.4% over 1990; the second-largest consumption figure in 15 years (Campos Soares, 1995:4).

There arc three main differences concerning the State's role in fostering economic development between Brazil and Argentina. First, while in Argentina the elites have converged basically around neo-liberal values (Hirst, PD1 29:27, and 89:87), the Brazilian ones still value institutional co-ordination; they consider regulation an important attribute of the State, even though it may no longer be a producer. Accordingly, the elites have differences with regard to international integration as well as deregulation. Argentina has opted for an automatic alignment with the USA, accepting demands for deregulation uncritically. Brazilian elites consider their country a 'global trader' which needs to maintain a higher degree of State autonomy. Tims, in Argentina, there has been a dominant trend towards deregulation of the economy,[65] while Brazil's approach has been more gradual.

The second difference is that, in Brazil the State is still regarded as the essential actor in the creation of the 'internal market as the dynamic mechanism of the [national] integration process', given the importance of the internal and yet not fully developed demand (Cavalcanti de Albuquerque, 1991:90-3), Tn developing countries, particularly in Brazil, where social heterogeneity is so dominant, a social contract is not sufficient. The legitimacy of the government also requires a growth-oriented political pact that endorses a concrete perspective of progress' (Bresser Pereira, 1996:143).

The third difference is their divergence over the issue of endogenous growth. In Argentina, even though industry has become the main productive mode, it has never managed to consolidate its power through a co-ordinated system of decision making. New actors, mainly financial ones, have appeared since the 1970s (Barbcro, 1997). Even (he newly privatised enterprises reflect an ambiguity concerning the endogenous development of industry (Ferrer, PDI 57). In 1999, the government's main policy was still to maintain the pegging of the peso to the dollar. Brazil has had many centres of power under successful dominant modes of production (mineral, coffee and industrial ones). In consequence, the concepts of industrial co-operation and regulation, and of industrial networks, have remained more significant.

In spite of the above-mentioned differences, the State articulation of the industrial sectors was dismantled in the early 1990s. The remains of Brazil's petrochemical regulatory system - the mechanisms for selecting projects and overall institutional articulation - were dismantled at the time of privatisation. The abolition of the CDI (Industrial Development Council), together with its fiscal incentives, had a great impact at the level of project selection and policy articulation (Erber, 1997:188). Since internal price controls were definitively ended in 1991, the continuing infiation spurred Brazil's government to use tariffs as a mechanism to control internal prices, something that would later lead to conflicts within Mercosur (see Chapter 5). On the export side, fiscal incentives were abolished, as well as Interbras, while the exchange rate remained overvalued. Instability and conflicts between the government and the private sector intensified until 1994 (see Erber, 1997:192-3, 215). In Argentina, the role of the DGFM military conglomerate in policy implementation was rescinded, while special State regimes, including the ones for the promotion of the naval industry and for State purchase of national products, were dismantled.

While the old-type State regulation was being done away with, new regulatory needs in the economic sphere were not met rapidly. On the anti-dumping front, States did not have proper mechanisms to deal with unfair competition. In Brazil, anti-dumping regulations were not updated, nor were governmental implementing agencies strengthened (Erber, 1997:217). In

Argentina, anti-dumping regulations have been used basically since 1993, mainly for the benefit of the steel sector. However, in 1992 tlirec anti-dumping applications by a BEG (Techint) were approved by the State. All three concerned the same product, cold-rolled sheets (see Azpiazu and Nochteff, 1994).

Information and human resources passed to the private sector,[66] and transfer of ownership (i.e. privatisation) was the final sequence in the loss of co-ordination and investment capabilities by the State. However, the role of the Brazilian State was again more conspicuous than that of the Argentinian State. Until 1995, there were a large number of in-depth and follow-up sectoral studies in Brazil, requested and/or done by State institutions.[67] In Argentina, with one exception,[68] the central State was all but inactive.

Nominal tariffs decreased drastically in both countries, although effective tariffs remained higher. Brazil's import liberalisation was important in comparison with the past. Tariff reductions resulted in a drop in the average tariff from 51% in 1988 to 11.3% at the end of 1994. Given the low international prices, petrochemical imports increased only slightly, their main effect on national production being to establish a roof for internal price increases.[69] Exchange rates remained overvalued, although less than in Argentina. Tire currency was finally devalued in 1999. 'Hie last administrative import controls were eliminated. In Brazil, a new tariff structure was gradually introduced from 1990 to 1994, while the government decided to force progress towards Mercosur 1995. In January 1996, Brazil's simple average applied tariff was 12.5%, with a considerable disparity between products. Tariff escalation has bedh common in all industries, following the criteria of value added in the chain of production.[70] Mercosur would follow a similar pattern. More significantly, these imports were mostly intermediate products and parts. In the case of petrochemicals, thermoplastics became one of the most dynamic subsectors, due to an elasticity of consumption over income between 1.5 and 3.0. In 1994, in Brazil, thermoplastics accounted for 43% of total value of exports, and 25% of total value of imports, in a clear phenomenon of intra-industry trade (Erber, 1997:194). In 1998, it was acknowledged that in Argentina, more than a third of total foreign trade corresponded to intra-firm transactions, reaching 60% when TNCs were selling or buying.[71]

Industrial restructuring in the region took place in the first half of the 1990s, basically through privatisation and deregulation. In Argentina and Brazil, the first privatisation efforts were weak and postponed (between 1983 and 1989) until delegative democracies were in place in 1990.[72] In Argentina, the core of the agenda included denationalisation of public enterprises, where control passed to foreign firms (e.g. the oil company YPF and the Bahia Blanca petrochemical complex) (Azpiazu and Nochteff, 1994:130).

In petrochemicals, Argentina had a comparative advantage due to its natural resources (oil and gas), attracting prospective foreign investors. Privatisation of the sector was accomplished at the end of 1995, with the sale of PBB in Bahia Blanca. However, firms were so interlinked that it was difficult to separate them physically for privatisation (interview with Dr. Meo, World Bank adviser on privatisation). Petroquimica Mosconi could not be sold as such. It was part of YPF and remained so after YPF's privatisation. The result has been an enormous increase in YPF's power, making it the world's eighth- or ninth-largest oil company in terms of oil reserves (interview with Dr. Meo, 1997). The exception was Bahia Blanca's petrochemical pole, bought by Dow Chemical and YPF, where firms were offered separately. Dow subsequently bought the firms. In 1997, YPF, Dow and Perez Companc owned 75% of the sector in Argentina and all the internationally competitive firms (Lopez, 1997b:355). However, in 1999, 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, possibly protecting the holding from any financial crisis in the region.

In Argentina, privatisation of raw materials and services impacted on the structure of relative prices for the intermediate sectors, leading to vertical chains in production (for petrochemicals, see Lopez and Chidiak, 1996:397-8). These prices increased further with the overvaluation of the currency, given the non-tradable nature of raw materials and services, although those for large users lagged behind the rest. Thus, there was an internalisation of pricing within the vertical chains (Lopez and Chidiak, 1996:392). When ECLAC economists asked Argentinian business people in globalised companies how they decided prices, 90% of them answered that they did so without reference to supply and demand. They resorted to so-called transference prices that create a loss for tax purposes, diminish free competition and facilitate dumping operations, according to Kosacoff, ECLAC's chief industry economist in Buenos Aires." Further, due to vertical long-term contracting between suppliers and users of services, especially when they belong to the same BEGs, these price increases meant a trade-off between the high profits stemming from the service and energy sectors, and the opening up of the economy. There were thus fewer incentives to invest in tradable goods (Azpiazu and Nochteff, 1994:137), with a shift of interests within the private sector aiding the oil and gas industry to increase its dominance over the petrochemical industry.

In Brazil, privatised Finns went mostly to nationals, and the process was called 'de-statisation' (Erbcr, 1995a). A Camafari manager explained in 1995 that 'the whole petrochemical sector in Brazil, except for the centrals (PQUniao and Copesul, with 60-70% State shareholding) was private. One cannot speak of privatisation, only of de-statisation. The management was private, engaged in the second generation of firms. At the time, the salaries of State workers (e.g. in Petrobras) were higher, and they could go on strike. Even today [1995], in COPENE, the State, through Petroquisa, continues to own 15.4% of voting capital and 24.41% of total capital. [Earlier, State ownership had been 48% and about 30%, respectively.] State participation has been reduced. Unfortunately, this process takes place on an industrial scale, not on a business scale' (Pereira da Costa Miranda, PDI 121:8). Thus, 'the process [of restructuring] will be slow, because the process was not conducted advantageously by the State. It was done firm-to-firm' (Pereira da Costa Miranda, PDI 121:13).

A Brazilian petrochemical policy advisor, who had been working for about 30 years in the industry, explained: 'In the privatisation process, there were no TNCs because there was a shareholders' accord to preserve the national character of the industry. But it did not help much. They [business people] had capital to buy the State enterprises' (Pereira da Silva, PDI 5:21). Foreign capital, however, did participate to some extent, particularly through pension funds. The characteristic fragmentation of the entrepreneurial structure in terms of scales and capacity for autonomous strategic decision making was not modified. While plants were of international scale (Oliveira, 1994), economic groups remained small and mostly mono-producers. Even the largest groups (Odebrecht, Unipar and Rhodia) had low sales (between US$ 1 billion and 1.5 billion) compared with sales at the international level. Only Petroquisa generated strong revenue abroad, but had limited strategic command.[74] In the context of what was happening in the rest of the world, 'in Brazil, with privatisation, the shareholder property becomes fragmented. At the same time, Brazil deconcentrates the market. What about strategic decisions?' (Lopez, PDI 36:16).

In the 1990s, with the changes in the State's role and the opening up of the economy, the regional weaknesses became apparent to observers: low business scales, insufficient infrastructure, and reduced technological capacity. (However, there were exceptions to this, like YPF.) Privatisation in the two countries was not relevant to changing the situation in petrochemicals (Pessoa de Andrade, 1995:72). Foreigners, though, were more optimistic.[73]

Firms faced two crucial limitations in the drastically opened-up economies: the traditional family management style and the capability to obtain capital from sources other than the State. In 1995, the Director of Argentina's CEI (International Studies Centre of the Ministry of Foreign Affairs) expressed it clearly: 'The destiny of FDI is not easy to follow. Evidently, [it lies] in privatisation, and in the purchasing of family businesses' (Braidot, PDI 12:7). Confronted with such constraints, some opted to exit the market, while others engaged in restructuring, as will be seen later in this chapter.

The SAPs implemented in the 1990s brought new investments. In Argentina, they were mainly in the food industry, oil and gas, automotive, and mining sectors. Those were sectors that would lead the exports in the 1990s, doubling them from 'about US$ 12 billion in 1994 to almost US$ 24 billion in 1996' (http:Wwww.tradeport.org). The shifting of economic power to the core firms in these sectors represented a process of verticalisation between intermediate sectors, raw materials, in particular oil and gas, and major final users like the automotive sector. The latter, in particular, has been promoted and protected under special national regimes as well as a bilateral Argentine-Brazilian one within Mercosur (see Chudnovsky and Lopez, 1997). In Brazil, the sectors producing durable goods and commodities (including steel and petrochemicals) account for the majority of investments planned between 1995 and the year 2000, reinforcing the industrial profile of the 1970s (Coutinho, 1997:97-9).

Brazil's privatisation programme, conducted by the BNDES, advanced in stages. The first stage consisted of selling the State enterprises in the steel, petrochemical, chemical and fertiliser sectors. By 1995, the steel and fertiliser sectors were privatised. Until July 1995, of the total funds received through privatisation, 64% came from the steel sector (eight firms), 22% from the petrochemicals (four firms and four minority shareholdings), 5% from fertilisers (three firms and one minority shareholding) and 9% from five diverse firms. Most of the16 enterprises on the privatisation list for 1995 belonged to the petrochemical sector, the most important being COPENE.[76]

In the petrochemical sector, privatisation created a separation between the two responsible institutions during the ISI period, BNDES and Petrobras, as well as between the State institutions and the private firms.[77] The result was segmented control in each petrochemical complex and the loss of co-ordination capabilities for the sector as a whole.

In Brazil, privatisation in the petrochemical sector was also linked to breaking up of the oil monopoly. This in turn required reform of the national Constitution, which was a lengthy process. In 1998, it was clear that Petrobras would not be privatised; in addition to entering into a complex net of alliances, the State enterprise would also re-enter the petrochemical sector in alliance with Odebrecht. In January 1997, the Brazilian Congress reinitiated debate on ending the Petrobras monopoly, which had been interrupted in 1996.[78] In June 1996, the government had tabled a bill providing complete liberalisation within three years of its passage. The bill was criticised by the Brazilian Oil Institute (IBP), which has 200 firms under its umbrella, on the basis that the period was too long to attract investment. The National Oil Agency (ANP) was created to replace the DNC (National Department of Combustibles). The ANP became responsible for national planning, bidding, and control of the firms in the sector. The final bill had already been modified when it was submitted to Congress: ANP was to receive only State bonds, while the rest of the money obtained through privatisation or bids was to be credited to the general budget of the union. Petrobras was to be favoured whenever there was a tie in the bidding. Although breaking up of the monopoly was approved, privatisation of Petrobras is legally prohibited. Petrobras will maintain ownership over all deposits already being exploited. Only new ones will be offered to private bidders, with Petrobras also participating, alone or in joint ventures. The concessions will be only towards firms constituted in Brazil, with headquarters in the country.

Action to de-monopolise the oil sector started in mid-1997. Petrobras had taken the first step before the debate was reinitiated in Congress. Negotiating with the government, its proposal was to permit import liberalisation of certain products,[79] and to reduce its intermediary role in imports exercised through the issuing of pennits from the National Department of Combustibles (DNC) and Petrobras. Tine proposal was presented at a time when the Argentine government was complaining about the sluggish deregulation process through the Secretary of Industry, Trade and Mining, Alieto Guadagni (ex-Ambassador to Brazil). The major complaint was the lack of reciprocity since Argentinians could not act freely in Brazil: they could neither export nor sell without the mediation of Petrobras.

The case of steel was different: there, scales were enlarged and strengthened, first at the national level and then within Mercosur. Moreover, steel received more protection from governments than petrochemicals did. In June 1995, the latter reached the lowest tariff levels in recent history, in contrast to the steel sector (Lopez, 1997a:152-3). In fact, Argentine steel enjoyed a policy reversal from 1992, when the two State enterprises, Somisa and Altos Homos Zapla, were privatised. The 1992 deficit brought about a relative reversal of the liberalisation trend. Explaining this, Bisang and Chidiak (1996) refer to a semi-opened economy. There was an increase in 'taxation of imports, a form of rising effective tariffs, and the application of anti-dumping measures [mostly applied in relation to steel products] that lowered imports' by approximately one-third (compared with the first six months of 1992 and 1993) (Azpiazu and Nochteff, 1994:16). The trade deficit was reduced from USS 228.2 million in 1992 to USS 20.3 million in 1993. From 1995, there were only two tariffs for each product, one for Mercosur and one for non-Mercosur members. Since 1992, two general measures have also benefited steel: an increase in the so-called statistical tax from 3% to 10%, and the 'industrial specialisation regime'. This is a system that reduces import tariffs on the inputs that firms intend to use for future exports, which they commit themselves to increasing. This new type of regime, requiring export performance targets, was not totally successful, due to the failure of the automotive sector to meet its targets. Meanwhile, the old system of promotion schemes was continued at a reduced level in some Argentine provinces, with negative micro-economic effects (Azpiazu and Nochteff, 1994:28).

The Argentine State sold the two enterprises, of which the most important was Somisa. This was sold to Siderca and Propulsora (both owned by the Techint family BEG), CVRD and Usiminas of Brazil, and Aceros del Pacifico of Chile. Acindar participated in the beginning but immediately left the venture, which is now called Siderar. ‘There was an intermediate phase called Aceros Parana (before privatisation). In November 1992, the Techint group, together with Chile and Brazil, purchased 80% of the company for USS 162 million. The remaining 20% of shares were sold to the employees through the ESOP programme’ (Webber, PDI 84:10). In fact, these were the only bidders. The result has been a specialised duopoly, with the Techint group in flat and seamless tubes, and the Acindar group in non-flat and special steels.

The Brazilian State virtually completed its withdrawal from the steel sector in 1994. Of the total amount obtained through privatisation until 1995, 64% came from that sector (eight firms). The main privatised steel firms were Usiminas, Acesita, Piratini, CST, CSN, Cosipa and Acominas (of which the first two, plus CSN and Cosipa were the most important, producing flat steel products), among others. Usiminas was the first and emblematic case, in October 1991. In 1997, the last case of privatisation in the steel sector was the CVRD.[80] Brazil’s national market, however, has not been completely open, provoking several complaints.[81] Privatisation brought convincing managerial, technical and financial gains to the privatised firms. The State absorbed debts, while the firms engaged in streamlining of personnel, and augmenting of productivity, closing the gap with DCs. Privatisation was more successful in achieving business restructuring in steel than in petrochemicals, 'lire Villares and Gerdau BEGs specialised and enlarged their scales. At the same time, Villares (for example) bought shares in the upstream privatised firms such as Usiminas and CST, affirming a path of vertical co-ordination within the sector (Nofal, 1994:12-13).

6.3.2 Conclusions: Shifting to micro-Fordism, dimensions of institutionalisation in the 1990s

In the first half of the 1990s, States disengaged from both sectors, while ‘delegative democracies’ and the consolidation of national value-consensus among elites provided the basis for structural change and the path for political decision making. In the second half of the 1990s, with financial crises abroad (in Mexico, Asia and Russia) and the prospect of them al home, that path was reinforced. Nevertheless, towards the end of the century, Brazil's business people and State officials working in the industrial sectors concerned, were searching for new co-ordinating mechanisms not just to recover but also to foster Brazil's industrial trajectory. In the 1990s, institutionalisation proceeded under new values. The encompassed four main dimensions (scope, values, division of labour - roles, and time-horizon) were redefined accordingly, in order to face the new competition emerging in the 1990s.

- **The scope and boundaries** of each sector shift according to the power relations between the State institutions and the private sector. Boundaries between State and private sector are more clear-cut as the State disengages from the economy. The sectoral scope of business is more refined, tending to include for the first time the most closely related sectors, for example chemicals with petrochemicals. Boundaries are not limited to national territory.
- **The** values cease to be developmental and follow those of the private conglomerates or BEGs. Values are instrumental, hence favouring direct control. The difference between Argentina and Brazil regarding the role of the State becomes clearer. In Brazil, the new 'State role should correct market imperfections, build a strategic vision of industrial development, co-ordinate public and private actors, and provide financial resources destined for investment in production, technology and business restructuring' (Erber, 1997:218-19). Argentina's consensus is closer to neo-liberal values, including a complete withdrawal of the State from the economy.
- The authoritative path of co-ordination and control follows a pattern close to micro-Fordism. There is an internalisation of activities, decision making and relationships with other firms regarding pricing, trade and investment. There is also an increase of co-operation within the system of production along commodity chains, while new leadership emerges within business. To complete this type of control, the focus of the political debate shifts to State regulation at the systemic level, concerning labour, fiscal, financial and infrastructure costs.
- Long-term horizons now depend on world developments, while spatial horizons follow productive chains. Thus, time frames for growth and expectations of stable norms and rules tend to be determined by embeddedness within chains of production and distribution.

NOTES

[1] During the Second World War, in 1944, the Dircccion General de Fabricacioncs Militarcs (DGFM), the military industrial holding, took one-third of Atanor's capital to produce aromatics.

[2] In 1958, TNCs represented 15.17% of Argentina's GDP. By 1973 they accounted for '50% of total value-added by the largest enterprises[1] (Barbero, 1997:382) and in 1974 approximately 33% of GDP came from their activities. 'By 1975 the leading sectors, regarding TNCs, were basically the automobile, petroleum, and chemical industries ... [In the same year and ranking] state-owned companies had become very important ... two of which - a petroleum and a steel company - occupy the first positions[1] (Barbero, 1997:383).

[3] Stale techno-bureaucracies were developed by the State and State enterprises in order to enlarge the national productive sector. Enjoying power on the basis of their bureaucratic position within a particular economic sector and within the State structure, they also had relative autonomy and technological capabilities that allowed them to build alliances with other State and non-Statc actors (see Alban Suarez and his discussion of the concept, 1986: 22-3).

[4] The rationale behind Somisa's creation was to supply *palanquilla* to laminators. 'That was the argument of General Savio. Later, an existing flat-steel plant, which was a remnant of war in Czechoslovakia, was bought and changed the goal somewhat. 'Huis, from the 1960s to 1990s, Somisa supplied laminators' (Nashal, PDI 63:19).

[5] Argentina's State transfers were USS 325 million between 1975 and 1985 (Castro, 1987), USS 68 million in 1987 and USS 85 million in 1988 (Lopez and Chidiak, 1996:367). For Brazil petrochemicals, see Erber, 1995a.

[6] From 1961 to the late 1980s, all State legal nonns in Argentina included provision on raw materials, whose internal prices remained lower than in the DCs (see Lopez and Chidiak, 1996:375). Tire internal prices of petrochemicals, though, were higher than international ones, appropriating the rent. Between 1984 and 1987, PBB was an exception in that the satellite firms, which were also PBB shareholders, accepted higher prices (Lopez and Chidiak, 1996:366-7). While PBB was the only plant in operation, the acceptance meant profits. However, after starting operations in 1987, they refused to comply any more with the contract.

[7] In Argentina, minimum plant scales were effectively required from 1973.

[8] If location decisions arc always complex for these sectors, they were even more so during the ISt period. Not only economic aspects, such as proximity to raw materials and/or large and dynamic markets, were taken into consideration, but also political ones, because States had developmental interests. The design and approval of each project remained in the Executive's realm.

[9] Argentinians commenced project discussions in 1969, included them in the 1973 Triennial Plan, and continued with them beyond the military coup of 1976. Each project would be contested and redesigned by new civilian and military regimes, presidents, ministers, bureaucrats and private groups for years (Schvarzcr, 1993). By the time (hey started operating, the national and international contexts would be profoundly different.

[10] In 1965, a CNP resolution established that the sector, including basic production, would be in private hands and defined the nonns for installing plants, specifying incentives for projects approved by the Chemical Industry Executive Group (GE1QUIM) of the Industrial Development Council (CDI). At this point, Union Carbide initiated an ethylene project, while a joint venture between national groups (Ultra, Moreira Salles and Capuava-latcr Unipar) and Phillips Petroleum

constituted Pctroquimica Uniao (PQU). According to Alban Suarez (1986), the Capuava group (later Unipar) was articulating several intermediate and final joint-venture projects. However, with the failure of the Union Carbide project and the withdrawal of Phillips, the State felt compelled to fully enter the sector, creating Petroquisa as a subsidiary of Petrobras in 1967.

[11] For example, in COPENE, ICI, Rhodia and Du Pont joined in.

[12] In 1970, a wholly owned local firm, Pctroquimica General Mosconi (PGM), was set up in Ensenada (a few hours from Buenos Aires) to produce aromatics, with equal shareholding by YPF and DGFM. Production of benzene, toluene, xylenes and cyclohexane started in 1974. Without a full production chain, PGM was forced to export a large share of its output. In 1971 Pctroquimica Bahia Blanca was established with 51% public equity (equally divided between YPF, DGFM, and Gas del Estado) and 49% local private capital in downstream production (Ipako with 21%, and Elcctroclor 11%). Production al the ethylene plant was postponed since the ethane plant and others were not ready. However, its capacity was then extended to 200,000 tonnes.

[13] As a joint venture between Atanor (51%), YPF (38%) and DGFM (11%) io produce toluene di-isocyanate (TDI). Engineering and construction contracts were signed in 1976.

[14] For the TDI plant, the process selected was owned by Du Pont, but it was acquired through a French licenser who accepted the ‘unpacking* of technology. Finance was provided under favourable conditions by French banks. Later, an engineering joint venture was signed between the French and an Argentine engineering Finn to handle the technology and equipment. Local procurement and investment for this project was 60% of total capital costs, while the FD1 represented the rest through the foreign equipment and materials plus a lump sum for the technology licence and French engineering services. This foreign part was financed by a long-term loan from a syndicate of French banks with guarantees from the French and Argentine governments.

The Pctroquimica General Mosconi aromatics complex was built on turnkey contract as well. In this ease, the basic engineering was provided by the U.S. company Arco Polymers, Engelhard and Hydrocarbon Research. Of total investment of USS 70 million, 30% was FDI and 70% local capital. The foreign component was financed through long-term credits offered by the U.S. EximBank and other U.S. private banks.

[15] From 1963 to the mid-1970s, GDP grew at an annual rale of 7%, while industrial jobs grew at 2%, llic peak in consumption and employment was reached in 1975, while relative prices decreased (Kosacoff, 1995).

[16] According to Kosacoff (PDI 34), the specific problems of the adaptive Argentine enterprises were: (i) low economics of scale and volume - they achieved only 5% to 10% of the optimum; (ii) inefficient division of labour; (iii) loss of economics of specialisation; (iv) lack of supplier networks while the firms integrated nationally into the hinterland; (v) focus - the dynamics of adaptive technological capacities focused on: efforts to reduce scales, efforts without specialised suppliers, good human resources but without catching up, high production mix, and small production quantities; (vi) very high costs of fixed capital scantily used in the time cycle.

[17] This was the case with automobile plants (see Barbero, 1997:386).

[18] State participation ‘was very important! In the decade of the 1960s, in 1965, GEIQU1M was created. This was the executive group of the chemical industry, which had as members the Ministry of Industry and Trade, the Ministry of Finance and the BNDES, and was expeditious. GEIQU1M had the task of analysing and approving investment projects, including those of TNCs. The government guaranteed the conditions and provided incentives. The very first projects passed through this group* (Carbo, PDI 96:7; Adolfo and Arthur, PDI 24:33). Regarding

technological capacity and local sourcing, since the first Sao Paulo plant built on the typical turnkey deal, Brazil moved to an almost-total domestic content. The National Development Bank (BNDES) financed local capital.

[19] Industrial policy is here understood as co-ordinated State action to obtain growth, technological and productive articulation, and increase in competitiveness of one or more industrial sectors, linking it to the rest of the national economy.

[20] In Argentina, open-door economic policies, among which was a de-industrialisation process, were implemented with negative consequences. APer 1978-79, this policy combined with financial deregulation and financial valuation ('valorizacion[1]) of capital (i.c. capital having value insofar as it was invested in financial instruments or the financial markets), to displace industrial manufacturing as the main economic activity with the highest returns. Within firms and holdings, 'financial managers started playing a key role in the management of the companies* (Barbero, 1997:384-8). In Brazil, a progressive disarticulation of the petrochemical sector's regulatory system started in the 1980s and was completed in the early 1990s. It was *a specific facet of the decomposition of the State* (Erber, 1995a: 19).

[21] Azpiazu and Nochtcf, I994:Tablc 8.

[22] In the struggle, Techint and Acindar competed against each other. It should be remembered that private firms were dependent on the Stale for supplies as well as purchasing. Sidcrca sold most of its production to YPF, while until lhe 1970s the three main firms depended for their basic inputs on Somisa. Acindafs case look from 1968 to 1975. When it finally obtained State permission in 1975 it was presided over by Martinez de I loz, who would be appointed Economic Minister in March 1976 by the military junta. In Techint's case, Dalmine Sidcrca was able to achieve vertical integration in 1976 and to change its power relations with the State thanks to the 1970s technological developments that led to direct reduction without furnaces of the type used by Somisa,

[33] Acindar was represented in lhe IC by its president, retired general Lopez Aufranc, or Manuel Gunnendi, owner and president of Gu rmend i (steel), which was bought by Acindar in 1981. Techint was represented in the IC by its manager, Carlos Tramutola, or the Techint group president, Roberto Rocca.

[24] By doing so, Norquisa acquired 47.2% of the voting capital in the central, equivalent to Pctroquisa's (48.1%). The State participation in Camacari was reduced from 42% in 1978 to 38% in 1985 (Teixeira, 1987). The difference went to the national private sector. Norquisa later supported the creation of a chlorochcmical pole in Alagoas, and, within the strategy of the second Petrochemical National Plan, the establishment of a fine chemicals national base. Specialities, engineering plastics, and fine chemicals were still controlled by TNCs. Norquisa's attempt was undermined by the import liberalisation. With the debt crisis and deterioration of transport and port networks because of the lack of public investment, the structural problems of localising production and consumption were aggravated.

[25] TNCs had invested in Brazil's downstream production in all three poles, where wholly foreign-owned subsidiaries (Solvay, Basf, Union Carbide, Hansen Industrial, Dow, Monsanto) coexisted with joint ventures having quasi-majority FD1 (ICI, Shell) and joint ventures with minority FDI (Hoechst, Atochcm, Himont, Mitsubishi).

[26] New foreign investment (NFI) forms have been minority-equity foreign investment, international loans linked to the purchase of mineral products or equipment supply, provision of management and technical services by foreign companies, supply of technology, licensing, and other contractual forms (of which Oman, 1989:34 lists six). Brazil used NFI to access world

export markets and/or financial markets. An example has been the Slate-owned CVRD (the world's largest iron-orc producer) in its Carajas (iron orc), Albras-Alunortc (alumina/aluminium) and Valesul (aluminium) projects.

[27] The most important one, Bahia Blanca, is linked to a gas plant nearby (which belonged to the State Gas del Estado). It has an ethylene plant (PBB, financed through mixed capital) and several private firms which produce ethylene subproducts. The latter, subject to changes in scales, products, and ownership, were delayed. Thus, PBB, which started to operate in 1981, was one of the major Argentinian exporters in 1986 until the private firms started operating. In 1987, the sector achieved a positive balance of trade for the first time. Al the same time, two LDPE plants, one offshore (a Union Carbidc-IHI 'W' floating plant with the UNIPOL licence) and one onshore, started to operate as well. Ensenada opened its first State plant (Petroquimica General Mosconi) in 1974 and expanded it later. Having no downstream operating firms, it exported most of its production. In 1983, 35,227 tonnes of cyclohexane was produced, of which almost 93% was exported. Rio Tcrccro (PR1II) started production in 1981. Its TDI capacity was 16,000 tonnes per year, together with a chlorine raw material capacity of 12,000 tonnes per year.

[28] Relations between the State and the private sector began to change after the military coup in 1976, when the State steadily changed the power relations in favour of the private sector. In 1983, the oil subsector succeeded in getting State contracts renegotiated and higher prices with the idea of increasing production. Under favourable terms, oil companies grew to reach the top of the national ranking of firms. In 1985, President Alfonsin launched the Houston Plan with the aim of attracting FDL In 1987, Lapcna designed the Houston Plan II with more favourable contractual Icons than the first Plan. At the same time, Lapcna formulated the Olivos Plan, which increased prices in order to stimulate production at existing projects. In this way, national prices came close to 80% of international prices. In 1988, Minister Rodolfo Terragno implemented the Olivos Plan 11,or Petroplan, to open up the remaining areas under the YPF monopoly, provoking Guillermo Lapcna' s resignation (who thought this went against national sovereignty). In 1989, the industry was deregulated and dc-monopoliscd. Privatisation followed, through the sale of YPF shares in local and international stock markets. Since 1993, all firms have been privately managed, and YPF is the main Argentinean firm listed in lhe NYSE. Foreign firms also came in, among which were U.S .Amoco, France's Total, and Germany's Dcmincx.

[29] *Zlrperrt/ne o/7 firms: A/at/ona/ rankings and number of companies under their control. 1976'86*

Oil firm	1975 ranking	1981 ranking	No. of companies
Astra	no. 215	no. 47 (no. 10 in 1985)	
Bridas	no. 78	no. 36	1976: 6 1983: 35
Perez Companc	no. 84	no. 23	1976: 19 1983: 48 1986: 61

Source: Pierre Ostiguy, 1990: 151

[30] These changes and the Brazilian 'culture of growth' stemming from the country's 'miracle' of lhe 1970s prevented a thorough assessment of lhe debt crisis and lhe new international conditions. After the internal boom of)986/87, the sector expected a future deficit (by 1992) in petrochemical products. It expected an annual GDP growth rate of between 7% and 5.5 % and exports amounting to 20% of total production.

[31] The Brazilian petrochemical sector experienced this in two main forms:

(i) 'The Brazilian State's capacity to lake authoritative decisions had deteriorated significantly' (Erbcr, 1995a: 17). The results of the PNP were discontinuous. COPENE was duplicated with two years' delay in 1993. Specifically, the PNP was showing a latent crisis in the sector's regulatory system that the 1990s would bring to the forefront. In fact, the PNP could not define any important options, it had lost the authority to define priorities.

(ii) in addition to no longer being able to make decisions about new investments, Petroquisa and its firms were affected by inflationary cycles. Government controls were too heavy and slow, affecting sectoral efficiency and margins. The Petroquisa system lost its strategic command.

[32] For the first time, there was a drop in apparent national consumption of petrochemicals (of 12% in Brazil) (Erbcr, 1995a:15; mainly final products, Guerra, 1991). In 1989, per capita consumption of plastics was very low in Brazil (10.3 kg/person). Argentina's was higher at 11.4 kg/person, but still low compared with that of DCs - 56.2 kg in the USA, 64.2 in Japan and 69.8 in Germany (Oliveira, 1990). In 1998, per capita plastic consumption in Western Europe was 40 kg, while in Eastern Europe it was only 5 kg (De Brcc, 1998).

Argentina had suffered from de-industrialisation and a fall in domestic consumption during the 1980s. Thus, in 1990, only 50 kg of steel was produced per capita, compared with 183 kg per capita in 1975 (Lopez and Port, 1994:88). Brazil's apparent consumption of crude steel pci capita was 87 kg in 1993 (IBS, 1995:5).

[33] According to Bresser Pereira (1996:59-60), Tor the state-owned and transnational corporations, this was related to price controls. For the private national corporations, ... the reduction of subsidies played a decisive role. For all corporations, this fall in profitability can probably be explained by the increase in the organic composition of capital.' Organic composition of capital refers to the capital-intensity of the capital, basic and intermediate sectors supported under ISI. With regard to price controls, Petrobras was compensated through Petroquisa, providing the sector with stability and protection from the characteristic cycles. However, this strategy undermined the Stale-owned enterprises, which experienced decreasing rale of profitability in an inflationary economy.

[34] According to Oliveira (1990) Brazil's petrochemical sector invested an average of USS 466 million annually between 1973 and 1982, while between 1982 and 1988 the average annual investment was just USS 287 million. According to Erbcr (1995) there were two reasons for the reduction, (i) macro-economic - GDI [5] growth fell from 8.6% to 2.1% per year, (ii) sectoral - the industry began a process of adaptation and maturing. Even if growth rates were lower, the productive capacity was enlarged through optimisation processes.

In the Argentine steel sector, the State enterprise Somisa lacked investment during the 1980s, and by 1990 it was losing about USS I million per day (Bisang and Chidiak, 1996:479, fn. 25).

[35] Die process of liberalisation was started as part of foreign trade policy. The Erst tariff reform, in 1988, reduced average tariffs at a time when CACEX still existed in Argentina.

[36] For Brazil, sec Bresser Pcrcira (1996).

[37] On the issue of lobbying capacity in Argentina's petrochemical sector, sec ECLAC/CIID, 1994:23.

[38] In steel, exports grew by 515% between 1980 and 1989, from USS 57.7 million to USS 970.8 million (Azpiazu and Nochtcff, 1994;15). A 1992 ECL AC study showed that 64% of the growth in Argentine industrial exports between 1974-76 and 1988-90 was achieved by four sectors: iron and steel, oil refining, basic chemicals, and non ferrous metals. The big leap took place between 1987 and 1990, when the exports doubled (Schwarzer, 1993:391). Only 16 firms accounted for

80% of that export growth. Among these firms were the 'State-promoted' projects, including in steel and petrochemicals. In addition, there were three State firms, Somisa (steel), YPF (oil), and Rio Terccro (petrochemicals), plus four private companies in the same sectors (three of which were Copctro, Pasa, and Pctroquimica Cuyo). The only firms outside the two sectors were IBM and the automobile companies. In this context, Techint's Sidcrca was selling approximately 80% of its production in the world market (Schvarzcr, 1993:391). In the 1980s, for the first time, Argentine industrial firms were among those with exports over USS 100 million (Bisang and Kosacoff, 1990:24). These firms belonged to the big economic groups (BEGs), which, together with the TNCs, accounted for more than half of all national exports, against a background of contraction among small independent firms and reduced State exports. Furthermore, they did it against a fall in industrial GDP (in absolute terms, industrial GDP was 11.7% lower in 1990 than in 1970; accounting for approximately 20% of total GDP, compared with 28% in 1970), while total GDP grew by 16% (Bisang and Kosacoff, 1990:15). After 1990, steel and petrochemical Finns experienced a decline, due to the change in the national and international contexts. This was in spite of YPF ranking first among Argentine exporters (with more than USS 800 million) and Sidcrca eighth (with more than USS 200 million) in 1993. On the one hand, agriculture-food and oil-gas production increased in importance, as did the automotive sector, with a special policy regime. On the other hand, an internal consumption boom after the 'stability plans' redirected goods that used to be exported towards the internal market.

[39] In Brazil, between 1980 and 1981, petrochemical exports increased by 300% in volume from almost zero, and by 250% in value. Between 1982 and 1983, after Triunfo (Copcsul) started operating, its exports grew by 188% in volume and 174% in value (Guerra, in Erbcr, 1995a: 15) In 1985, exports reached 18% of national production, under the aggressive marketing of Intcrbras, Petrobras' trading company. The sectoral deficit of USS 307 million turned into a surplus of USS 450 million in 1987 (Hascnclcvcr, 1988). The export push produced a diversification of export markets beyond Latin America (c.g. 87.6% of LDPE and 75.4% of HDPE went to Nigeria, China, Hong Kong, Singapore, and The Netherlands in 1983). With the consumption boom of 1986 after the Cruzado Plan, exports stabilised at 12% until the end of the 1980s, becoming an integral part of the 'operational horizon' of the sectors' strategics. In Argentina, 'in contrast to the decrease in GDP, production grew by an annual rale of almost 10% during the 1980s. More than USS 1200 million were invested, and 12 plants were inaugurated. The volume of exports grew by a yearly rate of 8.5%, reaching USS 400 million at the end of the 1980s' (Lopez and Chidiak, 1996:355). The production trend showed a decrease in basic products, while intermediate and final products increased (from 28% to 39%, and 25% to 30%, respectively). This process modified the countries' export profiles.

[40] Latin American Finns are defined here as business enterprises in which the majority of the assets arc either owned or controlled by natural or juridical persons from the region (Peres Nunez, 1993:56).

[41] Negotiations in the GATT Uruguay Round and the protectionist stance of DCs were seen as constraints that could hinder the globalisation of Latin American firms. In addition, in the 1990s firms expected a new capital shortage after the one triggered by the debt crisis, due to the German reunification and the inclusion of Eastern Europe in the European Union's sphere of influence following the collapse of the Soviet bloc.

[42] Although there has been South-South FD1 since the 1930s (Argentina being an example), the 1980s saw an FDI boom analogous to that of DCs, considering the size of their economies. The figures arc imprecise, with estimates of USS 50 billion in 1985 and USS 80 billion towards the end of the 1980s (UNTC, in Pcrcs Nunez, 1993:59). FDI has concentrated on DCs. At the beginning of the 1980s Argentina and Brazil were already investing more in DCs than in LDCs,

with the USA as the main recipient. The data for 1988-90 indicate that Latin American countries had USS 7,46 1 million in FDI. Argentina accounted for USS 2,730 million (Perez Nunez, 199l) while Brazil accounted for USS 2,397 million (ECLAC, 1992a). In June 1992 Brazil had USS 4,139 million in FDI, of which only 8% went to LDCs, 53% going to tax havens and 39% to DCs (mainly USA and the UK).

[43] Studies conducted by ECLAC/UNDP (Regional Project RLA/88/039) showed a concentration of Brazilian FDI in the USA since the debt crisis. Argentina's manufacturing FDI was directed primarily to Latin America, and was more diverse. Most of the Argentinian FDI was in DCs, in the banking sector, and concentrated in The Netherlands (UNTC, 1991). Argentine firms have had long experience of FDI, starting from the early twentieth century (c.g. Bunge & Bom in the food industry and Alpargatas in textiles and footwear). These investments were made in South America, particularly Brazil. In the 1940s, the firms successful in the 1SJperiod, specifically in metal and machinery production, also had FDI (Katz and Kosacoff, 1983). In the 1980s, under (he restructuring that began in the 1970s, other economic groups invested in the pharmaceuticals, iron and steel, paper, aluminium, special-order capital goods, and food industiy sectors (Bisang, c/aA, 1992).

[44] Democrat!sation has been thoroughly analysed by O'Donnell *et al.* (1986) and Diamond, Linz err//. (1989).

[45] Nco-corporalism can be found at sectoral, industry and even firm levels (Schmitter, 1982). It is one possible way of structuring Slate-society relations, usually emerging as a second-best compromise in policy-making, 'when none of the class or State actors involved has been capable of imposing its preferred solution upon the others' (Grant, 1985:7).

[46] lite debate on factionalism and patterns of bargaining and negotiations is usually restricted to analysis of elites (Dahl, 1966; Sartori, 1987). Elites are persons that, based on powerful structures, arc able to affect national political outcomes regularly and substantially (Putnam, 1976). These influential persons* views and actions arc important factors to be weighed when assessing the likelihood of continuity and change in regimes and policies (Higley and Gunther, 1992:9).

[47] Elites arc the decision makers in political, economic, professional, communications and cultural organisations and movements in a society (Putnam, 1976). They play a major role in securing procedural democracy (Higley and Gunther, 1992) by taking 'po!itics-as-bargaining' and not 'politics-as-war* (O'Donnell and Schmitter, 1986:9; Sartori, 1987:224-6).

[48] According to Dahl (1971) a democratic regime is characterised by 'free and open elections, with relatively few barriers to political participation, with genuine political competition and wide protection of civil liberties*.

[49] Apart from the more recent Industry Captains and Group of Eight, the most notorious Argentine business group may be the CEA (Argentinean Business Council). The petrochemical firm PASA's president, Carlos Dietl, was the first president of the CEA from 1967 to 1969, then its vice-president from 1978 to 1983, and again its president from 1983 to 1987. In 1987, when Perez Companc took over control of PASA, Dietl became president of the Trade Bourse. Perez Companc also owned 20% of Petroquimica Comodoro Rivadavia. The CEA president in 1987 was Federico Zorraquin, owner and president of the petrochemical firm Ipako, well known for his economically liberal views. He was simultaneously president of ADEBA (Energy Association). Both Dietl and Zorraquin, as presidents of the Trade Bourse and AD EBA, were most influential in State policy-making since the petrochemical sector was extremely dependent on the State*s Gas del Estado (National Gas Company) and YPF (national oil company) for its

inputs. It was clear that both subsectors (oil and petrochemicals) fell under the control of the same economic groups, except tpako (which was the economic group most in trouble in the mid-1990s, did not participate in national privatisation, and by 1995 was thinking of exiting the petrochemical sector).

[50] They issued public statements and travelled with the President and/or official negotiators in official planes, having direct access to the negotiations and alternatives, and participating 'on the spot'. Their opinions and public statements became daily news, essential for monitoring economic and political developments. In Argentina, since the 1980s, almost all-major firms (e.g. the three main private oil firms) belonged to powerful economic holdings. In turn, these holdings were represented in the Industry Captains group (which consolidated after 1983, developing after two other most influential groups in the country - Consejo Empresarial Argentine and the Group of Nine). Each holding in the group belonged to one family, the head of the family being the business president and representing the holding in the Industry Captains group. Not only were these presidents increasingly appointed to Stale posts (e.g. the head of Bunge & Bom was given a post in the Ministry of the Economy) but they were also the closest advisers to national presidents (e.g. Perez Companc's Vicente to Alfonsin). Later major business-interest networks were the Maria Group and the Group of Eight

[51] According to Dos Santos (1993), the Brazilian State was an institutional hybrid made up of a mix between a polyarchy (Dahl, 1971) which rcgulatcd/lcgislatcd excessively and a social I lobbesianism which was anomic, individualistic and distrustful of ihc State. Social Hobbesianism was not unique to Brazil. In Argentina, the unequal distribution of national income and rising unemployment (18.4 % in 1995, 17.3% in 1996, see http://www.tradcporl.org) led to an enormous increase in private police, to approximately 100,000 employees *(Internet Headline News* no. 750, 18 February 1997), without any public control.

[52] A major reason for the downturn in the steel sector was the abrupt collapse of the Soviet bloc and the release of steel produced by those economics into the world market. International prices fell by about 20% between 1990 and 1993. In the petrochemical sector, large new complexes started operating in Asia and the Middle East.

[53] From 1990, business supported Menem in Argentina and rejected Collor in Brazil, although by 1997, the situation changed. In January 1997, Menem met the 'Group of Eight [1] (the most conspicuous representation of big business in Argentina) to solicit business support for a new presidential term. After the meeting, the business people told the press that they opposed the UIA head's call to 'consider' a third term in office for Menem, which would have required constitutional reform. Two of the group affirmed that they had not even considered it. Instead, they supported flexibility and labour reform. That same year in Brazil, Cardoso won the first vote in the Chamber of Deputies to permit his re-election. 'Banking and industry rejoiced, since they supported his move from its inception/ Their virtual approval ensured his rc-cJection in 1998 *(Internet Headline News* 731, 30 January 1997).

[54] From July 1989 to December 1992, in the first 42 months, Menem used decrees 244 times, eight times more than all other constitutional presidents in the past 136 years. Before Alfonsin, there had been no more than 20 such decrees in Argentine history. Alfonsin used it ten times while in office. Of Menem's decrees, 20% concerned taxes, 12% salaries, 11% public debt, 9% public organisms, and another 9% a raft of issues including deregulation of the economy, downsizing of public administration, and donation of cement to Bolivia to build a road. In most cases, they 'modified or overruled laws or legislation reserved to Parliament without having been granted the faculty to do so[1]. With the government having the majority of seats in the Senate and forming the first minority in the Chamber of Deputies, Parliamentarians' protests were subdued (Gfa/w, 6 June 1993).

[55] In April 1993, a plebiscite on political reform rejected a parliamentary system for Brazil. In December 1993, in a survey carried out by the Brazilian newspaper *Folha de Soo Pau/o,* 43% of respondents slated that Brazil could do without its parliament (in Dos Santos, 1994:2).

[56] In Brazil, the percentage of parliamentarians changing political party allegiance, within the total federal representation, were: in 1984, 16.7%; in 1985, 14.4%; in 1986, 13.6%; in 1987, 13.7%; in 1988, 13.0%; and in 1989, 10.7%. (dos Santos, 1994:17). In Argentina, new political parlies and coalitions were created, while old parties split along the divide of structural adjustment and style of policy-making (i.c. Pcronists first lost a group of eight parliamentarians, who later formed the Frepaso).

[57] There is a political culture in which each vole requires something in return. This tradition goes back to the style of the colonel, who had all powers in local communities. At the national level, this tradition expresses itself in the exchange of benefits for the maximisation of political consensus. Brazil is also reluming to decentralisation, after the centralising efforts of the military period (1967-85). This process started with the political transition in 1978 and was reinforced with the Constitution of 1988.

[59] Many in the Argentine Ministry of the Economy had been in the last military government (1976-83), most noticeably Minister Cavallo, while Collor was the heir of the Brazilian military alliances in the north-cast of Brazil. A Ph D. thesis by Ilza Leao Andrade at the University of Campinas studied the history and discourses of both the PFL {Liberal Front Party) and ex-president Collor de Mello. It showed how, after 1975, the military chose young people with a technical profile and no connections with the rural elites in the north-cast. In 1979, the military placed those selected people as state governors; among them was Collor in the state of Maccio. The military also favoured them with large investments in the region, in particular in construction, housing and urban services (Andrade, 1997).

[59] Joseph Stiglitz made his speech in Helsinki, Finland, on 7 January 1998. His speech was reported in Joseph Hanlon’s article, published in March 1998 in the quarterly newsletter of the Jubilee 2000 Coalition, a group of more than 60 European and African organisations calling for the cancellation of all debts owed by the world's poorest countries. Stiglitz has so far been the World Bank’s most critical voice of the Washington Consensus tenets. He declared that ‘macro-economic stability is the wrong target,[1] ‘markets arc not automatically better,' and that 'competition, not ownership, is the key,[1] among other concepts.

[60] ‘In terms of economic activity, the measures were generally well received, especially by business people, who expected the measures to have a healthy effect by lowering interest rates ... There is the expectation that, with increasing economic activity, there will be a decrease in the unemployment rate[1] (translation of excerpt from interview with Mr. Luiz Augusto de Araujo Castro, Brazil’s Ambassador to Uruguay, ‘Fuimos obligados a tomas esas medidas’, in Swrsos *Mercosur,* 22 January 1999, Montevideo, Uruguay).

[61] Petrochemicals, for example, increased from 40% to 90% between March 1994 and April 1995 (Lopez and Chidiak, 1996:390).

[62] Low internal demand was responsible for 1992 steel imports being equal to those of 1991 (little more than 160,000 tonnes), less than 2% of apparent consumption. In parallel, there was an increase in indirect exports, through steel-intensive manufactures.

[63] Trucks sustained the demand for special non-flat steel at the 1991 level. Vehicle production reached 1,070,400 units, an increase of 11.5% over 199L This was equivalent to the steel sector, since laminates decreased by 7.6% from 1991 to 1992 (to 8,429,000 tonnes) due to internal recession.

[64] After the tripartite accord, the automotive sector's demand for steel in 1992 increased by 2% over 1991, reaching a consumption level only comparable to that of 1977, and accounting for just 34% of installed productive capacity.

[65] In the 1990s, there is almost no regulation of products, except for agrochemicals. Regulatory frameworks for privatised enterprises have remained vague and confusing. The registration requirement for FDI was eliminated, as was the Iron and Steel Registration Office. Taxation has been reduced for large industrial firms, c.g. in cases of high energy consumption. Taxes on steel exports were abolished in 199 1. Promotion regimes were dismantled, and systems of previous authorisation for the sectors' imports discarded. These are just a few examples of the general trend towards State deregulation implemented in a span of three years, from 1990 to 1993.

[66] As part of structural adjustment, in Argentina the UNDP and World Bank paid most of the State officers and experts connected with the sectors, whether in the Ministry of the Economy or Foreign Affairs. These later left the Stale to work for private business. In another example, the Argentine Informa Mercosur centre was a UNDP project to support the regional integration process by providing information to businesses and citizens. After a while, this centre closed without concrete results. Its documentation was stored in boxes at the Ministry of Foreign Affairs while others, such as the Bilateral Argentinian-Brazilian Trade Chamber (BABTC), took over its function. BABTC received support only from regional businesses. The CE1 - Centre of International Economy of the Ministry of Foreign Relations - also depended on multilateral financing, while initiatives within Mercosur Working Group no. 7 on Industry showed that all information was in the hands of the private sector. According to interviewees, Brazil experienced a similar process of loss of co-ordination and human resources under Collor de Mello.

[67] These studies were undertaken by the BNDES (with publication series such as the BNDES Setorial, Estudos BNDES and Tcxtos para Discussao), the FUNCEX (Foundation Centre for Studies on Foreign Trade, a public-private Foundation) in Rio de Janeiro, and State universities such as Campinas. The government and the private sector have also requested research studies by international consultancy think-tanks. In addition, important broad national gatherings, such as The National Forum, arc held to discuss development strategics (sec dos Reis Vclloso, 1997: 10).

[68] The CEI (Centre for the International Economy) in the Ministry of Foreign Affairs requested a scries of sectoral studies from different research institutions under UNDP project 87/014. These studies were published in books by the CEI - see *El Mercado Comun del Sur, Estudios Argent bios para la Integration del Mercosur,* and *El Mercosur: un desafio.* Mr. Guadagni, when Ambassador to Brazil, ordered a study published as: *'Argentina-Brasil, Comercio, I aversion es e Integration Fisica'* (August 1995, Brasilia). The only remarkable research initiative on sectoral studies at the beginning of the 1990s in the Ministry of the Economy was carried out under the auspices, and with the funding, of an international organisation. When it was completed, the researchers left for the private sector.

[69] In Brazil, petrochemical imports grew in relation to total internal sales from just 3.4% in 1989 to 13.7% in 1994 (Erber, l995a:Tablc 10). In terms of value, it accounted for 10% of total internal sales.

[70] Concerning third parties, the simple average tariff in Brazil was 6.5% for raw materials, 9.2% for scmi-proccsscd goods, and 15.7% for finished goods (Zcigcr-Hatficld, 1995). In Argentina, raw materials have no tariff, scmi-proccsscd goods arc charged 6-8% and finished products 14%, 18% or 25% (Bisang and Chidiak, 1996:476). For Brazilian petrochemicals between 1988 and 1994, sec Erber, 1997:223. For Argentine petrochemicals between 1980 and 1995, sec Lopez, 1997:152-3, and F1EL, 1994. For steel, the following table from the Ministry of the Economy

(Argentina), in Lopez and Chidiak., 1994:122, compares the tariff structures of the steel sectors in Argentina and Brazil.

Argentina			Brazil		
Average	Standard	Variability	Average	Standard	Variability
9.9	2.0	19.9	10.2	6.0	59.5
15.1	1.5	9.9	13.3	5.2	39.3

71 'Nuevas rcglas para las transnacionalcs*, *C/arin Dtgifo/,* Economics section, 13 September 1998.

72 These first eases were small petrochemical firms (two in Argentina, together with the ex-SIAM welded pipe plant - see Azpiazu and Nochtcff, 1994:130). A Brazilian petrochemical manager affirmed that 'President Sarney had a list of firms to privatise, but the project was buried in the Congress* (Albuquerque Forman, PDI 28:13). For Sarney's first steps in privatisation, sec Schneider, 1988-9:97-100).

Under Menem's government, Law no.23696 (Reform of the State) and Law no.23697 (Emergency), set up new conditions. All Stale enterprises producing goods and services were privatised in the incredibly quick time of three years. Tlic two integrated steel works (SOM ISA and Altos Homos Zapla) as well as all petrochemical plants, transport and distribution of natural gas, electric power, and the whole of the petroleum industry were sold. The process ended with the Bahia Blanca petrochemical complex, sold at the end of 1995 to the Dow Chemical Company. Regulatory frameworks for the newly privatised sectors were developed only slightly. The Ministry of the Economy took over the mission and functions of the Ministry of Public Works and Services, and within the Convertibility Plan of April 1991 it focused on fiscal revenue under a fixed exchange rale pegged to the dollar.

75 'Nuevas rcglas para las transnacionales[1], *C/erin Digr/a/,* Economics section, 13 September 1998.

74 Two factors limited Pclroquisa's strategic command: (i). limitations that the shareholders* agreement imposed on Pclroquisa's participation in its related firms, giving partners the right to veto any strategic decisions, and (ii) tacit norms (see Erber, 1995a:20).

75 See www.mcrcopartcnariat.org/inglcs/quirnica.htm

76 Energy, infrastructure and roads were included in a second stage. In April 1995, the government added Elctrobras and its subsidiaries to the list, to be sold from 1996. And in 1997, telecommunications was added to the list. The privatisation programme was conducted by the BNDES. For 1995, 16 enterprises were on the privatisation list, most of them from the petrochemical sector, among which COPEN E was (he most important, with a valuation of R$ 241.4 million, followed by Salgema valued at R$ 97.2 million (BNDES table in Argentine Embassy, 1995:145).

During 1994, only 9 out of 32 planned sales were accomplished, for which USS 581 million was received. Thus, until July 1995 and Escclsa's privatisation, Collor and Franco had sold 33 enterprises, (Collor 15 and Franco 18) for a total of USS 11.873 million.

77 According to Erber (1995 and 1997, also PDI 61), the first schism between the BNDES and Petrobras was due to conflicting interests. BNDES was responsible for privatisation within the National Programme of Dc-statisation (PND), while Petrobras, the sole supplier of naphtha with commercial interests in the sector, was against privatisation. The second schism affected the coherence of the petrochemical sector after privatisation. Since Petroquisa had minority shares (except in the Rio Grande and Sao Paulo centrals and in Pctroflcx elastomers), the private sector

approved of but was not interested in restructuring its own entrepreneurial structure. There was thus a con Aid between business and the Slate, and three alternatives for privatisation in the sector were apparent: (i).to sell the central producers of raw materials and Pctroquisa*s minority shares in the second-generation firms independently from each other, (ii) to sell Pctroquisa as four companies, but each central firm together with the minority shares in each respective petrochemical complex, (iii) to sell Pctroquisa as a whole package. The question of entrepreneurial restructuring into big groups capable of international competition should have favoured the last two options. However, in order to accelerate privatisation, and due to political reasons and timing, the obstacles put forward by the private shareholders, the presence of foreign TNCs in the firms to be privatised and the lack of consensus, the Directing Commission of the PND chose the first option. Privatisation started with the least complex pole in the south. At first an attempt was made to create a holding, but the second-generation firms rejected it. Foreign firms also cited technological secrets as a reason for rejecting a fusion. Thus, the central firm was first privatised and Petroquisa's shares in each firm followed suit. CopcsuPs control was segmented among all groups owning downstream firms and Pctroquisa, which still retained 17% of the capital.

[78] ‘Gazcta Mcrcantil Latinoamericana*, S’emanano *del Mercosur,* 13-19 October 1996.

[79] The products to be liberalised were paraffin, asphalt, coke of petrol, solvent, aliafaticos, and naphtha for gas production. The proposal also discussed modifying import tariffs (at that lime 14% for non-Mcrcosur countries), and their elimination in 2001. Tariffs on crude oil and its derivatives (gasoline, oil, naphtha), classified as industrial raw materials, were to be immediately dismantled. For the rest, tariffs would remain at 14%.

[80] CVRD immediately registered net profits of RS 756 million in I997, an increase of 40% over 1996. In 1997, exports were exempted from the ICMS tax. In 1997, its capital reached RS 1,966 billion ('Vale lucrou 46% maiscm 1997\ *Jonial do Brazil,* 11 March, 1998).

[81] 'Thc European Commission has initiated two investigations against these Brazilian trade practices under the Trade Barriers Regulation. As regards measures affecting steel imports (non-automatic import licensing and restrictions of payment terms) a TBR investigation was initiated in June 1997, and on measures affecting textiles (non-autoniatic import licensing, restrictions of payment terms and minimum import prices) a TBR investigation was initiated in February 1998. As regards the general measures restricting terms of payment for imports, the Community requested WTO consultations on 8 January 1998. Australia, Japan, US, Korea and Switzerland joined as third parties* (Zcigcr-Hatficld, 1995).

7 Regional Firms in the 1990s World Political Economy

7.1 Introduction: Global competition - scales and autonomy

The 1990s have been marked by additional factors affecting the two Mercosur sectors under study. These factors have been placed under the grey concept of 'globalisation' as re-examined in Chapter 2. In this dissertation, globalisation is seen as just the tip of the iceberg, most evident in trade and foreign direct investment. It is the most visible part of a building process of economic-financial networks, that is, a process of institutionalisation (a concept also re-examined in Chapter 2) of production and distribution chains. These chains, eventually extending across the globe, aided by technological developments, represent a qualitative leap in managerial capitalism. According to Chandler, the modem industrial enterprise came into being through a three-pronged investment in production, distribution and management, and its 'organisation capabilities in turn provided an internal dynamic ... to become multinational by moving abroad ... [and] a multiproduct enterprise. Industries where the new technologies provided cost advantages of scale and scope came to be operated through the system I have called managerial capitalism' (Chandler, 1990:8-9). At the end of the twentieth century, globalisation is a polysemic word symbolising an emerging type of competition in the world political economy, also reflected in the accompanying economic restructuring. Its polysemy and differentiating effects according to the actors' positions will be seen later in this chapter.

In 1994, the Joint Report on Globalisation of Industrial Activities' by the OECD Industry and Trade Committees explained that, since the 1980s, there have been three main 'characteristics and driving forces of globalisation' … 'crucially shaped by firm, industry and country differences', which 'are changing the patterns and scope of world business and expanding the presence and influence of foreign companies in national economies' (OECD, 1996:10). These were international direct investment, international trade, and international inter-firm collaboration.[1] In other words, international flows have been internalised sector-wise into expanding economic networks under a variety of property arrangements. For example, a 1994 report for the IADB on Mercosur's steel sector identified two vital arenas for the industry: domestic markets and world integration. Exports, which are perceived as non-intemalised flows in the current competitive environment, appeared as a third option. Although the OECD report correctly identified the main characteristics (the visible part of the iceberg) of the new global competition, it mistook them for the ‘forces’ behind it. Fieldwork analysis suggests that the dynamic ‘forces’ are something other than the most visible characteristics of the process. The most relevant factors causing Mercosur business actors’ strategic reactions in the 1990s, stimulating a new type of competition, were: (i) changes in the system of production and distribution, (ii) enlargement of business scales, and (iii) sharper definition of business scope.

Whereas Mortimore defined three trends heightening competition - globalisation, specialisation and regionalism - (Mortimore, 1992:41), the qualitative analysis of fieldwork identified three constituent elements that are relevant to competition: ‘business scales’, 'business scope’ and 'institutionalisation or rule building’. The first two will be dealt with in this chapter, while institutionalisation (with reference to regionalism) will be discussed in Chapters 9 and 10. A clearer conceptualisation of the main elements constituting competition in the 1990s draws attention to the TNC-centric nature of the process.

A value-consensus, institutionalised at the global level, has granted the necessary legitimacy to such competition (e.g. Camdessus, 1997), providing two basic conditions for its accomplishment: full autonomy to flows and an across-the-globe valuation and comparison of firms through exchange rate parity with the dollar and/or macro-economic stability. Indispensably, the value-consensus called for the reformulation of existing geographical and institutional governing frameworks, frequently decried as fetters. Consequently, in the 1990s, governments within Mercosur have actively pursued economic integration into the world economy, their foremost priority being the prevention of macro-economic policies that could obstruct the free flow of capital, as reviewed in Chapter 4 on Mercosur.

‘Macro-economic stabilisation and structural reform programmes have not been neutral in their impact across different types of firms’ (Benavente *et al.*, 1997:273). The process, favouring TNCs, reinforced them as major actors (Hatem, 1995). Meanwhile, factors internal to industrial firms in the region (financial resources and management capacity) and their scarce knowledge of foreign markets, became the most significant elements hindering the restructuring of firms and their integration into the world economy (Peres Nunez, 1993b:66). In the 1990s, against the background of much debate about immaterial, global and non-territoria! flows of ‘disorganised capitalism* (e.g. Luke, 1995), firms producing and managing flows in the world were facing a changing real-world political economy.

7.2 Real-world changes - constitutive elements of the 1990s competition

7.2.1 Changes in the production and distribution system

As Mortimore rightly explained: 'When the TNCs under attack understood that their situation was not to be remedied through permanent governmental assistance or by throwing capital resources into possible new scientific or technological breakthroughs, they began to face up the task of improving their capacity to compete internationally ... That laid the basis for what has become known as "industrial restructuring", which is central to the new international industrial order' (Mortimore, 1992:40). He added that industrial restructuring has various definitions, the closest to this thesis being that of the Regulation school (Aglietta, 1997). Even then, the French school has not yet paid due attention to analyses beyond the nation-state. As Chandler asserted, the modern industrial enterprise tends to cluster in industries having similar characteristics, and that is why sectoral studies are particularly interesting for explaining the recent historical dynamics. In the twentieth century, 'the modem 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 iri much the same manner' (Chandler, 1990:18). Sectoral and meso-level analyses may now be undertaken across states.

Thus, the changes in the world system of production and distribution prompted TNCs within Mercosur to restructure. In the petrochemical sector, there have been multiple and significant initiatives involving acquisitions, mergers and joint ventures, among others (Petroconsult, 1992:37). 'The 1990s competition has been inducing the firms to adopt strategies of concentration and of strategic alliances - Petrochemical business has been globalising due to newcomers from Asia, chemical firms, and the big global consumers of resins like the automobile industry' ('Odebrecht quer superpetroquimica', *Jornal do Brazil*, 11 March 1998).

The growth of the latter industry has also been one of the main factors behind the increasing cross-border ownership and co-operative ventures in steel (OECD, 1996:304). Regional proximity and just-in-time (JIT) delivery can guarantee standardised production together with economies of scale large enough to service the regional needs of the automobile industry. This process has been most apparent through the integration of intermediate sectors with the automotive and raw material, sectors. Moreover, Mercosur had much to do with the revival of the automotive and raw material sectors, as these sectors had specific government agreements and policies within the bloc, as already mentioned in Chapter 5 (section 5.3). The automotive industry has been by far the most important case (Chudnovsky and Porta, 1995:51-2, 75; Kosacoff and Porta, 1997128).[2]

For industrial firms, globalisation is intrinsically linked to co-ordination costs *vis-a-vis* advantages from productive scales and specialisation, and their appearance as ‘global firms’ is a recent phenomenon. Beddows, president of a private steel firm, asserted that even in the 1980s, in the steel sector, ‘the scarce examples in joint property ended up in failure’ (Beddows, 1990:21). He argued that there were two reasons for this: political (State support in the EU, Japan and the USA) and commercial (the steel consumers lacked co-ordinated purchasing policies). During the 1980s, however, the political and economic context changed through an interface between the spread of both a nco-liberal ideology and East Asian productive practices. By the early 1990s, neo-libcralism had reduced Slate planning and steel subsidies, and had resulted in rising unemployment and abandonment by LDCs of steel as a national development motor. Steel then lost the political legitimacy which was the basis of its claim for protection.

Meanwhile, the automobile industry had become a major example of globalisation (see, for example,. *The Economist*, 10 May 1997:19-21), as a result of the changes in the system of production first developed in Japan.[3] ‘Several automobile companies developed productive practices which impacted on specifications for steel raw materials. [Moreover,] the highly corporate practices from Japan led the auto industry to incorporate their steel provision from Japan into the property and management of the steel producers in North America. This ... led to the standardisation of steel products. Given the high standards and efficiency in Japan within the auto industry, the USA and EU practices followed] as well those corresponding to types, qualities and JIT provision of steel. That is how intercontinental events take two forms: capital from Japanese ... plus the creation of intercontinental steel groups, with increasing globalisation of norms and requirements for steel products’ (Beddows, 1990:22).

In the petrochemical industry, TNCs were facing a similar process of emerging global firms. In the early 1990s, according to a Brazilian State report, European petrochemical firms were more global than U.S. ones, while the Japanese regarded the strategy of ‘globalisation’ as imperative. A global strategy takes place when firms, ‘concentrating on their *core* *businesses* recognise that: a) regions have different competitive forces; b) the 'value chain' need not be localised in the same region; c) a transfer of know-how and product-customer skills may be advantageous; d) economies of scale can be created as necessary through linking activities in various regions; and e) the most important consumer industries are globalised' (BNDES, 1992:8). A global strategy provided the opportunity for international integration into the new competition.

7.2.2 Business scales

The global competition has been convincingly rationalised by Mercosur business actors under the concept of 'business scales'. Brazilians consider this concept essential for understanding the economy of the region. During field-work, they often mentioned Oliveira's Ph.D. thesis (Oliveira, 1994), which they consider very important. The idea of 'business scales' suggests a new worldwide type of competition and it has two basic connotations: business scales go beyond the ones conceived under 'economies of scale' - which are applied to individual plant scales - and arc sought sector-wise. Porter signalled the importance of the latter trend in his 1990 book *The Competitive Advantage of Nations.*

The concept seems to provide a teleological rationale to business, drawing together resources and energies to fulfil what business people currently perceive as necessary for the development of capitalism. Business scales may constitute 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 the firm build its 'business scales'. Assets include capital investment, R&D capacity and technology, autonomy in organisational and managerial practices, trade links and strategic alliances. The measurement of business scales would thus be complex. Some possible indicators have been discussed, such as a group's total sales and profits in a particular sector worldwide, and the percentage of USS spent on R&D compared with total sales. As yet, though, it has not been defined in full measure.

In the 1990s, capital costs and availability were a more critical production factor than labour in the two sectors, where fewer were employed and productivity increased rapidly (Nofal, 1994).[4] 'The continuous reduction in labour costs means that ... the 1 or 2% that can be gained by efficient purchasing will be critical in minimum and capital returns' (Beddows, 1990:25). Global co-ordinated purchasing and outsourcing would thus provide a competitive edge. Raw materials have been the second factor determining the success of steel and petrochemical firms: the costs of their basic inputs (supply and reserves of gas and oil, and iron ore and electricity) and the way in which their prices are set and regulated. Given the structural adjustment policies implemented in Argentina and Brazil, the importance of the raw materials has reinforced strategics towards vertical integration.

Nevertheless, capital and raw materials have not been the only factors in the success of firms in the 1990s. With faster technological changes, the steel businessman recognised that 'globalisation will take place because of lower co-ordination costs from the reduction in the costs of managing information ... *all will require better information management in the industry'* (Bcddows, 1990:25). The link between technological changes and managerial skills and co-ordination was also explored by Chandler.[5] Since States have been retreating, the sectors *per se* have appeared as better sites for information management, and hence politico-economic decision making.

Why have business scales been decisive for Mercosur regional firms? As seen in Chapter 6, these firms have been powerful within their nation-states but are smaller when compared with North American, European and Asian firms. An ABIQUIM report in 1991, based on a comparison of 276 firms, revealed that the sales of the entire Brazilian chemical sector (including petrochemicals) were USS 10.4 billion, equivalent to the sales of Atochem, the tenth-largest European firm in 1990.

In addition, there have been waves of mergers, acquisitions and take-overs at the world level since the mid-1980s. Between 1991 and 1993, there were 33 acquisitions, 29 joint ventures, 16 fusions, and four exchanges of business at the world level in petrochemicals (Petroconsult, 1993:37, 40-1). The trend was strengthened as all the large firms in the same sector expanded so as to create pre-entry barriers and to position themselves in the new competition. Considering only 1998, there were 376 fusions, acquisitions, and joint ventures in the petrochemical sector at the world level (Economic Commission for Europe, 1999:71-88).

Diversification or specialisation of production within the same sector, which requires the capacity to invest in R&D, will be discussed in subsection 7.2.3. At this stage, what needs to be mentioned is that the enlargement of firms through fusion, acquisition, incorporation, merger, or exchange of shares or portfolios, may facilitate economies of scope without necessarily enlarging one firm's economies of scale in production, but bringing in a new optimal point of equilibrium within a network. The BNDES 1992 report noted 'the frequent association of large firms, with the purpose of sharing business of common interest, especially in the fields of research and sales structure' (BNDES, 1992:18).

Unfortunately, the lack of autonomy in strategic decision making has been a hindrance to many firms in the region. In Brazil's petrochemical sector, Oliveira defined firms whose business rationale is highly curtailed by a low degree of autonomy as quasi-firms (Oliveira, 1994). The limitations of the quasi-firm appeared to be the main obstacle to reaching full 'business scales'. Oliveira bases his notion on 'especially those [obstacles] that impede the full and autonomous exercise of the process of capital accumulation' (Oliveira, 1994:35). Those of financial nature would impede the use of profits and/or capture resources in order to augment the assets and sales of the business, i.e. business scales. The firm would thus be limited as a locus of internal capital accumulation. Those of technological nature would limit self-development or any joint ventures to introduce innovations that would reinforce the firm's market position. Those of organisational nature would limit adjustments in the business structure in order to take up the new opportunities.

Quasi-firms may be TNC subsidiaries or State-enteqirises that do not belong to the core business or the core interests of a holding or of the owner. They arc peripheral to the main strategy, 'part of the global resources that the *primary ftrm.disposes* of to finance its [final] strategy' (Oliveira, 1994:38). In Argentina, due to their belonging to diversified economic groups, most of which have strong financial interests, firms' decisions may not be autonomous for various reasons. The case of steel looked more promising in the 1990s' competitive environment: the already integrated production and emerging global scales in the manufacture of particular steel products allowed both strategic decision making and management, as well as a more focused negotiation capacity.

7.2.3 Business scope

The firms' quest for lower transaction costs may account for the trend towards vertical integration that augments the average profit rate of the group (Oliveira 1994:340), as well as the acceptance of liberal economic policies while improving their access to foreign capital. However, changes in practices within the productive system seemed to be displacing the traditional conception of economics of scale while reinforcing those of scope, calling for a global and sectoral co-ordination of business. Traditional scales were conceived in an environment of national economies. In open economies, scales operate at a global level, backed by technological change. Thus, gains from specialisation of both business and plants become more important. Beddows argued for economies of focus that 'can be understood in the impact on the production costs when the range of products is reduced at a specific process of production ... While steel companies are specialising in processes of production, during the last 15 to 20 years there has been a process of disaggregation. In the USA and Europe, there are few facilities producing more than one main group of products. That is bars, laminates, tubes, and so on. Globalisation, therefore, is the result of discovering that co-ordination costs for a strict number of products at international scale are lower than co-ordination costs of more ample groups of products at local scale' (Beddows, 1990:24). In this thesis, these 'economies of focus' are implicit in the search for business scope. It should be clear, though, that this focusing on the core business has not meant business people having only one plant, and/or remaining mono-producers. 'It can be emphasised as the dominant tendency in the [petrochemical] industry, the strategy to obtain the leadership in each business or product, ... which is conducive to the increase in concentration, vertical integration and business scales' (Pcssoa de Andrade *el al.,* 1995:69). These arc revealing statements about globalisation by both a business actor in steel and experts in the petrochemicals sector.

In contrast, economists emphasise 'economies of scope of operation', related to 'simultaneous manufacturing of closely related products' that enable the full utilisation of invested physical capital at the plant 'by using much the same material and equipment' (Chandler *el al.,* 1997:29-30). The term 'business scope' used in this thesis refers to efficient specialisation of business at the world level, given the necessary co-ordinating resources. It cannot be limited to the operation of a plant because business strategy may now be global. When working on the concept of business scales, Oliveira (1994), too, did not use Chandler's 1990 'scale and scope', where the concepts were applied to firms but did not go beyond one legal firm or corporation. In petrochemicals, examples can be found in British Petroleum (polyethylene), ICI (PVC), and joint ventures such as 1C1-EN1(Grant and Paterson, 1994:146). Hence, firms within Mercosur, both national and foreign, found themselves facing new challenges, particularly because most of the BEGs had strongly diversified since the 1970s in a process similar to that of BEGs in South-east Asia.

Business scales may enable the achievement of a business scope due to three dimensions: (i) visibility, (ii) indefinite space, and (iii) timely responses.

(i) The larger the scales, the more visible the firm becomes in order to attract capital investment and obtain credit (e.g. in stock markets, etc.).
(ii) Joint ventures and/or diverse links overcome a firm's limitations to take over new spaces without necessarily having to enlarge the firm's own productive scales with green-field investments. They allow more rapid

specialisation while assembling resources for R&D in the area of specialisation.

(iii) Timely responses allow taking first-mover steps to gain from newly emerging business opportunities, while pre-empting followers.

Chandler explained that, 'To achieve the cost advantages of scale and scope ... the third and final step [after investment in production facilities and in product-specific marketing, distribution and purchasing methods,] was the recruiting and organising of the managers needed to: supervise ... to co-ordinate and monitor ... and to allocate resources. The resulting managerial hierarchies were established along functional lines' (Chandler, 1990:31-2). With the changing competition, previous co-ordinating mechanisms and routines were in crisis. In the 1990s, managerial practices were changing rapidly, while strictly functional managerial hierarchies were restructured following East Asian examples, mainly Japanese. Restructuring of the boards has been commonplace in TNC firms (Grant and Paterson, 1994:Chapter 6), including in the sectors under study. In the Argentine petrochemical sector, 'several firms have changed most of their managerial staff (Lopez and Chidiak, 1996:410). Management restructuring of Argentine BEGs has been widespread (for details, see *Prensa Economica,* 1994:35-66; and *El Economista,* 16 September, 1994:14-15). In Brazil, this process followed the pace of privatisation in both steel and petrochemicals.

7.2.4 Business in the world political economy

This subsection will first review the world economic environment for business in the region and then briefly compare the global performance of the Mercosur region with that of the largest producers in each of the two sectors.

From 1990 to 1994, as explained in Chapter 5, there was an economic slump in DCs, accompanied by an important reduction in the U.S. interest rates and Treasury bonds. They both facilitated capital flows and investment into the so-called 'emerging markets' and cased restrictions on capital from abroad for LDC firms. This process shifted the main source of capital from State subsidies and transfers as well as foreign loans to stock-markets abroad, international bidding for public and private titles, and foreign private capital investment in the host stock-markets. Easier access to capital also took attention away from the foreign debts of LDCs. At the same time, recession in DCs lowered world demand for and thus world prices of Latin American commodity exports. This recessive trend began to change from the end of 1994. Prices and demand for commodities rose, but conditions for retaining foreign capital inflows also became more difficult, especially after the Mexican, or so-called tequila, crisis.

The year 1995 can be considered to have been the dividing line for Mercosur, not only institutionally (from its 'transition period' into a customs union), but also in terms of regional politics, when simultaneously with the first 1990s financial crisis (Mexico, 1994), the first important banking collapse (Barings) occurred. Thereafter, the World Bank requested LDCs to undertake restructuring of their banking and judicial systems. In 1996, the financial crisis started in Thailand. Then, after China recovered Hong Kong in July 1997, the so-called Asian crisis began, forcing countries in the region to unpeg their currencies from the dollar. In 1998, the Russian financial crisis broke out. That year also saw the most important mergers in history, either in individual countlies (Switzerland), or across regions. This new period may be considered one of financial systole or contraction.

At the start of 1995, two idealistic views held by DCs commenced to crumble: one about free trade and free financial markets, and the other linked to the capacity of the emerging equity markets to act as development engines by attracting capital to the LDCs. 'Some analysts ... [had] begun suggesting ... that the emerging markets [had] fallen out of favour since the US Federal Reserve [had begun] tightening policy a year [before]...'(*Financial Times*, 27 February 1995:20). On the one hand, higher interest rates in the USA attracted renewed financial flows. On the other hand, a year-long liquidity squeeze imposed by the US Federal Reserve decreased U.S. capital flows into international securities (whether in DCs or LDCs).

The slowdown continued even after the Mexican devaluation, as shown by the U.S. balance of payments data, and mutual funds industry data (*Financial Times*, 27 February 1995:20). At the end of February 1995, the USA finally signed a loan agreement with Mexico. The rescue package was beset with problems.[6] A few days after the final loan agreement with Mexico, the Barings Bank crisis occurred. Although appearing unrelated at first sight, both events created doubts about the lack of transparency and speculative nature of emerging markets (the former in Latin America and the latter in South-east Asia). The enormous sums involved in each crisis and in the rescue packages showed the weakness of governments *vis-a-vis* uncontrolled financial markets.

Let us now briefly compare the global performance of the Mercosur region and that of the largest producers in each of the two sectors. The Latin American share in global production of petrochemicals increased during the 1980s from 3.4% to 9.6% in ethylene, 3.3% to 7.3% in propylene, 2.7% to 6.1% in benzene, and 2.5% to 14.4% in methanol (Dichicara and Vigier, in

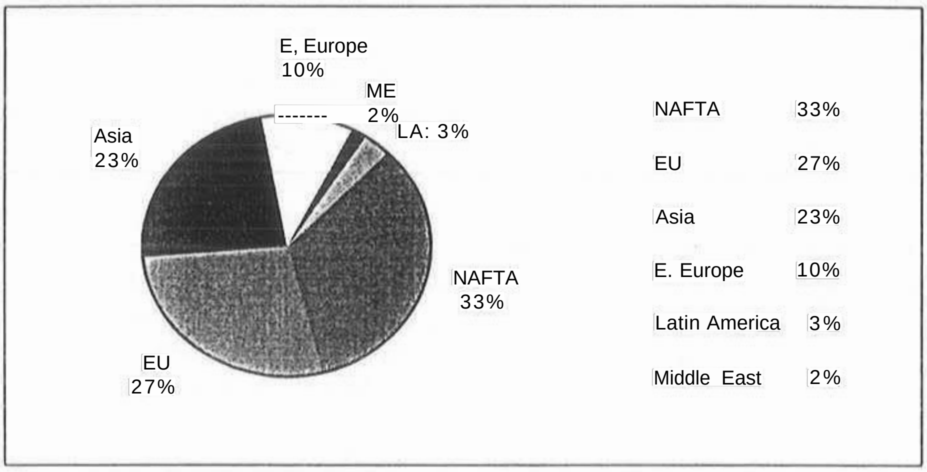
Bekerman, 1991:4). The share increased due to restructuring in the DCs, geographical reallocation towards developing countries well endowed in primary sources (particularly natural gas), and governmental policies in Latin American countries. By the 1990s, important additional producers from the Middle East and East Asia had entered the petrochemical sector, mainly in the commodities market, while the old ones were undergoing restructuring processes.

From 1991, because of recession in the DCs and the entrance of new Asian producers, demand fell and prices reached their lowest level. Prospects until 1994 looked dim. According to the Chemical Market Association in 1991/2, PVC export prices did not even cover the cash costs. Polypropylene prices were expected to reach their floor between 1992 and 1993. Prices of PEBD (thermoplastics) were also expected to decline in 1993, although an expected fall in ethylene prices was not expected to hurt them further (Rama! and Lopez, 1992). It was only in 1994 that prices started to rise again. However, the naive expectations for the future failed to take into account the structural over-supply stemming from an increase in plastic recycling,[7] enforced by regulations, and the new competitors from Asia.

Until 1997, South-east Asia appeared to be the most dynamic regional market with its high rates of growth. Il was the largest global importer, with China in first place. Its exports concentrated on final products, and on the industry producing final consumption goods. In terms of production, ethylene may be taken as a reference, since it is the most widely produced of all petrochemicals and with the most diversified final products. As can be seen in Figure 7.1, NAFTA was the largest producer of ethylene with 33% of the world production in 1993. In addition, the USA was the largest world supplier, with sales of USS 101 billion in 1993 (Pessoa de Andreade, 1995:71). The Middle East is the other large exporter in the world, and with new projects due to start operating in 1998, will double its current productive capacity. Therefore, LDCs have become important exporters, while DCs have been developing more fine chemicals rather than traditional products. However, other TNCs within the oil sector have maintained their interest in the industry.

Methanol is another example of the same trend. In 1975, 65% of methanol world production was in DCs and 35% in LDCs. In 1993, 33% was in DCs and 67% in LDCs. South America was one of the three fastest-growing areas, with 7% per year, together with the Middle East (11%) and Asia excluding Japan (6%). It was expected that 'future capacity build-up will occur in these regions, this furthering the globalisation of the petrochemical industry' (Jebens, 1995).

Figure 7.1: Share of regions and regional blocs in world ethylene production, 1993



Source: Pessoa de Andrade. 1995:71

In steel, the pattern of production and trade has changed dramatically since World War II. In 1947, U.S. raw steel made up 57% of world production. In 1993, its share had dwindled to only 12%. In contrast, between 1989 and 1993, LDCs, including Brazil, produced 159 million tonnes, compared with just 17 million tonnes between 1957 and 1961 (OECD, 1996:299). In 1950, only 10% of world production was traded, while in 1992 it reached 29% (OECD, 1996:299). Trade in semi-finished steel has grown during the 1990s. On the one hand, this has reduced DCs' iron ore imports and environmental pollution from coke ovens and blast furnaces, while, on the other, it has increased intra-industry hade and the importance of LDCs or NICs in terms of production and trade. Steel has become a more differentiated product. Not all steel firms produce the same products and to the same standards. 'ITiis trend, leading to more specialisation, has increased the industry's trade prospects.

According to Oman (1994:41), the 1980-87 downturn in steel reflected volatility, not a return to the past? Meanwhile, the significance of secondary or recycled metals in total metal consumption shifted the gravity down-stream in terms of value added and profitability. The last positive trends in steel cycles occurred from 1987 to 1990, and from 1994 to approximately 1998. Negative trends in the cycles occurred from 1990 to 1994, with the last one commencing at the end of 1997.

Two characteristics of the Mercosur economy have stood out in the 1990s: income per capita in the bloc is much lower than in other blocs, and steel consumption per capita as well as steel production (3.7% of world production) arc extremely low in comparison with other blocs. However, the situation varies within the region when production and trade are considered. Brazil, together with Australia, dominates the world exports of iron ore, a main raw material for steel production. Both together account for about 60% of world exports. Furthermore, Latin American and Asian NIEs rose from just 2% of world exports in the early 1970s to 14% between 1988 and 1992 (OECD, 1996:303).

Table 7.1: World crude steel production by region, 1992 (million tonnes)

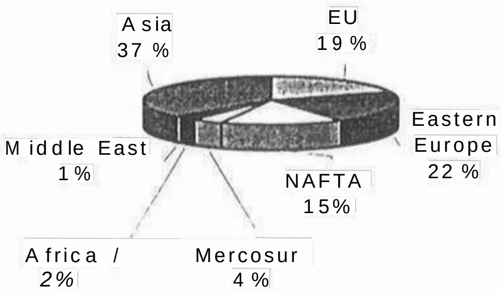
Region	1992 production
EU	132.3
Eastern Europe	147.3
NAFTA	105.6
Mercosur	27.741
Africa	14,8
Middle East	5.5
Asia	250.7

Source: Institute Brasileiro de Siderurgia (1995) Anuario Estatistico da Industrie Siderurgica Brasileira, IBS Yearbook:1/5

In 1996, global steel production was 750-million metric tons, 5% lower than its peak in 1989. The EU's and Japan's output fell, but there was strong growth in the Americas and Asia. China became the world's largest producer in 1996, followed by Japan and the USA. Its output was 100 million tonnes, 50% higher than in 1990. South Korea was sixth, with 68% higher output, while Russia's output had fallen by 45% sincel990.

In 1996, Brazil was the seventh-largest steel producer in the world. The other important Latin American country was Mexico, in fourteenth place. Argentina's tube subsector is smaller, but its characteristics are the same as those of the most-developed steel actors: Argentine producers supply the entire national market and still have considerable spare capacity, and the situation is the same in Brazil (from interview quotation 2:4).[9] Brazil's main steel competitor in Latin America was Mexico. Since the latter was in NAFTA, and therefore paid lower import tariffs to access the USA, Brazil's steel sector was concerned about a possible decrease in its own share of the U.S. market.

Figure 7.2: Share of regions and regional b/ocs in world crude steel production, 1992



Asia	37%
E. Europe	22%
EU	19%
NAFTA	15%
Mercosur	4%
Africa	2%
Mid-East	1%

Source/ Table 7.1

7.2.5 Restructuring of sectors in the 1990s: The States' involvement

Steel continued to be protected in most countries through government policies, quantitative import restrictions, anti-dumping regulations, and countervailing duties, subsidies, price controls, export promotion, and so on. 1'he unilateral approach seemed to prevail against the failure to conclude the Multilateral Steel Agreement (MSA). With each downturn in the industry, protectionist pressures have been renewed (e.g. in the USA and the EU in 1999). In DCs (the EU and the USA), steel restructuring has received more State support than petrochemicals. Japan was an exception until the 1990s. A specific European restructuring policy includes the co-ordination of steel plant closures.[10]

In contrast to the situation in steel, there has been no regional accord for restructuring the petrochemical sector in the EU, where individual firms have taken the initiative. In 1997, the European CEFIC expressed great concern over the future of Europe's industry without proper co-ordination. The solution for the Europeans was to resort to private co-ordination along regional ducts - US style - to which petrochemical plants will be connected in the near future (De Bree, 1998). The US petrochemical industry has tended to co-ordinate its own restructuring privately, along pipelines, while the EU industry has expressed the intention of imitating the U.S. experience.

Between 1991 and 1993, Japan's petrochemical exports decreased due to the over-valuation of the yen against the U.S. dollar. As a consequence, firms merged (e.g. Mitsubishi Kasei and Mitsubishi Petrochemical in October 1994). The Japanese Ministry of Trade and Industry, which had co-ordinated the previous restructuring at the beginning of the 1980s (when 2.2 million annual tons of productive capacity in ethylene and derivatives were shut down), did not intervene this time.

This different treatment of the intermediate sectors in the 1990s may be attributed to their participation in 'commodity chains'. In petrochemicals, vertical chains are evolving along the oil-petrochemical sectors. Meanwhile, ITICs in upstream chemical production have tended either to exit production of basic and intermediate petrochemicals, or to clearly separate business concerns (petrochemicals from chemicals, and even further into more specialised products, as they seek an efficient world business scope). Since oil TNCs tend to work under a micro-Fordist conception, States have retreated from cither intervening in, or protecting the petrochemical sector.

In relation to Mercosur's regionalism, Chapter 10 will analyse a similar case, partly explaining the difference in treatment received by two sectors that may share similar economic characteristics but not political ones. 'The petrochemical sector has a liberal conception. An example is Federico Zorraquin, of Ipako' (Nashat, PD1 63:4). Steel, in comparison, is closely related not only to the automobile industry (in Mercosur always under government policies and negotiations attempting to ensure balanced investment and trade), but also to the construction industiy. The latter, as it lends legitimacy to governments, has at times received specific governmental support, i.e. for housing, roads or large infrastructure projects.

7.3 Globalisation: State and business actors' perceptions in a Braudelian analysis

Considering the market as a socio-political construction, Helleincr's analysis of 'globalisation', using Braudel's four axes on any social phenomenon (space, time, 'social orders' and hierarchy), can be best applied to specific economic sectors. As Helleiner notes, 'spatial globalisation' is perceived as 'spatial compression' but beyond 'internationalisation', which has kept in mind the idea of the nation-state. 'Economic globalisation' may be defined in various ways, but the analysis of fieldwork showed that it is certainly not a mere multiplication of firms' initiatives in the world. According to managers and experts in both industrial sectors, co-ordinated global purchasing is one of the main aspects of 'globalisation'. However, contrary to the perception of 'spatial compression' as disappearance of distance, spatial distances maintain their importance in terms of costs, timing and investment.

The management of production and distribution is changing, and globalisation thus appears to have two spatially uneven consequences:

(i) The sites 'wired' into the world tend to concentrate the economic activity (sites can be financial, informational, economic, regions, etc.). These 'wires' tend to be formed along one sector in order to increase manageability. Thus, not only do global scale and scope become more important for each firm or holding, but to attain them, business people must focus their resources on fewer connected sectors and products.
(ii) Activities tend to be visualised as non-tcrritorial, 'offshore', or outside the space of the nation-state (e.g. intra-industry trade, free zones, offshore financial banking, and cartels). In them, 'business is transacted according to special rules that do not apply to the rest of the national economy in which they arc located' (Hellcincr, 1997:93).

Rules may also be defined according to the position of each firm within a 'wire' or 'chain'. Competition therefore concentrates on the control of flows. An industrial expert and adviser from the petrochemical sector added: 'The real issue is that the Brazilian industry must internationalise. But how, with which hierarchy? Nothing ... here it [the debate about it] is badly seen. Neo-liberalism with Cardoso is compensatory' (Arruda, PDI 7:9). The Brazilian expert was conscious of the inability of I.,DCs' to determine a worldwide industrial restructuring while the concept of hierarchy pointed to the expansion of either micro-Fordism or Toyotism into the region. There was a recognition that the State had lost its capacity to effectively design and implement policies for industrial support for purely domestic firms at the national level, as well as to regulate and control national products and their local content.

Even TNCs encounter difficulties. In 1995, Rhodia's Business Development Manager, Schocair de Souza, explained: 'We call it [Mercosur] Southern Cone, which includes Chile. [In 1995 Chile had not yet become an associate member of Mercosur]. Mercosur receives the majority of our total exports [from Brazil] ... The [sectoral] chains should be competitive.' The concept of sectoral chains at the core of 'globalisation' was clear. He lamented that trade statistical data were 'consumer profiles': 'The sector's information and its statistics are wrong or incomplete.' The information that was vital was about 'what takes place in the middle' (Schocair de Souza, PDI 48:6). 'We must have chains of strong value, but not only one firm as in Japan and Korea, optimising the use of capital and investing only when it becomes absolutely necessary. We are doing a lot here' (Schocair de Souza, PDI 48:19). This conceptualisation appears to be a micro-Fordist perspective, conscious of the Toyotist practices and competition.

The relation between what firms aim at in regional integration and globalisation may become clearer with a statement from another industrial expert in the Brazilian petrochemical, capital goods and paper sectors: 'Some producers will have more *market share [in RJJ* ... And [Mercosur] is practically a globalised market of labour and financial flows' (Bettini, PDI 20:3). This concept of globalisation seemed to show the disappearance of constraints on the firm's' behaviour, that nothing would be needed apart from individual firms' decision making. However, as the same person explained, 'High-density PVC is not the problem. The real *problem is investment, and the lack of mechanisms for decisions on localisation* ... In this sense, the Mercosur sectoral accords were only on trade. There must be *stable mechanisms for approximation, to allow for the globalisation of firms.'*

Previously, within macro-Fordist systems, these mechanisms used to be co-ordinated by the States in each country. The same interviewee made two proposals to remedy the situation, involving co-operation by both private and public sectors. He identified two actors that could supply the co-ordination on the basis of appropriate information on 'localisation, financing, raw materials and the scientific-technical know-how': sectoral investment chambers, and banks (Bettini, PDI 20:6). Another actor could be the global consulting firm, like KPMG, Booz, Allen & Hamilton, etc, which in fact played an important role in Brazilian privatisation. It seemed that, in any case, if States did not play their institutional co-ordinating role to facilitate decision making, then some other institution could be sought to play that role.

Nevertheless, these two sectors have many features specific to them, and generalisations should not be made until other industrial sectors have been studied. What already appears from the study of the two sectors, though, is that for capitalism to work, changes in production systems need to be accompanied by appropriate co-ordinating institutions to suit the new core firms' needs. The U.S. example shows that after the passage to a hegemonic micro-Fordist system at the turn of the last century, two key institutions were created. When manufactures reached 53% of GNP, 'sectoral trade unions grew up and the US financial system took shape - two essential ingredients of micro-Fordism after the Second World War' (Ruigrok and Van Tulder, 1995:212). However, this may be difficult to achieve when the sectoral industrial complexes have a low degree of cohesion or are striving to impose different concepts of control on their national industrial systems, as happens within Mercosur (ibid:117).

From the qualitative analysis of the interviews, it appears that governmental actors in nation-states and intermediate industrial sector actors tended to have different perceptions of globalisation due to their vested interests. Therefore, there were two distinctive politico-institutional reactions according to actors' positions. Both government and business actors, of course, were concerned with daily problems and yearly trends. However, approaching elections and financial market constraints act as stimuli to governmental actors in representative democracies. Thus, macroeconomic stability was seen as primordial. Actors in intermediate economic sectors had in mind a long time span of a decade or so, due to the long-term maturity of their investments. At this stage, it must be noted that the statements about globalisation were made at the initiative of the actors: 15 interviewees talked about it, while two others, one in parliament and the other playing an advisory role to the State, argued about it.

The two different 'urgencies' seem to create different reactions to 'economic globalisation'. Those in State positions feel close to a Braudelian 'history of events', debating a 'project in which the local is increasingly globalized ... in an active and deliberate way' (Hcllciner, 1997:96), as will be seen in subsection '7.3.1. 'Promoted by certain groups to bring local conditions more in line with global norms and dynamics ... short temporal perspectives and synchronic cosmologies become prioritised over conceptions of social life that derive from a sense of time that is more long term' (ibid).

Instead, intermediate economic sectors, such as steel and petrochemicals, feel closer to a 'history of the conjuncture', in which 'globalisation' is challenging structures after the exhaustion of the political-economic order that prevailed during the ISI period in the region and during the cold-war in the whole world. The next subsection provides illustrations of these perceptions.

7.3.1 At the State level

All those in, or related to, State positions and tasks within Mercosur talked about globalisation as something unavoidable, with a specific impact at the political and State levels. At the same time, they could observe a process of regionalisation of production at the private level. 'Globalisation is irreversible'. 'There is no alternative to the blocs in a context of globalisation, with a parallel regionalisation [of production]'. 'Globalisation has effects at the political level, on the State. Regionalisation has effects at the private economic level.' 'Mercosur is only a stage, a phase in the integration at the world level' (Guz, PDI 31:5; Lavagna, PDI 35:29; Gomes Pires, PDI 60:2;

Mercosur Industrial Council, PDI 78:8). The general feeling was of being outsiders and observers of a process they could barely co-ordinate.

A working group co-ordinator from Argentina stated: ‘Mercosur had a previous origin. It did not interest Cavallo, even today, unless it was for exports. The priority was his programme: the stability of his programme. At no time was the strategy suggested as a bloc facing the rest of the world. The only clear ones are the TNCs with their regionalisation of production’ (Bergovoy, PDI 9:6).

7.3.2 At the private sector level

An integrated steel firm manager recognised that ‘the process definitely points towards a global opening. I wrote, among others, an answer to this question [on globalisation]. My answer was, first, there is no doubt about negotiated liberalisation. Second, there will be conflicts versus positive synergies, what we may cal! competitiveness; and third, blocs will move towards one world, what we call integration.’ He added: ‘For me, the issue is to take the international trends, by which I mean world integration and opening up [of national economies], and structures. The latter develop with and through certain protection mechanisms. The issue is to place all that in the balance, and to use them in the national interest of each country’ (Jcrsonsky, PDI 61).

Both Petroconsult’s report on the Brazilian petrochemical sector in 1992, and Nofal’s report on the Mercosur steel sector for the IADB in 1994, advocated integration of production. They argued that there would be no survival without such integration. The issue of integration was also used to ease an overall acceptance of what they saw as the unavoidable formation of oligopolies. Governments retained two main tasks in this regard: to legislate on competition and to neutralise structural dumping during downturns in the economic cycles.

The business actors’ perceptions were more concrete than those of State actors. Their general feeling was that of being participants in the process, though they could barely manage it without a broader institutional framework. Economic sectors as sites of political economy offer a useful ‘distinct vantage point’ from which to observe the process as a whole, for ‘economic globalisation’ has not just been an ‘economic’ process. From the ‘political’ vantage point, it has also been a phenomenon characterised by the emergence of increasingly extensive governance structures reaching beyond the States. (Helleiner, 1997:97; Strange, 1997; and Castells, 1998).

The new challenges transformed the role of the industrial sector chambers. The Chamber for Plastics in Argentina: ‘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' (Sanchez, PDI 15:1).

The manager of the Latin American Petrochemical Association: 'With the opening up, regionalisation, and regional blocs, we see a scheme of one America without customs. There is also progression in inter-bloc relations, as between Mercosur and the EU. There is a more global approach' (Lopez, PDI 36:13).

A Brazilian petrochemical manager recognised that 'the State had the leading role because there was neither capital nor entrepreneurs ... with the second oil crisis and the interest rates crisis, money was insufficient, lacking. ... In the decade of the 1990s, the model was exhausted, while the winds of fashion also changed. Today it is neo-liberal in our sense: the UK-globalisation [model]' (Diaz, PDI 25:12). If the distance between 'high capitalism' and 'market economy' or the 'global and the local' (by which finance, investment and trade are interlinked and impact on all spheres of life) seemed to disappear, hierarchies were at the same time re-elaborated and reinforced through the sectoral chains.

NOTES

[1] FDI, aided by liberalisation and the strategics of firms, has led to a situation in which the 'sales of goods and services by foreign affiliates are iiqw onc-and-a-half times the value of world exports'. Internationa! trade is marked by the importance of both international sourcing, that is the purchase of intermediate inputs from foreign sources 'that now accounts for at least one-half of all imports by major countries', and intra-industry trade. Already in 1990, the general I1T indices for the UK, France, Austria, Spain, Belgium, Germany and the USA were above 70 (OECD, 1996:30), and were highest in chemicals and machinery and transport (OECD, 1996:31). International inter-firm collaboration 'enables firms to undertake projects that exceed individual technical and financial resources, gain market access and overcome investment and regulatory impediments … tends to involve large firms from Europe, the Unites States and Japan, and is concentrated in sectors …' (ibid.).

[2] Total vehicle production in Argentina was approximately 300,000 units in 1996 (valued at USS 945 million). That was small by international standards, but production had grown from only 100,000 units in 1990. Imports remained at USS 20 billion in 1994-96, while exports increased from USS 16 billion in 1994 to USS 23 hillion in 1996.

[3] As automobiles consumed up to 20% of flat laminates and 60% of special-quality bars, this globalisation had a significant impact on steel (Beddows, 1990).

[4] By 'integrated' model he meant 'a flat organisational mode (the "assembly line" model), in which operational tasks and co-ordination tasks are integrated' and 'which will become more productive in comparison with traditional hierarchies in which those tasks are rigidly separated, if the time constraint for collective information-processing is tight'. For this reason, 'Japanese firms appear to have competitive strength in such industries as automobiles, steel, and electronic machinery. Whereas they arc in less-advantageous positions in industries such as chemicals and aerospace, in which large-scale planning across markets is advantageous, or where non-repetitivc co-ordination needs to be planned ex wi/e' (idem).

[5] For petrochemicals, see BNDES (1992).

[6] In 1990, steel productivity in the region was approximately 44% of that achieved by Japanese firms. By 1993, Brazil narrowed the gap by achieving 75.5% of Japanese and 71% of European productivity rates. Argentine steelmakers also reduced the gap with respect to Brazil, attaining 74.5 % of Brazilian productivity in crude steel in 1993 (Nofal, 1994:54-6).

[7] In 'The Visible Hand' and 'Scale and Scope', Chandler examined how managerial skills and co-ordination provoked a dynamics with technological changes, in which firms could accumulate ever-increasing advantages in scale and scope of production.

[8] The White House and the US Treasury got into trouble over Mexico's rescue. In January they announced a USS 40 billion package of congressional guarantees, which, according to the *Financial Times,* gave 'financial markets a signal to treat a regional problem as a global crisis' *(Financial Times,* 27 February 1995:21). Then, the U.S. administration not only failed to deliver it, but also failed to persuade finance ministers of the Group of Seven to agree to a substitute package of USS 50 billion. One effect of all this was the slowing of NAFTA's extension to Latin American countries beyond Mexico.

[9] In the case of PEAD, in the USA, recycling will grow from 3.5% in 1993 to 16% in 1998. The loss will be concentrated in the commodities sector, where product substitution is easier.

[10] The prices of aluminium, iron and steel dropped in the early 1980s to their lowest levels since the 1930s. This decline was also the result of the expansion in global productive capacity during the 1970s, which had been supported by the low, and even negative, interest rates on international financial markets (Oman, 1994:41). The 1980s crisis led to the shutting down of production capacity, while the high interest rates discouraged normal stockpiling, partially explaining the 1987 price rise.

[11] Interview with Jose Adolfo Siqueira, Executive Secretary of ABITAM (Brazilian Association for the Metal Industry of Tubes and Accessories), 1995, Rio de Janeiro.

[12] A recent example of a plant closure was in the Walloon part of Belgium in January 1997, PDI 2.

8 Regional Business Culture, Management and Restructuring Strategies

8.1 Introduction

This chapter reviews business culture, management and restructuring strategies in Mercosur petrochemical and steel sectors, with the overall objective of understanding business actors' priorities, agendas and strategies. Without comprehending their values and means of co-ordination, their strategies (necessarily based on values and co-ordination) may not be accurately grasped. Having in mind the 1990s background - Mercosur, the changing national framework and the global competition and economic restructuring - this chapter intends to capture the thrust of business values, perceptions, and behaviour. Thus, the chapter will lay the foundation for tracing the business actors' involvement in Mercosur's regionalism as well as the Mercosur process of institutionalisation in the 1990s.

8.2 Business culture and management

8.2.1 Introduction: What is business culture?

In the twentieth century, there has been a general expectation of global convergence into a capitalist system with only one pattern of common norms and behaviour, and the same rationality. However, the latest research on economic development in South-east Asia (Aoki *et al.*, 1990), business management (Chandler *et al.*, 1997) and modes of sectoral governance in different countries (Hollingsworth *et al.*, 1994), has shown differences in terms of local and national socio-political and economic organisation. The expectation of capitalist convergence thus remains controversial, particularly when regarded as a mode of organisation, regulation and governance.

The market is a socio-economic construction in a particular time and space. Thus, it is an institution created through definition of collective rules with the purpose of fostering specific dynamics among individual and institutional actors. In this view, each market construction builds on historical experience. Bence, the market construction is 'path dependent' and based on a socially constructed understanding. This understanding includes ideas, values and beliefs that are both descriptive and normative: of what ‘reality’ is and how that ‘reality’ should be. Amidst ‘path-dependent’ institutional constraints and ‘morally acceptable’ behaviour, a ‘culture’ develops to solve problems and ensure survival, while relating to all other beings and to the geographical space which the ‘culture’ covers.

When the market is viewed as an institution, business cultural values are part of the definition of the collective rules and the construction of the market itself. Their fundamental ideas, values and beliefs provide them with a cognitive framework with which they can evaluate and choose options in order to shape their ‘reality’ and their ‘market’.[1] A culture is never homogeneous, and business culture is segmented, in the sense that each economic sector has its specific markets, products, technologies, and historical development. Thus, each sector also has a ‘path dependency’ of its own. For example, in plastics, ‘Brazil has encouraged the issue of volume due to its dimension [of mass-consumption products]. Argentina, in contrast, has favoured the question of quality because of a smaller market which tends to be more specialised. Thus, there are niches in Brazil where quality is what matters’ (Sanchez, PDI 15:11). However, economic sectors do share common traits at the level of the nation-state, since this has been the major institutional framework and system of governance in which business has been embedded to date.

Since the 1980s, interesting work has been done on this issue, more in Argentina than in Brazil. A multiplicity of research data has described continuous concentration of power by the so-called BEGs since the 1970s. More theoretical research was produced by 1995 (Azpiatu and Nochteff, 1994; Schvarzer, 1996; Diniz 1992; Muiz 1997; Barbero 1997). During the fieldwork for this dissertation, many interviewees spoke of differences in business culture, visions and management. They did so because they perceived that these were important elements of explanation, and of course they always spoke with reference to Mercosur’s regional integration process. Therefore, it was not a big surprise to find the code of ‘business culture’ close to ‘business management’ and ‘business restructuring’ during the subsequent qualitative analysis of the interviews. This can be seen in the qualitative analysis networks in Annex 2.

8.2.2 Main cultural values and fundamental cognitive framework of business

According to the interviews conducted in the two countries in 1995, business culture and values have been changing to some extent. However, the extent of the changes was not very clear to those living the process day by day, whose perceptions ranged from scepticism to confirmation. Three dimensions of business culture have emerged clearly from the interviews:

- entrepreneurial
- managerial
- political and governance

8.2.3 Entrepreneurial dimension of business culture

This dimension refers to the expected behaviour of entrepreneurs in relation to investment, technology and an 'individual' search to cover new needs by offering new products and instrumental solutions with the expectation of rewards - profits, market shares, power. In sum, what entrepreneurs arc or should be. This subsection examines the issues of research and development, investment, competition and control by considering broadly acknowledged traits of regional business people.

As regards technology and R&D, according to many industrial specialists and various studies, neither Argentinian nor Brazilian business elites have had a strong interest in developing and/or controlling new technology. With the exception of a few cases, firms are unable to derive rents from technology (Bisang, 1994). Instead, they are excellent users of state-of-the-art technology preferably bought abroad. R&D expenses have been a main indicator of this trend. Compared to DCs, and even Asian firms, those in Brazil and Argentina rank very low in R&D expenses in the petrochemical sector. According to a study on the competitiveness of Brazil's petrochemical sector, all firms associated with Petroquisa together spent USS 53 million, or 0.86% of their total sales, on R&D in 1989. In 1992, R&D expenditure as a percentage of total sales fell to an average of only 0.33% (MCT, 1993). In comparison, some of the largest European petrochemical firms like Hoechst and Bayer spent more than 6% of their sales, or more than USS 1.6 billion, on R&D (ibid.:42). In the meantime, in spite of budget cuts and State restructuring policies, Brazilian State research centres had undertaken important research in polymers. At the same time, firms in DCs were achieving new technological development, after which Brazilian firms had to buy the new technologies or associate with foreign TNCs (ibid.:56).

Steel, in comparison, has invested more consistently in R&D activities. Usiminas in Brazil has a record of important R&D activities, patenting each new achievement *(Sidertirgia Lalinoantericana,* no.399, 4 July 1993). A manager of an important steel holding (Gerdau) qualified the statement on technological development: 'In Brazil, the industry in general has no tradition of investing in technology and training, or R&D. [However,] you have three leading exemptions: (i) Usiminas: it sells assistance; (ii) Mendes Junior, now in crisis, was one of the best in technology, and in sales of technology and technical assistance; (iii) Gerdau: it invests in it, but it does not sell' (Vidaurre Poubel, PDI 97).

There appear to be further differences between petrochemicals and steel. In Brazil, an expert explained: 'The firms of those two sectors will be fine *[vao dar certo}*. Why will steel be fine? First, because it is competitive. Second, it has modem plants. Third, the privatisation process was a success. Fourth, the firms are already in the international market. Fifth, there is a tradition of technology. Sixth, they have known for a long time what strategic alliances are. And seventh, because they invest in and buy other firms abroad' (Arruda, PDI 7:10).

On the other hand, Brazil's petrochemical structure was particularly weak, given the small scale and mono-production pattern of most films and groups. Further, there was a lack of integration with the emerging chains of production and distribution (Petroconsult, 1993). The situation in the petrochemical sector was similar to that in steel, except for the last three characteristics listed above. Petrochemical Finns lacked strategic alliances at home and abroad for the 1990s competition, in addition to the already mentioned characteristic of having small business scales. Petrochemical firms generally reacted at a slower pace, perhaps because privatisation took longer. In their case, firm autonomy has probably been one of the most critical reasons for the owners' perception of themselves as managers rather than entrepreneurs. The firm, then, may be used for other purposes than those assumed by neo-classical rationality.

Being quasi-finns (a state mentioned in subsection 6.2.2), 'they cannot autonomously dispose of the generated profits [lucres] to finance the expansion of sales and /or active shares; harness resources from third parties to accelerate their growth rhythm; review their productive scope through acquisition or alienation of their actives; promote fusions, cessions, incorporations, exchanges of portfolios or productive installations; deactivate plants or complete lines of production' (Oliveira, 1994:160).

Following Penrose, Oliveira asserts that by focusing on the firm's autonomy to combine and dispose of its productive resources, the technological restriction appears as one of many, and not as the main factor for conditioning the firm's growth. Indeed, in order to allocate resources to R&D, firms must first be able to strive autonomously for their entrepreneurial development. Oliveira argued that increasing 'autonomous business scales' is necessary to enable technological innovation. However, he also recognised that regional firms invest little in R&D. Azpiazu and Nochteff (1994) and Ruiz (1997) have argued similarly with reference to Argentina and Brazil, respectively.

Nochteff (Azpiazu and Nochteff, 1994:35-43) has explained how the Argentinean economic elite is akin to an ‘adaptive economy’, evolving through non-sustainable 'bubble booms’, far from a Schumpeterian ‘developmental economy’. In this adaptive type, no tendency towards innovation appears. Neither R&D incentives nor national systems support the upgrading of labour skills. Thus, there is no systemic creation, accumulation, use or memory of scientific and technological knowledge. Where the latter exists, it hardly has any linkages to the productive system. Moreover, when these linkages do exist, as in the case of PBB in Bahia Blanca, they are based on two main conditions: ‘insulation’ from political and regulatory upheavals affecting the national R&D system, and the long-term existence of a determined and well-co-ordinated group with focused objectives (Arcodaci, Capriati and Brignole, PDI 45).

Under IS1 policies, firms used to adapt technology and scales to the internal market. The economic elite and governments created or consolidated non-innovative monopolies. In such an adaptive model, exchange rates and trade policies became the major instruments for determining the firms’ future. Industrialisation in the region depended on those polices while scientific, technological and industrial ones received little or no attention. With a few exceptions, innovation has not been the ‘natural’ behaviour of business people in late adaptive national economies. Following Schumpeter’s typology, business people have behaved more like managers than entrepreneurs. This fact has been perceived world wide, as in the Davos Forum. [2]

Moreover, in the case of Brazil, Oliveira (1994) and Ruiz (1997) recognised that without outside sources of co-ordination (c.g. the State, international consultancy organisations, foreign TNCs), business people would not take the initiative to increase their business scales. A detailed report by Petroconsult in 1993 called for closer co-operation between public and private efforts to restructure Brazilian industry efficiently. Like many others, it also claimed that the implemented restructuring would not respond to the urgent challenges which the industry had to confront, because it was creating a fragmented industry, small firms within an uncoordinated framework, which would not provide competitiveness and incentives for technological development/ upgrading (Petroconsult, 1993). Thus, not only the firm’s autonomy, but also sector-wide co-ordination at the institutional and technological levels, may be arguments for the enlargement of business scales.

The trend in investment is similar. According to Schvarzer (1993), Argentine firms were not interested in new investments at the beginning of the 1990s for two main reasons. First, firms were part of holdings or conglomerates with interests that went beyond industrial production (e.g. in the financial sphere). The firms’ participation in the privatisation of public services increased their divergent interests due to their secure profitability and low competition. For example, a steel firm postponed investment in technological upgrading due to other economic groups' priorities, even though it was necessary to keep the firm at the 'technological frontier'. Second, firms were already selling their entire production, and expansion into the next products in the chain entailed higher risk and competition.

According to Kosacoff, Argentine business people remained in their 'path-dependent' trajectory: they invested to update production only as far as absolutely necessary (Kosacoff, PD1 34). These new investments were in-flrm, operative upgrading. This was widely confirmed by interviewees. With regard to restructuring, Argentine industry specialists saw two main- types of reactions:

- Defensive: in search of cost-reduction, labour shedding and less labour-intensive production. This was the most common strategy.
- Offensive: when making new investments and in the search for efficiency and higher value added in production. An example was Acindar. 'It will specialise in special steels with higher value added, otherwise they cannot compete with Brazil ... and they will produce: (i) steel for construction, 100% for the internal market; (ii) steel for cables; (iii) stainless steel' (Acevedo, PDI 93).Industrial specialists stated that the latter have proved successful micro-examples - unfortunately, without cither impacting at the macro-level or creating externalities.

There was an interesting difference, though, from Brazilians, whose view was qualitatively different and who considered both types of reactions as defensive. For Brazilians, offensive restructuring meant the 'conquest of new spaces', for which a larger, better-integrated and synergetic 'business scale' was absolutely necessary. 'Industrial restructuring increased in value independently of Mercosur, because it coincided with Collor de Mello's government and its economic opening up, thus with a higher degree of competition. [In the beginning, only 5% of all Brazilian hade was with Argentina] There were two types of strategies for restructuring:

- Defensive: to diminish costs and increase productivity.
- Active: to conquer new spaces.

The strategy of big firms was a mix of both types. 'However, statistically, the [active ones] were those most technologically advanced. The rest commenced by the first type' (Brun, PDI 13).

As just stated, the perceived need for industrial restructuring was independent of Mercosur. Nevertheless, regionalism made an impact in a specific way.

'There is the beginning of a more regionalised treatment of competition. Initially it was by sectors. Now, when they start to intermix, it leads to a strategy of segmentation by product and even the positioning of brands. This follows the localisation according to advantages' (Braidot, PDI 12)., The search for business scales and scope in the region can be observed in statements like this. Concerning investment, exit is costly in the case of intermediate products, while new localisation for investment must be fully supported by positive evidence and optimistic future prospects. Within the emerging competition, investment had control as its objective. The perception was: 'Thus, on the one hand, [the objective] is to control the region. On the other hand, it means a competition among firms that entails positioning beyond the national borders' (Braidot, PDI 12).

In both sectors, however, the growth of the domestic market was the primary cause of projected investments, with two objectives in mind: Mercosur and business restructuring. Yet, this did not necessarily mean sectoral expansion as a whole (Coutinho, 1997:98-9). In the first half of the 1990s, with the privatisation and stabilisation policies, the sectors were hesitant to invest due to recession and/or uncertainty, while concentrating their resources on purchasing State enterprises. Further, in the second half of the 1990s, Mercosur's rather optimistic regional outlook was shattered by global financial developments. Their 'entrepreneurial' rationality towards investment and R&D was outlined by their own historical development and their historical circumstances.

8.2.4 Managerial dimension of business culture

Regarding this dimension, there have been two fundamental processes leading to a drastic transformation of management practices in the 1990s: privatisation and the crisis of family-type management.

8.2.4.1 Privatisation

Privatisation spurred dramatic changes in managerial practices. In Brazilian steel, while Usiminas doubled its already profitable results in 1992/93, Acesita, CST and Piratini reversed their deficits after privatisation in 1993. The consultancy company that prepared the BNDES post-privatisation report pointed out two factors behind the favourable results: First, 'principally, the relevant growth of Brazil's automobile sector in 1993'. Second, 'the productive structure of the enterprise under private control ... is used as a lever for new business undertakings that generate stronger and more competitive groups within a context of economic opening' (Gandara and Kaufman, 1994:4).

Privatisation in Brazil led to further specialisation and a complex intertwined system of ownership in steel, closer to a Toyotist form of co-ordination and control. The Gerdau BEG (a north-eastern Brazil group specialising in non-flat products) bought three firms. The Villares group bought two firms, each specialising in a specific type of product. CVRD was the last to be privatised - in 1997, to CST and others. Before it was privatised, CVRD had bought 15% of Usiminas and a 20% stake in CST.

An even more basic challenge was the complete change in ownership and management of raw materials in the region. Tn our negotiations, evidently, the main concern of the two organisations [the two chambers for the plastics subsector] was what role raw materials would play in the region. Therefore, we followed their [i.e. of the suppliers of raw materials] negotiations very closely' (Sanchez, PDI 15).

The exchange of raw materials substituting competition *(Gazeta Mercaiitil Latiiioamericana,* 21-7 April, 1996:11) that is observed in Mercosur seems to be based on the belief that protectionism originates on the supply side. Businessmen were protectionist in ISI times because the State controlled raw materials. Therefore, businessmen concentrated their efforts and lobbying power on obtaining rents from their supply. Now, under private ownership, the logic is to control them. Businesses try to obtain control of the raw materials in their own countries, or to build alliances with those who control them in other Mercosur countries. Or firms controlling raw materials such as oil integrate vertically forward into the petrochemical sector. Prices and quantities of raw materials are negotiated between firms, often within the same group, leading to vertical integration. With low protection and high costs, vertical integration is regarded as beneficial by the firms.

The oil fnms YPF, Perez Companc[J] and Petrobras have become core firms in the petrochemical sector since 1995. In steel, after privatisation, vertical integration into chains has been nearly completed in Argentina. In Brazil, the institutional and co-ordinating mechanisms, more complex through cross-shareholdings, seem closer to Toyotist forms of control. Vertical integration into chains is negotiated for the long term and takes place with upstream users such as the automotive sector. In the case of Siderar, a steel expert who is widely consulted as an adviser to both the national government and the private sector affirmed: 'Such integration was a soft choice. Regional co-operation took place at the management board' (Castagno, PDI 12).

Maltese, manager of the Latin American Petrochemical Association (APLA), believed that the changing role of the State affected the business culture. Consequently, the role of sector organisations like APLA changed as well. Maltese explained: 'The State used to secure prices and quantities through decrees and resolutions. In the 1990s, everything is negotiated. This point changes the business culture. Negotiations among firms lead to vertical integration, lower protection, and increase costs [e.g. energy and non-tradables], but it is a good thing because before there was dependency [and protection], but there was no compliance [from the government]!' (Maltese, PDI 38).

8.2.4.2 The crisis of family-style management

As traced by Chandler (1977, 1990), business managers have assumed an active role, effecting a separation between physical and nominal property. This technocratic process, stemming from a 'scientific' approach to management while blending with the Fordist system of production, facilitated the appearance of large firms and holdings. It led to increasing scales of production and lower transaction costs in the firm. This process appeared independent of the type of property. However, as Chandler observed, the traditional family-type firm was an explanatory factor for the less-dynamic UK economy.

In Mercosur, the crisis of family business has been downplayed, although 'the purchase of family firms' was the second evident destination of FDI in Argentina, together with privatisation. 'Being families, they sell, for someone to be in charge of the firm. Otherwise, they subcontract management: there arc many Chileans' (Braidot, PDI 12). In the Brazilian petrochemical sector, as Odebrecht manager Forman said, 'Firms are not the family type, because of the petrochemical tripartite model. But now they arc, except for Odebrecht and Ultra, which are not' (Forman, PDI 28). The latter appeared to have a stronger managerial vision.

A major challenge facing family business has been the higher degree of decentralisation in management which followed the 'Japanese' model, called 'japanisation / flexible specialisation' in the region. As Ms Brun asserted, 'There is also decentralisation, but it is not only governmental. The private firm chooses its access to everything' (Brun, PDI 13). Since the 1980s, both Brazilians and Argentinians have perceived Japan as the new standard-setting model, as the 'latecomer' which turned into rapid developer. Moreover, Brazil, which hosts the largest Japanese community in the world outside Japan, has had Japanese investment and managers in both the petrochemical tripartite system and the steel sector. In Argentina, an example of business actors' major interests could be observed in the creation of two national commissions to pursue 'special relations' in the mid-1980s. These commissions were legitimised by parliamentary approval of Executive-originated bills. One's responsibility was Brazil, the other's Japan.

However, although the 'attributes' of the Japanese finn (see Aoki, 1994) were seen as the new standard, the most emulated attribute was its 'information system', in particular the Kanban system. Employment relations remained divergent. In Mercosur, there was no commitment to permanent employment or on-the-job training among most of the firms, although there were some exceptions supporting in-house co-operative training within the same sector (e.g. joint training between Siderar and Usiminas, and between Usiminas and other Brazilian steel firms) as well as development of codes of conduct and management. A few, like Odebrecht, Techint and Usiminas, had their own training manuals and strongly socialised their own firm's values. Their managers were carefully selected and the firms paid for their higher training, including Ph.D.s at the best U.S. universities. They also tended to work in more co-operative arrangements with the labour force.

Financial relations were distinct as well, when compared with the main-bank Japanese-system and the Japanese-type long-term loans. In Argentina, each holding had a main bank, but it was not used for long-term investment loans. It was the State and governments who provided loans and subsidies. In Brazil, BNDES seems to have played a role somewhat closer to that of the Japanese.

In terms of property, cross-stockholding in Argentina remained tightly organised around one-family management, supporting the preference for a micro-Fordist type of co-ordination and control: that is, for the internalisation of all activities under a hierarchy presided by an individual authority or a board composed of family members. In Brazil, rather closer to the Japanese model, cross-stockholding among firms belonging to more than one main economic group has been an important feature preventing foreign take-overs, and, during privatisation, de-nationalisation of assets. While subcontracting relations may seem more similar to those in Japan, in Mercosur there is usually no commitment to the subcontracting firm, while the contracting primary firm in turn subcontracts foreign technology and information. This reflects an international hierarchy which is an inversion of the structural power portrayed at the national level.

Those that did not make the transition found it difficult to adjust. For example, an individual manager led some of Acindar's initiatives in Brazil. These initiatives, e.g. in the case of entering Brazil's steel market, led to arms-length and occasional trading, without developing long-term strategies or relations (Castagno, PDI 22:10). Difficulties also tended to emerge when owners used their firms as 'private banks', i.e. as property from which they could draw resources indiscriminately. This was the case with the steel firm Mendes Junior in Brazil until the 1990s, when shareholders, as they increased their relative power, ousted the family members from the management.

Comparing the organisational capabilities of the British-type firms (personally managed, personally owned) with those of firms with managerial long-term goals, Chandler (1990) explained that 'assured income rather than appreciation of assets was usually the goal'. British-type firms tended to favour a policy of current dividends and investment in order to maintain existing facilities. Unfortunately, they were at a disadvantage 'where the investment in production and distribution necessary to exploit fully the economies of scale and scope required more funds than an individual or family had available' (Chandler, 1990:594-5). Further, envisaging and implementing coherent long-term economic strategies requires human resources that may not be available within the same family group. Therefore, most regional firms met the additional substantive management challenges of the 1990s competition with their traditional business culture increasingly in tatters.

8.2.5 Political and governance dimension of business culture

8.2.5.1 Behaviour of firms

Keeping in mind the distinction between politics and policies,[4] business has been inextricably linked with politics and government,[5] more so in Argentina than in Brazil. In addition, the higher political visibility of business actors has been a trend in both countries since the mid-1980s, partly stemming from their pressures for autonomous control of their productive complexes, in a conversion from macro-Fordism to micro-Fordism. 'For example, all tubes have been included in the Regime of Adaptation ... The Rocca family has been close to the government for four years now. They only [start manufacturing] some product if it is not produced in the country ... the markets continue to be untouchable, otherwise, it is war. They only accept others in niches' (Siqueira, PDI 2).

From the beginning of the 1980s, there had been an ongoing convergence in elites' values in the two countries, which drew them together in the acceptance of macro-economic stability, liberalisation and deregulation. Up to 1994, the difference was that Argentina's intra-business conflicts were gentler as a result of government policies, particularly in two areas: first, their renewed access to both capital inflows at home and international capital abroad; and second, because they became major owners in the service sector through the privatisation process. High rents from services were assured by a dollarised economy and by the fact that services are not tradables. According to some analysts (e.g. Canitrot), this new type of high rent extraction was the major trade-off: business accepted more competition in tradables in exchange for control over non-tradables. This compromise was in line with the government's ideal role for Argentina within Mercosur: as a producer of natural raw materials and a mediator in the service sector between Brazil and Chile, or between the Atlantic and the Pacific (interview with Fraga, 1995). It has been acknowledged that Argentinean firms obtain higher profits than Brazilian ones, as stated in the yearly *Gazeta Mercantil.* A high officer in Argentina's Ministry of Foreign Relations also recognised that: 'there is a difference between Argentinian and Brazilian business people in the perception of returns on the utility of capital, of the margin of profits' (Lucangeli, PDI 37:43). The Argentinian State reform has thus had an important role in securing convergence in the values of elites' and in easing their intra-class conflicts.

The Brazilian State could hardly play the same role as the Argentinian one. Ils reform was more intricate. A convergence in the values of business elites was taking place, but business political culture was not conducive to the articulation of a national development project. The relation between business and politics in Brazil matured through another path in which business and the State have been linked in a more co-operative way. However, business has not been necessarily linked to a government as such. A clear example of the business-Statc relationship was the tripartite model developed in the petrochemical sector.

Hie manager of the Bilateral Trade Chamber explained the more autonomous relation between business and government in Brazil: 'The integration in trade took place outside the political [sphere]. This follows a typically Brazilian way: doing things outside the governmental path. In Brazil, there arc two groups of actors: (i) in politics, and (ii) in business, the entrepreneurs ... hi Argentina, both are mixed. The difference is shown in the fact that even when Collor was in the middle of the greatest scandal, the country did not stop' (Rivera Otero, PDI 42). In contrast, a major concern for Argentinians is that their country could be destabilised by a similar situation.

In Brazil, the co-operative links between business and State that supported sectoral industrial strategies were severely disrupted by Collor de Mello's policy shocks. Consequently, Erber (PDI 26) explains, in petrochemicals there were two types of obstacles to attaining a new type of co-ordination at the national level, within and between the State sectoral institutions, and between business actors:

a) There were opposing views between Pctroquisa managers, given the BNDES role in privatisation, and business people (with their differentiated standpoints):

• Maximum stance: not to privatise. This was impossible to sustain. The BNDES, because of its statal role, had to privatise.

- To maintain an important participation of Petroquisa within the sector as a whole. The private sector was against this idea.
- Minimum stance: Petroquisa would be private. According to Carlos Gouvea Vieira, president of the national chemicals association ABIQUIM, this stance was considered the most pragmatic. Co-ordination was left to the firms alone.

b) Within the private sector: ‘Business people took with them neither a common standpoint nor a serious sectoral study [estudio de base]. Therefore, the ex-minister Veloso requested Chem Systems to prepare two reports. ABIQUIM also prepared a study on competitiveness, which made claims at the macro and systemic levels. The latter did not envisage any co-operation in the relationship between State and industry’.

Before privatisation, a working group was formed to debate the process. 'In the seminar, business only listened. They did not want to relate their strategics. The working group was dissolved. As in steel, the private group could not even resolve its own representation/ representative. This was because they did not have a common strategy. Castro left and the idea ended. And privatisation started again’ (Erbcr, PDI 26:32).

All the same, trust continues to underlie the constant negotiations, which is a particular national trait of Brazilians. Meanwhile, ‘Argentineans draw on their *viveza criolla* [creole shrewdness], which they perceive as astuteness, whilst being ’legalist’. They tend, therefore, to maintain a position they regard as favourable, or, we may say, “consecrated” ’, explained a high official in the Ministry of Planning (Camargo, PDI 18). The two negotiating styles hardly converged. Nevertheless, mutual knowledge has made styles clear enough to all negotiators, to some extent softening the ugliness of both styles colliding amid conflictive situations.

The relationship between the government and wealthy big business has not always been as close as in the 1990s. From the 1940s to the 1980s, the relation was negative, with business being resentful of both political centralisation and the business role undertaken by the State. The mutual distrust continues, particularly in Argentina: ‘But about reconversion? There was nothing! Well, it was partly explained by the economic reality. However, now we do not see reconversion either’ (Lamarque, PDI6). ‘Business people never believed in Mercosur. In las Lenas, they never believed in the timing, but in its postponement, in the enlargement of its implementation in time’ (Pena, PDI 88).

A former Petrobras manager, who is now a consultant to petrochemical firms in Rio, speaking against the background of the crisis in the early 1990s and with a critical point of view about neo-liberalism, said: ‘But there is no reaction! The private sector has no conditions [to react to]. The fact that they are families ... is important [partly], but it is not everything’ (Pereira da Silva

Figlio, PDI 5). He added: ‘Everything in Brazil was done by the State enterprises. We invited [Odebrecht], we insisted on their participation. Because it was part of the civil construction of the State ... They did not have a tradition in technology, it was [doing public works for the State]’ (Forman, PDI 28:34). The doubt about the capacity of business actors to envisage a broader coherent strategy was based on the decentralisation of the political system in Brazil and their limited experience in working out a broad strategy by sector for the country as a whole. This so-called ‘civil construction of the State’ was present in Argentina as well, as Argentina’s co-ordinator of the WG 7 told the author (Ameri, PDI 4:42; Pereira da Silva Filho, PDI 5:41).

However, others recognised some of the business actors as the most efficient and strategic entrepreneurs, arguing that the new entrants had acquired experience and knowledge at home and abroad since the late 1970s: ‘Why will the petrochemical sector be fine? [asked Arruda:] Well, the process of privatisation is slow [in 1995], and the results may not be so good. It is risky. But it has some of the best entrepreneurs [in Brazilian industry]’ (Arruda, PDI 7).

By the 1990s, firms in the two sectors had also had broad experience in autonomous negotiations with each other, and therefore broad personal knowledge of each other. Brazil’s co-ordinator for WG 7 (on industry) illustrated this point: ‘In the beginning they [business actors] felt like enemies [e.g. in the leather sector], and did not want even to sit together at the same table! They were obliged to do it! Difficulties still persist, but (he majority by now have created associations. For example, the toy sector in all countries had the same problem with Asia, and they drafted a norm on security’ (Brun, PDI 13). However, she distinguished the petrochemical sector as being an exception: ‘[It] was different in this regard, they knew each other from before’ (ibid.). The steel sector was in a similar situation. ‘Why would they co-operate in steel?’ -a consultant on industrial restructuring asked- ‘They mutually respected each other. Both management teams from Usiminas and Techint knew each other through ILAFA [the Latin American Steel Association]’ (Castagno, PDI 22).

Intermediate sectors had a large degree of autonomy to negotiate quotas within the ALADI system. Before the 1990s, the firms negotiated themselves, or through their representatives, while governments signed the ratification of the approval. These annual negotiations were one clement in the sectors’ regional governance that allowed balancing of regional supply and demand when national industrial chains of production were incomplete, as in petro-chemicals.

Past negotiations, though, basically dealt with managed trade and technical co-operation, while the 1990s negotiations led to an overall restructuring of the sectors. Changes also included the issue of relative gains and losses within major objectives. 'The assumption should be that each country will cede something, and [we] will dismantle the restrictions among ourselves ['*desarmar aos espiritus'* - literally, to disarm the spirits]' (Oliveira, PDI 23). Negotiators and negotiated issues were different from earlier decades. The same petrochemical expert asserted: ‘I was a negotiator in ALALC-ALADI and a consultant for the paper, chemical and heavy industry within Brazil, but not in Mercosur’ (Ameri, PDI 4:6).

Some interviewees said that business played a reactive rather than proactive role in the policy process. The reasons were a lack of strategic vision and passivity (c.g. ‘The fight was in thermoplastics, although without strategic vision’ (Erber, PDI 26). The lack of well-co-ordinated strategy could reach the point of not agreeing on a common representative. In Brazil, such a situation hindered negotiations for co-ordinating industrial restructuring and privatisation, and, in the case of steel, delayed the Brazilian government’s ratification of Mercosur WG 3 proposals for harmonisation of technical norms (Siqueira, PDI 2). This was confirmed by another interviewee: ‘As in steel, the private [petrochemicals] group could not even resolve its own representation’ (Erber, PDI 26). As the BEGs struggled to take stands in the face of economic restructuring, while asserting their autonomy from the State and internalising economic exchanges (production, pricing, trading, etc.), the development of their networks and associations also accompanied the process, fulfilling new needs and roles.

8.2.5.2 Networks and associations

This subsection reviews the major examples of institutional relationships, as well as major examples of the 1990s restructuring and creation of industrial associations, in which steel and petrochemicals have had representatives. The impact of the emerging economic competition and regionalism are clearly discernible throughout.

8.2.5.2.I First institutional patterns

The first institutional connection among firms in the Mercosur region took place through the figure of the Commercial Representative, at the beginning of the twentieth century. This powerful legal person was, for example, an Argentinian representing one or more Brazilian interests or firms in Argentina. Because of tensions between states in the region, the cross-national commercial activities were undertaken with the consciousness that war might break out at any time. Since then, a Bilateral Argentine-Brazilian Trade Chamber (BABTC) has been established. Previously, only firms that traded continuously with the other country were eligible for BABTC membership. Both the petrochemical and steel sectors have been members of the BABTC for the last 30 years. In fact, for many years the BABTC director used to be from the chemical sector. Since the 1970s, big business has also sent trade missions and negotiated within the ALADI framework. Although there have been special exceptions to the membership rule, Monica de Rivera Otero, manager of the BABTC, told the author those have been 'only with Mercosur capital and people [that have] moved into each other's countries'. She explained in the interview that the Chamber had been created in 1915 and was thus 80 years old. In the 1990s, as structural changes began, all institutions representing business, including the BABTC, changed their structures and roles. Among its activities in 1995 were:

- seminars on *Ilow to integrate ISO 9000 quality nonns'
- promoting a specialised course on Mercosur
- providing a course on the Portuguese language
- providing consulting services not only to associate members, but even to non-associates, thereby also acting as a consultancy organisation.

Further, the Chamber supported rounds of electronic negotiations, such as with the Dutch World Trade Centre, and began to work with a UN-financed project that provided information on diskette which was constantly updated (CD-ROMS were not yet in use). The Chamber also received trade missions. Previously, the missions had been only from large firms, but now the Chamber had to attend to new sectors and small and medium businesses. This is where, according to the manager, they had more success. As a consequence, the BABTC started to work with credit, supported by the Argentine Secretary of Industry. The Chamber was offering professional services as well as teaching courses at university level, having participated in the setting up of Mercosur and its first negotiations. Chapter 8 will examine the BABTC's activities in this regard.

8.2.5.2.2 Sectoral supranational institutions

Both sectors have had supranational and regional organisations, whose roles have also been renewed in the 1990s. These sectoral associations, which have long-term experience and a broad regional vision, are called APLA and ILAFA.

The Latin American Petrochemical Association (APLA)

APLA was established some 20 years ago to promote the petrochemical business. Its manager explained how APLA first waited for a strong political signal about Mercosur, e.g.: in terms of creating one common market, to change its strategies. Then APLA's structure and role changed to meet the two most pressing needs in the sector: regionalism and the environment. APLA's structure already offered advantages (Maltese, PDI 38) because there was an accumulated expertise and it was the regional space for personal contacts. For the 1990s role, APLA changed its statutes and created CEQPLA (a business committee including the chemical sector). In terms of timing, APLA director Maltese said that the policy changes in Argentina changed the business strategies with regard to the creation of a regional market. First, because of the unilateral opening up (liberalisation), and second, because of deregulation in the raw material markets.

APLA's role was modified. In ALAD1, quotas were negotiated between business representatives and subsequently approved by the government. Meanwhile, business unions' negotiations with national governments, i.e. the sectoral lobby, were channelled through the national sectoral chambers. Regionalism changed these negotiation settings. Maltese saw that 'it is also advancing between interregional blocs, as between the Mercosur and the EU'. This role will be further examined in Chapter 8.

APLA's meetings also changed to meet the challenges stemming from regionalism. APLA had a business meeting every year in Rio de Janeiro, attended by 600 to 700 businessmen from all over the world. Three such meetings were held annually in different parts of the world: in the USA in March, in Europe in September, and in Rio de Janeiro in November. However, with the objectives of uniting all the markets in America, with a particular focus on NAFTA, and of getting together 'people that otherwise would not meet', the 1996 Rio meeting was moved to Cancun. In 1997, Rio was the meeting place again. Usually, four or five meetings are held as a neutral space for direct discussion to facilitate the actions of national chambers. These take place 'at a very high level and with quite positive results'. APLA also assisted the process of business mergers. 'Since they know each other personally',... 'there are always separate meetings in Rio at the same time, with the effect of a business encounter'.

With respect to environment, APLA conducts a 'registered trade mark' programme called Responsible Care, stemming from Canada, after adapting it for all chambers in the region. It also offers courses in environmental topics and on the ISO 14000 norms on the 'environmental management' of business. In this respect, the UK was very much respected since it had been the pioneer with British Standards.

lite Latin American Institute for Steel (ILAFA)

Regional restructuring and the new competition were changing ILAFA's roles. 'ILAFA is an institution made up of firms that, until recently, were governmental enterprises ... Currently ... in Argentina, Brazil and Mexico, all is private. Thus, ILAFA's function also changed. Before it [was] influenced politically by the States, and its presidents were governmental bureaucrats of State enterprises. ILAFA was politically influenced in its way of facing issues. There were two aspects:

1. The idea that each country should have its own steel industry was predominant. Therefore, the [regional] integrationist position should not affect this predominant idea, and the governmental programmes for steel showed a relative support for regional integration, contradicting the ECLAC inspiration that also influenced ILAFA in Chile. This aspect towards RI changed. Today it does not end with words. Firms operate with more commercial criteria and less political ones. There are inter-entrepreneur agreements and solutions tending towards specialisation between Argentina and Brazil. In Acindar there are trade combinations [within the region], in Techint it is one [at the level of] Directors.
2. Due to its statutes (which are unchanged today), ILAFA included political concern for small and medium enterprises (SMEs), which were private in general (laminators in Argentina and arrabio in Brazil). This revealed the alliance between the State and SMEs. Thus, ILAFA cared about technical aspects to support them. This aspect has disappeared. ILAFA has changed, following the interests of the integrated firms. There are no more technical congresses, while the big firms anange their contracts abroad' (Llorentc, PD1 59).

ILAFA's role in Mercosur's regionalism was highlighted in the field-work interviews and is presented in Chapter 8.

<u>8.2.5.2.3 Sectoral national chambers</u>

Sectoral national chambers also took part in the transformation process, their past role having been as representatives of business actors to national governments. The larger the firms, the smaller was the number of the chamber staff. The smaller the firms, the more technical and stronger supporter was the chamber. The following examples show convincing evidence that the restructuring and changes in the roles of associations were widespread. The major new role of the sectoral national chambers was to draft and harmonise national legislation and norms on behalf of their respective industrial sectors.

Argentina's Chamber of the Plastics Sector

One sectoral institution under transformation was the Argentinian Chamber of the Plastics Sector (CAJP). CAIP began an institutional relationship with its Brazilian counterpart (ABIPLAST) in 1986, ‘when they perceived the economic globalisation as a fact, by creating a Joint Commission to negotiate the ACE 18’. In 1991, under CAIP’s initiative, Uruguay’s AIUP and Paraguay’s CIPP were invited to join in. The outcome was the creation of Cominpla-Mercosur: the Mercosur Commission for the Plastics Industry. Cominpla-Mercosur is an informal organisation with no formal structure. It has two representatives per chamber, plus two deputy-representatives. Meetings rotate in Mercosur countries, with at least one plenary meeting every two months. Cominpla actually has its plenary meetings during national fairs of the sector, such as Argcnplas in Argentina and Brazilplas in Brazil, which take place every two years. It can create technical commissions, which have actually become the most active information resource. The active work undertaken through several committees was explained by the Chamber’s manager during the field-work interview. This work is described in detail in Chapter 8.

Brazilian steel institutions (IBS and ABITAM)

IBS incorporated ASP, the private steel sector chamber created in 1978, which condemned government policies very vehemently. The incorporation was approved by the Assembly on 28 May 1993, during the privatisation process in the Brazilian steel sector. Within IBS, private firms mixed with the public ones, while still speaking with their own voice. IBS took over since it was considered a logical choice. It was the older of the two and had greater recognition at the national and international levels. The first IBS president to represent both the private and remaining State firms was Jorge Gerdau Johanpeter.

The previous divide between public and private interests had stalled the Mercosur negotiation process, since they could not agree on a common representation for the sector. The manager of ABITAM, Brazil’s Association for Steel Tubes, explained that at one stage the approval of Mercosur’s harmonised norms, which had been negotiated by the national sectoral chambers and approved by consensus within Mercosur, was stalled by Brazil. ‘Why the inactive period? In the first three meetings, the IBS did not participate as organiser, so only the Brazilian Association for Technical Norms (ABNT) appeared in such a role. Thus, there were difficulties and a period of stalemate. ABNT, which was controlling the process, is private. In 1994, that role was left in IBS hands.' This occurred after IBS restructuring, when a new form of co-operation between public and private firms was found.

As in the case of CAIP in plastics, ABITAM had been working together with its chamber partners for about 10 years. 'When Presidents Samey and Alfonsin signed ACE 1 in 1986, ABITAM approached the Chamber of Steel Tubes. The first meeting for the prevention of aggressive market tactics was held in 1987 to find out which associations existed,.

ABITAM's representative also described the difference from negotiations within ALADI. 'For the negotiations in ALADI, we talked with the Brazilian government, not with the Argentinians. And IBS did the same, I believe. Those negotiations are conducted at the governmental level because each country defines its own lists of exceptions.' Mercosur had a different dynamics. Its regionalism was meant for insertion into emergent world competition in the 1990s: 'Mercosur arrived because it was no longer possible to avoid regional integration. Thus, it was accelerated from 10 to 5 years, disregarding the existing asymmetries. This decision depended on the governments.'

Petrochemical national chambers

The Argentinian petrochemical chamber (CQyP) was not restructured as deeply, but its role changed, its work being increasingly at the regional level. 'There was a clear understanding with ABIQUIM (the Brazilian chemical chamber). We made joint proposals to the authorities. For example, [on] tariffs and nomenclature [the CET and tariff structure].' The Argentine representative acknowledged that, yet, 'it is not always completely taken into account, even though the dimensions are different. In general, the petrochemical capacity in Brazil is, in comparison [with Argentina], 5 to 1. Tire market is also of that magnitude ... In general, they have capacity to supply the whole region and still remain with an exportable balance.' Brazil's side of the story is included in Chapter 8, and confinns the work done jointly by the chambers.

Their policy-making work, though direct, complemented the expected new State roles. According to the interviewee, the States were left with two difficult issues and tasks with which to manage the economic competition in their national territories; investment and industrial policy. Such issues should now be resolved at the regional level by the State authorities, in a joint public policy-making. Tn the future it goes through the official sectors, to define one industrial sectoral policy for the Mercosur in a way that takes advantage of each country. For example, those firms' investments set up in Argentina because of the sources of raw materials, but which could go directly to Brazil (i.e. the raw materials). It is not easy for Brazil to permit the new Investments in Argentina (for example, in gasoducts)'.

8.2.5.2.4 Creation of new institutional forms geared to regionalism

During the span of the research, there were two main institutional innovations geared to regionalism. Both have carried national business interests with a higher degree of concentration and representation into the regional space. The first type was built on the basis of existing BEGs, and the second type stems from the national industrial umbrellas.

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The first form is identified as the ‘Group’. In February 1994, when there was already a critical mass of Brazilian business interests (around 500 firms), those firms created the ‘Brazil Group’ in Argentina, initially an informal forum for discussion and analysis. The Brazil Group soon became a ‘valid mediator between the Brazilian firms operating in Argentina and the Argentinian firms and governmental authorities’ {*EE*, 11 November 1994:13). The Group also provided the framework to boost strategic alliances and market their products. An interviewee said: ‘The Brazil Group, in contrast, is a lobbying group to pressure the Argentinian government. I will invest so much money if I can have a market quota and tax exemptions. The Brazil Group is in food, one in construction, these are big groups. Half of them are members of this Chamber, but since they want ‘special treatment’, they search for a way outside this Chamber’ (Rivera Otero, PDI 42).

As a reaction, an ‘Argentina Group’ was formed as ‘a new and non-conflicting articulation with the traditional action of the trade chambers’. This association was established in June 1995 by a group of businessmen with interests in Brazil (investments and joint ventures), and who were preparing not only for the privatisation programme in Brazil after the Plan Real, but also to strengthen their positions in the industrial and service sectors within Brazil.[6]

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The second type of institutional innovation has been the creation of Mercosur chambers, which reunite industrial actors from within the region. These Mercosur chambers could be sectoral or general. The example of plastics has already been discussed. Another example in 1991 concerned the creation of a Mercosur trade chamber for automobile distribution and sales networks. In the beginning, all the countries except Paraguay supported the idea in order to ‘take to governments suggestions on the steps to be taken towards regional integration’. Burti, president of Fenabrave (Brazil), and Magarios from

Uruguay, stated that 'the sector in each country has a great political force in the parliaments. The businessmen have to use that power so that the economic interest becomes the cause and not the effect, because to work on the effect is non-viable ... We have to exercise our influence, stemming from economic force, to influence politics' *(Gazeta Mercantil Latinoamericana,* 21 September 1991).

At a general level, the national industrial 'umbrellas' have established their own internal departments for Mercosur, and externally the Industrial Council for Mercosur. The latter commenced to function after a co-operation agreement between the UIA of Argentina, CNI of Brazil, CIU of Uruguay and UIP of Paraguay, without personnel but with specific agendas to discuss during quarterly rotating meetings. This organisation has functioned since the end of 1993, working on common agreed topics: environment, ISO 14000, exchange of information, policy requests to Mercosur, and harmonisation of norms within Mercosur. For example, one objective of a meeting in early 1994 was to create an institutional mechanism to enable business actors to request a 'fast-track procedure' for legislation. 'The strategy was to seek first the incorporation of specific legislation at the Mercosur level, to be later implemented by each political authority at the domestic country level' (free translation). In the fieldwork interview, the late Jorge Gaibisso, head of the Mercosur Department in the Argentinean Industrial Union in 1995, explained that the Department had been created in early 1993. In the 1990s, 'in a period of transition ... it was the responsibility of the UIA to deal with global themes: customs, tariffs, labour, energy, taxes, macro-economy. And for industry: technology and environment. The chambers have delegated these themes to the UIA, which can help only to a certain point.' UIA's limitations were best exemplified by two factors: (i) 'within the UIA there are conflicting interests,' and (ii) the 'UIA does not have its own army. Thus, for example, in the Mercosur Working Group no. 11 on labour, the negotiators who went in the name of the UIA were in fact from the chambers.'

Gaibisso sent his views to the press at the beginning of 1995, recognising the historical achievement of Mercosur, and praising the achievement of a CET and the Customs Union. However, the UIA was being criticised as an umbrella used only for public statements, as an institution that lacked initiative and dynamism. Just a few months earlier, the UIA had been against the implementation of Mercosur as a customs union. Gaibisso explained that 'we always approved of regional integration as a geopolitical strategy. In 1991, but even before with the ABEIP's Protocols in 1987 and 1988. We were conscious that ALADI had reached a ceiling because of its very short-term [objectives]. It had nothing to do with a free trade area, so it was condemned to stagnation. But since 1991, the advance has been dangerous. We are afraid. Brazil is bigger' The difference in size was a determining factor, but the costs to industry stemming from differences between Argentina's price stability and Brazil's lower labour and service costs, were the most worrying. UIA's stand and document, Gaibisso stated, 'was against Brazil, not Mercosur, until the Real Plan that changed the situation'.

8.2.5.2,5 Concluding observation

After all these examples, it was clear that the associations representing business interests were engaged in restructuring as well as in the creation of new institutional forms and structures to suit the new needs and consequent business agenda of the 1990s. Thereafter, all these associations engaged in regionalism, playing differentiated roles, as will be seen in the following chapters.

8.3 Business strategies in the 1990s: Industrial restructuring and new competition

In the 1990s, the historical path of the industrial sectors under study was leading to fundamental changes. In the 1980s, macro-Fordism had gone into crisis, but a thorough new pattern was not yet in place. In the 1990s, business people faced a new type of competition, empowered at the conceptual level by 'neo-liberal' values and at the practical level by new technologies and managerial practices. The core of the new competition was no longer based on trade and prices, but along the expansion of sustainable business scales (a concept discussed in Chapter 6) and long-term co-ordination and control of production and distribution chains in order to secure long-term capital accumulation.

By the 1990s, the dominant regional economic form was the big economic group - BEG, a concept introduced in Chapter 5. In the new competition, industrial restructuring entailed a quest for autonomy by business actors, which exhibited three faces. First, they sought to overcome the existing internal limitations of firms and economic groups by increasing their capacity for business co-ordination. Second, there was the positioning of each firm and economic group amid the world economic restructuring and competition. Third, they organised themselves into socio-political groups representing their business, exercising an increasingly meaningful role in policy-making.

The 1990s national restructuring induced the integration of the sectors backward with raw materials and forward with the world market, little with the rest of local industrial activity. In fact, the new export structure was the result of specific sectoral phenomena that detached it from the rest of local industry and from the evolution of the local market (Schvarzer, 1993: 395-6). Following the brief review of the sectors' historical evolution from the 1930s until the 1990s in Chapter 5, this section is meant to delineate the most important strategies by business actors that may clarify their stand on regionalism. First, the significance of the BEGs as economic actors is defined. Second, their main 1990s business strategies are explored.

Altogether, private actors were constructing a new type of leadership. According to Perez Nunez (1993:56), a firm was considered a leader depending on the size of the company and its market share. Oliveira (1994) observed that leadership could be perceived in terms of business scales within one sector and in terms of the firm's autonomy in strategic decision making. This leadership within an economic base would be transformed into leadership within civil society, taking on a political role complementary to the State's role within regionalism.

8.3.1 BEGs as economic actors

Since the 1970s, as seen in Chapter 5, business in the region has taken a particular organisational form identified as the big economic group (BEG). The study of the historical evolution of this type of economic organisation has been so far more advanced in Argentina than in Brazil, with three strands of analysis: economic works on particular economic sectors,[7] descriptive ones for mass consumption,[8] and highly analytical theoretical attempts. Bisang explained the existence of BEGs by market failures and by the dynamics of capitalism in search of internalising profits, showing that they are highly integrated into capital markets, expanding worldwide and sharing the same general traits. He provided a good synthesis of Argentinian BEGs' profiles, but his analysis was not applied to the BEGs' reactions to or participation in policy-making. (Bisang, 1994). Yet, Nochteff maintained that, handled most often than not managerial ly, firms tend not to be technologically driven or capable of sustainable co-ordination within one industrial or business sector (Azpiazu and Nochteff, 1994). The BEG firms may enjoy managerial autonomy on a day-to-day basis, but they arc generally not autonomous in business terms.

Given their considerable economic power at the national level, 'in a complementary way, another cluster of subjects - related to the evolution of certain aspects of the economy and the behaviour of the BEG — displaces the viewpoint from the micro-economic and private perspective to the social one' (Bisang, 1994:15). Meanwhile, as Chapter 6 argued, global competition has been transformed. While the BEGs' evolution endowed them with characteristics that may have been adequate previously, as shown by the field-work analysis, the regional BEGs faced certain shortcomings with regard to 'globalisation'.

8.3.2 Restructuring strategies

Taking into account Table 8.1 (source: Ruigrok and van Tulder, 1995:141), such developments in the region seem to correspond to a transition to micro-Eordism, where core firms seek to expand direct control within their sector and beyond, while enhancing their internal efficiency and productivity through cost cutting and profit maximisation. Toyotism, a co-ordinating path also followed by a few core-firms in the region, is similar, but the authoritative path in this case is asserted by controlling the chains within the economic sector through structural power, i.e. through quality norms, intellectual property rights, supply networks and market-share maximisation.

Firms in both sectors and countries experienced similar conditions at the macro level: rapid liberalisation with consequent rise in imports, together with one global downturn in prices until 1994 and another between 1997 and 1999 , which posed an enormous threat and challenge to the industries. Steel became increasingly interconnected with the automotive industry, while petrochemicals experienced a somewhat different path in each country. In the first half of the 1990s, BEGs' reactions were mostly defensive, with some notable exceptions. Firms reduced costs in many ways, contracting production, personnel, and R&D teams, and reoriented remaining teams towards cost streamlining. At the same time, they reduced their debts and investment plans. They also engaged in importing products from their same sector, and developed extensive and long-term networks for servicing their clients.

As regards research and development, during macro-Fordist times co-operation between Argentinians and Brazilians beyond R&D in processes of production and training was not possible. Issues such as investment and planning between Petroquisa and DGFM were ruled out. However, Pctroquisa's manager Amilcar Pereira visited the Bahia Blanca petrochemical complex many times and worked closely with the Plapiqui/Pidcop R&D Institute.[9] The visits generated a technical co-operation programme with Petroquisa's enterprises as well as with Badesul (the southern Brazil development bank). The Plapiqui/Pidcop also provided training courses in Brazil, and-unsuccessfully - supported the establishment of a similar institute in north-eastern Brazil. In addition, it has received many Brazilians who are studying for a Ph.D. at Bahia Blanca's Pidcop and the university. In other words,

Table 8.1 *Rival concepts of industrial restructuring and co-ordination*

	Macro-Fordism	Micro-Fordism	Toyotism
Basis of sector complexes' performance	Private-public coalition. Continuous bargaining with all partners in sectors and national institutions: meso-corporatism.	Direct control by core firm, internal efficiency and productivity; profit maximisation.	Structural power exercised by core firm, quality and flexibility of the supply network, cost-minus relations, market share maximisation.
Nature of core firms	Oligopoly	Oligopoly (striving for monopoly)	Oligopoly (creating over-capacity with competitors)
Illustrations of industries in (he 1980s	Large industrial conglomerates, large subcontractors: steel, tyres, resourcebased industries like oil	Mass production, vertically integrated in: cars, petrochemicals, food, retailing	Mass production, vertically disintegrated in: automobiles, consumer electronics, information technologies (vertical *keiretsu,* Japan)
View of globalisation as firm's aim	Parent company decides to become multinational. Its preceding stage would be globalisation, understood as the creation of new international division of labour (in the 1970s}, to circumvent import barriers. By 1990s, there is a move towards a regional division of labour.	(Levitt) one world-market where global corporations 'sell the same thing in the same way everywhere'. Multilateral organisations would accompany the process. No supranational political structure is needed. Most linked to 'globalisation of finances' to allow mergers, acquisitions and take-over actions..	(Ohmae, Morita, Kobayashi, Nonaka) one world of production, striving first for glocalisation with regional co-ordination, and then integration of all activities, to be carried out inside the business c/ra/n. Corporate culture and long-term bargaining relations are retained.

Source: Ruigrok and van Tulder, 1995:141.

Plapiqui/Pidcop has covered the shortage of R&D management in Argentinian and Brazilian enterprises. In the 1990s, privatisation in both countries and the economic recession in Argentina made Pidcop's future uncertain. The process led Plapiqui/Pidcop to broaden its consultancy and research scope to the food sector (fruits and vegetables, since, this is the most important regional production in the Rio Negro Valley, close to Bahia Blanca). Plapiqui/Pidcop has been recognised in the region and beyond as successful, yet the Argentinian government does not seem to value its R&D capacity. This was demonstrated when Du Pont in Argentina committed itself to buying ICI catalysts - provided Plapiqui/Pidcop controlled them. This was contrary to the wishes of the Argentinean government, which, as already mentioned in Chapter 5, has a tradition of not supporting industrial and technological development in the country. Although it was difficult to convince them, Du Pont succeeded in its objective, and the Argentine institute was given the job. In the 1990s, the trend in R&D has been, on the one hand to internalise resources and initiatives within the BEGs or their alliances, and on the other to redesign existing R&D linkages with State universities as sub- or out-contracting. As regards R&D, macro-Fordism was turning into micro-Fordism in the region.

With respect to management practices, although it is difficult to make a clear distinction between micro-Fordist and Toyotist BEGs, only those with core business concerns in industry and managerial orientation appear to have been striving towards Toyotist practices. Many of the regional BEGs have had a family culture with a tradition of rigid hierarchical relations and little technological orientation. These remain closer to micro-Fordism. A clue that helps to distinguish between the two concepts is the existence of co-operative strategies towards long-term contracts with other firms or groups, and then co-operative strategies beyond long-term contracting. While contracts regulate exchanges, the new competition is about internalising co-ordinating mechanisms. Pricing, trading, production and decision making internalised within networks may not be contractual. They may be subject to negotiation and internal power relations within the economic group. When there are only individual initiatives by one BEG, and when these remain under the total control of the same BEG, micro-Fordism is probably the best concept to think of.

8.3.2. 1 Shifting ownership and the struggle for regional business scales scales

In Brazil's petrochemicals, given the fragmented and mono-productive structure, defensive strategies proved limited. Since each company had a plant, to close the only plant would mean exiting the business. The excess productive capacity (e.g. of ethylene, polyethylene, and polypropylene) also rendered a competitive restructuring difficult.

There was, though, one petrochemical BEG (Odcbrccht) which had achieved significant growth since the 1980s. In the 1990s, through acquisition of shares, it was the first to establish a presence in all petrochemical complexes and in a broad range of products. Hence, Odcbrccht has become a core actor in Brazil's petrochemicals. In Brazil, the challenge entailed a restructuring to achieve business scales at the national level, improving business co-ordination, and later reintegration with the oil sector. In 1997, after securing a more stable institutional situation, Petrobras engaged again in the sector, specifically with Odcbrccht, in order to create the new core in the industry. New investment decisions in petrochemicals were taken after the 'Real' stabilisation programme, which in its first phase triggered a consumption boom and therefore a boom in plastics consumption (e.g. by the packaging and automobile industry).

Yet, even though prospects improved, recurrent external shocks posed increasing threats to the recently achieved stability. Intense negotiations and movements of capital in the south of Brazil and Argentina worried actors in the state of Bahia, in north-east Brazil. In 1995, COPENE exported 58,000 tonnes to Mercosur, mainly to Argentina, for USS 17 million. Therefore, the north-cast Camacari complex, with its 45 firms, decided to invest US$ 500 million in modernising and enlarging the complex. Although it is southern Brazil that effectively vetoes many Mercosur decisions at the political level, the north-east usually threatens to do the same unless it is given economic resources and investment, arguing that it is excluded from the benefits of Mercosur.

In Argentina, petrochemicals underwent a vertical integration with the oil sector after the latter's privatisation and deregulation. On the one hand, existing BEGs expanded into the oil and gas sectors (e.g. Techint and Perez Companc). On the other hand, oil companies engaged downstream in petrochemical production (YPF, Perez Companc). In the case of the Perez Companc BEG, its core industrial strategy rested on the oil business. Industry was not its central element. After the completion of petrochemical privatisation in Argentina, YPF, Dow and Perez Companc owned 75% of the entire sector, and all the internationally competitive firms. Astra, an oil firm that seemed important in the sector, was sold in 1997 to the Spanish Repsol. Bridas also exited the oil and gas business. Within 10 years, Argentina's economy underwent a deep change in ownership, in which family management found its limitations.[10] By 1997, there were only two major groups: YPF and Perez Companc, the most professionally managed and internationalised TNCs. Further, these two holdings were the most dynamic in forging co-operative agreements with their Brazilian counterparts. As in the case of Perez Companc, which is illustrated below, important agreements were reached between YPF and Petrobras. (For example, they aimed at working together in the northwest of Argentina. Petrobras was already the owner of 15% of the oil, distillation and polyduct in the area, and the idea was to construct a gasoduct supplying 20 million cubic metres daily to Sao Paulo, with investment of some USS 1900 million between 1994 and the year 2000.)

Privatisation in Argentina did not ensure a long-term development policy on the part of the firms, as ownership changed rather quickly. Firms appeared to have plans for important expansion in the sector, only to exit a few years later. This was evident in the Bahia Blanca petrochemical complex. Ipako (of the Zorraquin BEG) bought Polisur in October 1990 (for USS 14.1 million in cash and USS 41 million in debt papers - face-value bonds) and was planning to expand (Tonelli, PDI 112:14). However, after privatisation of the PBB, in which it did not participate, the BEG exited the complex.

Indupa (which belonged to the Richard group) acquired Petropol and Induclor (USS 4.5 million in cash and USS 13 million in debt papers for the first; USS 17.8 million in cash and USS 50.6 million in debt papers for the second). However, Indupa collapsed with a debt of USS 120 million in 1995, and was rescued by the State, to be sold together with the petrochemical central in Bahia Blanca. The other Bahia Blanca petrochemical firms were also privatised. Monomeros Vinilicos was sold to Viniclor (October 1990, USS 9.3 million, in cash and USS 26.5 million in debt papers). Petroquimica Rio Terccro was sold to Egerton Finance S.A. in March 1992 for USS 7.3 million in cash. Carboquimica Argentina was bought by Safety S.A. and Procamet S.A. in September 1993 for USS 330,000 in cash and USS 660,000 in debt papers. All these firms were Argentinian. The family owning Perez Companc, Vicente, recognised an interest in Bahia Blanca. Bahia Blanca's privatisation was kept on stand-by until Indupa's legal situation was resolved.

The Ministry of the Economy, under Cavallo, kept Indupa's shares, capitalised USS 350 million, and took control of the petrochemical company. Therefore, there were two tasks for Roque Maccarone, the State Secretary for Banking and Finance, before privatising Bahia Blanca and Indupa together: resolving legal problems and formulating the specifics of privatisation. Until November 1994, it seemed that only YPF and Perez Companc were interested. Copesul, which belonged to Odcbrecht, was also mentioned *(EE,* 11 November 1994:11). A question mark was the price that could be asked for the 51%

State shares in the petrochemical complex, after the increase in prices for the first time in four years. The Ministry of the Economy wanted to ask for US$ 180 million.

Meanwhile, Perez Companc chose to strengthen itself through PASA. Its plans included expansion of the urea plant from 150,000 tonnes to 180,000 tonnes per year, to which a new fertiliser plant would be added. Perez Companc bought the company in the USA, which already had a branch in Argentina as well. Perez Companc then redefined PASA Argentina as its petrochemical arm, therefore focusing business initiatives in that direction. When Perez Companc incorporated PASA, it came to control San Lorenzo (CGC has 42 %, PASA 15% and Perez Companc 43%). It also acquired a voice and voting powers in Unistar (a joint venture with Monsanto), opening the possibility of positioning itself in the fertiliser subsector. For the immediate future, Perez Companc had another objective: revamping its project of elaborating a non-polluting naphtha additive - see endnote 3 *(El Economista,* 11 November 1994: 11).

In the end, in late 1995, the two competitors for Bahia Blanca and Indupa were YPF in alliance with Dow Chemical, and Perez Companc in alliance with Odcbrecht. Dow won together with YPF, triggering a counter-offensive from Brazil (Forman, PD1 28). In another interview at the beginning of 1995, a manager at PBB in Bahia Blanca had told the author: 'There is a YPF project to build a plant. YPF is also interested in buying PBB and Indupa. The plant I mentioned is of LPG, a mix of butane and propane' (Bettini, PDI 20:6). He mentioned two future projects, one for an ethylene plant and another for oxides of ethylene (Bettini, PDI 20:3). Still, something else was considered a real breakthrough: 'Towards the end of 1995, PBB will be quoted on foreign stock exchanges as a bloc, which will be different from the 'credits for project-type financing that it has depended upon'. This, in reality, was the biggest change.

Logical as privatisation may sound, in the short run it created more obstacles to new investments such as a third steel high furnace in Argentina and the necessary additional petrochemical complex in the Mercosur region. These obstacles were due to the financial costs, new responsibilities in management and articulation with suppliers, and the divergent new priorities established after the BEGs entered the newly privatised service sectors. Three cases exemplify this: one in steel, one in petrochemicals, and one in the oil sector. In this regard, the researchers' criticism about a lack of investment during the first half of the 1990s has been recognised as overstated. It was the most logical consequence of the diversification strategies of business Schvarzer PDI 49:16), unfortunately at a time when a world restructuring was leading to a new competition based on enlarged scales and specialisation.

In steel, Techint ran out of financial and technical resources after buying Somisa (now Siderar). The firm had to send 200 engineers to Soinisa. Moreover, Techint's participation in the privatisation of services (i.e. railway transport) shifted priorities within the holding. In 1990, Techint's Siderca (producer of seamless tubes) was at the 'absolute technical frontier'. After obtaining the 'cereal railway', the holding was losing money in the new venture, having to invest in it. In corporate meetings, the new investments needed in the steel sector had to be delayed. By 1995, Siderca was considered to be close to the 'frontier', but not 'at the frontier' any more (Nochteff, PDI 64:3). By 1997, the BEG had divested the railway business and was again strongly focusing on its core concerns.

In petrochemicals, Ipako (a petrochemical firm belonging to the Zorraquin financial holding, which entered industry through the last military government's 'promotion programmes') diversified further through privatisation of services, halting industrial projects. After running into debts, it left the Bahia Blanca petrochemical complex.

Finally, when YPF came to control the oil company Maxus in Ecuador, it not only ran temporarily into trouble, but also strongly and negatively influenced the evolution of financial flows and bank deposits in the whole of Argentina. It worsened the financial situation of the country after the Mexican 'tequila shock' by increasing financial outflows *(Ambito Financiero,* 3 March 1995:5).

On the other hand, new investments were postponed pending privatisation, waiting for the future owners to take strategic decisions (Guz, PDI 90:15). 'The size of the petrochemical pole of the Bahia Blanca petrochemical complex is [only enough] to supply the [current] internal market. The country is growing, so the pole has to increase its size. It has not done it yet because the State has been trying always to privatise it, but the plans were postponed. Ethylene is now imported rather than exported, but not from Brazil. It is done from Italy, Venezuela, and Libya. Before it was also from Brazil and Mexico. Brazil [did] not have a surplus in 1995.' According to the PBB representative in Buenos Aires, 'the existence of the regional market is very important, since it provides strong incentives to expand. At the same time, the process of privatisation sparks interest from investors of Brazilian origin, firms from the Brazilian petrochemical poles. PBB may seem far, but it is close in terms of international markets, and in the same zone. I see regionalisation very positively' (ibid.:16).

8. 3. 2. 2 *Strategic Restructuring by type of firm*

Within macro-Fordism, investment in each country had been related to the size of the national market. Thus, one of the dilemmas for business people was, according to an industrial consultant on restructuring: 'What do we do? Do we homogenise or become complementary? If we take the second option, when there are bigger differences there arc bigger exit barriers. If we take the first option, the costs of a possible exit will not be so high,' The same industrial and management consultant added that 'in the face of this dilemma, there were four types of business reactions' (Castagno, PDI 22), according to the type of firm. He categorised the firms into

- national firms with regional presence before the Asuncion Treaty
- national firms without regional presence before the Asuncion Treaty
- transnational firms
- global firms

In steel, until the mid-1990s, there were almost no relevant foreign TNCs or global firms in the region as a whole. In petrochemicals, there were important foreign TNCs and an influence stemming from a few emerging global ones. Due to this, the type of global firms is only briefly introduced when talking about TNCs. The typology was useful and simple to start with, while the complexity appeared after considering the type of exposure firms used to have.

8.3.2.2.1 <u>National firms with regional presence before the Asuncion Treaty</u>

A regional presence means continued embeddedness into the other's economy. In effect, BEGs like Bunge & Bom or Techint are not really considered foreign by Brazilians. It should be noted that the internationalisation path, in particular for Argentine firms, started in the early twentieth century (e.g. Bunge & Bom in the food industry and Alpargatas in textiles and footwear), specifically in Brazil (Perez Nunez, 1993). In the 1940s, successful firms within the ISI framework, especially in metal and machinery production, also engaged in FDI in Brazil (e.g. Techint) (Katz and Kosacoff, 1983). Brazilian firms also had some FDI before the 1980s, directed mainly to other South American countries under ISI policies. In contrast, during the 1980s, firms in both countries concentrated their FDI in DCs (USA, UK, Portugal, Spain, and The Netherlands) (Perez Nunez, 1993). In the 1990s, with Mercosur and within the structural changes taking place both within the world economy and within the 'nation-state', regional firms focused again on their own region.

A good example of the type of firms or groups with previous presence in the region before the start of Mercosur may be the Argentine holding Techint. Techint Brazil was established in 1948, at the same time as Techint Argentina. Both are part of a BEG called 'Techint Organisation', appearing to successfully combine micro-Fordism with Toyotist practices. Techint's many linkages show a conception of the firms beyond Fordism.

In November 1992, the Argentine Techint purchased Somisa, the country's main state steel plant, together with Usiminas (Brazil), CVRD (Brazil), Acindar (Argentina) and Aceros del Pacifico (Chile). Usiminas bought 5% of Somisa, thereby integrating its board. This was Usiminas' first investment abroad, which afterwards multiplied like an expanding network of its own. CVRD also participated with another 5%, locking in the long-term provision of raw materials under 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, Techint transformed Somisa into Siderar, specialising in the production of 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% of formerly State-run Venezuelan steelmaker Sidcrurgica del Orinoco' (Reuters, 4 February 1999). The latter is now partly owned by Techint. Tcchint is also present in the north-east of Brazil. For example, at the end of 1996 it established a 'lump-sum turnkey' unit for fluid catalytic cracking at the Landulfo Alvcs-RLAM Refinery in Bahia, with Tokyo Engineering. *(Gazeta Mercantil Latinoamericana,* 13-19 October 1996:22).

In Argentina, Usiminas also had other objectives. Tn 1992, Usiminas completed 30 years of plant operations and one year of privatisation. With a long-term strategy focus, the company entered into several commercial and technological joint venture protocols, domestically and abroad: in Japan, with Nippon Steel Co., Hitachi Ltd., and Chugau Ro Co. Ltd.; in the UK, with British Steel; in the USA, with Ahlsthom Equipment Ltd.; and in Brazil, with Magnesita S.A. and Montreal Engenharia S.A. Brazil. The company's participation in the Somisa privatisation process has enabled it to purchase 6.25% of Propulsora Siderurgica S.A. stock in Argentina, creating new market opportunities for Usiminas and Usiminas Mccanica in the Mercosur' (Usiminas, PDI 85:4). Another primary interest was Usiminas Mecanica, connected to the automotive industry, although the latter was not mentioned by interviewees. Usiminas was enlarged in 1999, merging with Cosipa of Sao Paulo but maintaining its own name. Siderar, Usiminas and Cosipa all produce flat steel products, destined in large part for the automotive industry.

The rationale of the first alliance was not to control Somisa, except in the case of Techint. This strategy is termed ‘soft regional integration’ (Castagno, PDI 22). It is carried out for the purposes of information exchange and other types of co-operation, including technology, training and exchange of experts, while preventing potential dumping actions (ibid.:5). Techint and Usiminas interviewees clarified the purpose further. The integration was ‘to bring up new opportunities’. As an example, the integration would enable the companies to supply at least three of the main automobile companies operating within Mercosur (Breno Julio de Melo, PDI 70:2). In this case, the first observation is the use of privatisation opportunities to build a vertical alliance from raw materials to automobiles, also providing services and credit to the clients. The rationale was the creation of a strategic regional network. By 1998, Latin America and Mercosur together had surpassed Asia as the most important market for Brazilian steel *(Gazeta Mercantil,* 7-13 June 1998:4).

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 competitors, 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 had known each other well before the integration, through the Institute (whose functions have been similar to those of 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, as well as the regional meetings of ILAFA for steel and APLA for petrochemicals. There was also a flow of technical co-operation in production processes and training, the latter more for petrochemicals than for steel. [11]

Further alliances were forged between Tcchint and Brazilian holdings. Techint and Siderurgica Tubarao (also recently privatised) established a new firm as a joint venture in Argentina (Schvarzer, PDI 49:8). A joint venture was established between the Tcchint group and Brazil’s Acesita to commercialise Acesita products in Argentina. Another Techint firm, Siat, engaged in a 30% exchange of shares with Brazilian Confab Tubes. The two are the largest Latin American producers of seamless tubes. According to the Brazilian firm, this was a long-term alliance in order to confront the global competition (Argentine embassy in Brazil, 1995). One of the objectives was to jointly win regional contracts to build Mercosur’s infrastructure. For example, the two firms successfully bid for Argentina-Chile and Brazil-Bolivia projects (Castagno, PDI 22:7).

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 BEGs to engage in the new world competition.

Economic incentives for expanding regional networks should be seen from a dynamic and diachronic perspective. For example, 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 material costs within the region, which are always major costs for steel and petrochemicals.

These examples reflect the vast array of moves in 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 simple terms, these may be seen as tactics, whereas the common content of all is the accomplishment of long-term co-operative networks. This element has been rationalised under the concept of 'business scales', discussed in the previous chapter. Network building seemed to originate from core firms within the same sector. These networks were fostered when such core firms (or the BEGs to which they belonged) had a long-standing regional presence..

8.3.2.2.2 National firms without regional presence before the Asuncion Treaty

Tire petrochemical sector has matched the general development in the 1990s explained above. However, not all holdings have built long-term networks. Others had a more individual strategy, opening sales and service offices in the region. This type of strategy was sometimes the result of failed attempts to create long-term alliances, and at least in one case was also aimed at obtaining inputs at lower prices. In a few cases, the reason was the rapid direct control of the regional supply of a particular product. Both modes of action are reviewed underneath.

In the petrochemical sector, the Argentine holding Perez Companc chose to strengthen itself through the firm PASA, which already had a presence in Argentina. Perez Companc bought the firm in the USA and thus came to control the San Lorenzo refinery (where PASA had 15% and Perez Companc 33% of the shares). It also acquired a voice and voting powers in Unistar (a joint venture with Monsanto), opening the possibility of positioning itself in the fertiliser subsector. In the 1990s, Perez Companc has engaged in high value-added production for automotive use and fertilisers for agriculture (*El Economista,* 11 November 1994:11). In this case, the holding, whose core interests lay in oil, purchased and transformed one firm and 'redefined it as its petrochemical arm' (Lopez, PDI 36:1 1). This was not just a case of vertical integration from oil into petrochemicals: the 'arm' would become the co-ordinating centre that would in turn expand the petrochemical business, including network building.

Perez Companc and Odebrecht have engaged in two important regional joint ventures. The first was signed in September 1995, to build a new styrene unit in southern Brazil, producing 180,000 tonnes, with Brazil's Petroflex as a shareholder. Petroflex produced synthetic rubber. Hie idea was that Copesul of Odebrecht would provide the raw materials (butadiene for synthetic rubber), while Petroflex and Perez Companc would manage the demand. The second venture dates from 1996, when Copesul and Perez Companc signed an agreement in Buenos Aires to build a polystyrene unit in Copesul to produce 100,000 tonnes per year. The new unit, in which they invested USS 90 million, has been operating since 1998. Moreover, they bid together for the Bahia Blanca petrochemical complex, the major petrochemical privatisation case in Argentina. Their competitors, YPF in alliance with Dow Chemical, outbid them, triggering a 'counter-offensive' from Brazil (Forman, PDI 28). With a long-standing presence and history of conflict in Brazil, Dow Chemical exported USS 35 million from Brazil to Argentina in 1995. Regional trade did not appear as decisive as its long-term strategy of positioning itself at the regional level.

Although an easy integration (as in cross-buying, through privatisation) was difficult to envisage in petrochemicals, Odebrecht went to Argentina to assess that possibility. In Brazil, equity and share packages have been in private hands, by which those who already had participation would take further control of petrochemical complexes after the purchase of Petroquisa's shares (about 33%). As a consequence, even if the largest Argentine company, YPF, bought one-third of COPENE, it could not influence COPENE's strategic decision making. This was an effective disincentive, according to an industrial expert . Only if new plants were built could there be a possibility of joint ventures. An example could be Neuquen in Argentina, or the planned gasoducts, where Odebrecht could participate. Odebrecht has already implemented construction projects in Argentina.

Due to vertical integration, co-operation in Mercosur appears to be proceeding in a hierarchical way. Whereas previously the State institutions had a say, in the 1990s oil, gas and iron ore companies have been taking decisions on whether their 'daughter companies' may work together or not (Castagno, PDI 22). Consequently, regional co-operation in the petrochemical sector commenced on a case-by-case basis, depending on the will of the oil companies. 'The rhythm of the oil firms' integration [was] by case-by-case projects, while for the petrochemical firms [it was] by structural integration.' Beyond the issue of strategic control, what already existed in the petrochemical sector presented a temporary structural rigidity. In addition, at the very start of

Mercosur's customs union, PBB (Bahia Blanca) and Copesul (southern Brazil) had competing interests in expanding to supply Mercosur as a whole.

Of the national companies without a presence in the other's country before Mercosur, the most important were probably the ex-State oil companies. It must be said, though, that this was part of an overall continental strategy. For example, after YPF had bought Maxus of Ecuador, Perez Companc and YPF implemented a project to construct a new pipeline in Ecuador in 1997, together with the US firm Enron, as announced by the president of Petroecuador, Patricio Lopez. Ecuador invited bids for the construction of the Crudo Oriente pipeline, with a length of 514 km, parallel to the Transecuadorian pipeline built in 1972 (£7 *Cronista,* in *Internet Headline News* no. 731, 30 January 1997).

By 1997, there were two major Argentinian oil holdings, YPF and Perez Companc, both vertically integrated into the petrochemical sector and both highly professionally managed and internationalised. In 1997, YPF, Dow and Perez Companc owned 75% of the sector in Argentina and all the internationally competitive firms (Lopez, 1997:355). In 1999, though, as the Argentine State has withdrawn further from YPF, selling its last shares, the situation may be changing again. The Spanish firm Repsol, already participating in YPF, may take over its control, probably protecting the holding from any more 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,[12] in particular with Odebrecht, with the aim of creating a renewed core in the industry. Odcbrecht is a major conglomerate. Entering the petrochemical sector in 1979 through the Companhia Petroquimica Camacari, Odcbrecht became a TNC in the 1980s and participated heavily in the 1990s privatisation process in Brazil.[13] Nowadays, after achieving participation in all petrochemical complexes in Brazil, it is the most important holding in petrochemicals and is the Brazilian leader in polyethylene and polypropylene. In 1996, Odebrecht had two main firms, OPP Petroquimica[1] and Trikem,[15] producing resins, polyolefinic specialities and PVC. Tire 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. To provide an idea, in 1995 Poliolefinas/PPH was sending to Argentina goods worth US$ 40 million per year, when Argentina had an annual consumption of approximately 250,000 tonnes of polyethylene (valued at USS 200 million), and 100,000 tonnes of polypropylene (US$ 85 million).

As seen above, Odebrecht expected to enter into Argentina's Bahia Blanca complex. Since YPF and Dow Chemical won the Bahia Blanca's petrochemical privatisation, Odebrecht has pursued its own expansion and a broader alliance with the oil sector. Odebrecht plans to create a 'megafirm, that the government wants to stimulate, already discussed by the private sector since mid-1997, when the Polo Petroquimico of the Paulista Planalto was constituted'. It plans to do this through an association between Petrobras, Odebrecht, the Ultra group, and Elekeiroz of the Itau group.

This undertaking upset the other three remaining main actors in the Brazilian petrochemical sector (Mariani, Ipiranga and Unipar). Ipiranga Petroquimica has since then entered Chile by investing USS 120 million to produce polypropylene from 1998. It is also interested in Peru. Ipiranga annually exports 25,000 tonnes of high-density polyethylene to Argentina. In 1996, Copesul (in Triunfo, 40 km from Porto Alegre, Rio Grande do Sul) was studying the possibility of new joint ventures, while Ipiranga Petroquimica (owning 25% of Copesul) announced that it would invest USS 250 million to double Copesul's capacity to 330,000 tonnes of high-density polyethylene annually. In 1998, Ipiranga Petroquimica, together with Odebrecht and Ultra, bid for Conepar, of the Ex-Economico group. Conepar was the largest shareholder in Norquisa, which controlled COPENE, the central plant of the north-eastern petrochemical complex *(Jornal do Brazil,* 11 March 1998).

As observed earlier, not all the actors pursued networking strategies. In contrast to those with previous and long-term presence in the others' countries, Acindar faced several failures before entering the Brazilian market continuously, owing partly to the type of production and partly to their own business culture (Castagno, PDI 22:91 and Naishtat, PDI 63:69). 'I am not sure Acindar understood the market. They say they did. But Acindar did not enter. It tried with Acesita, in negotiations with Gerdau. But they were focused towards the internal market, their products are typical of internal domestic markets. They are not tradable commodities.' However, according to another interviewee, Acindar did eventually establish commercial relations with Acesita, the Brazilian leader in special steels, to sell in both markets and specialise in their production. 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' (Vidaurre Poubel, PDI 97).

Acindar's previous exposure to Brazil had been haphazard; starting to export to Brazil was not part of a strategic decision but rather the individual initiative of a manager, who made spot sales (informal talk with the manager's widow). In January 1992, Acindar opened a sister company in Sao Paulo, Acindar do Brazil, to export special steels. According to an engineer who worked in Acindar, the purpose was to import raw materials into Argentina rather than to export to Brazil, while it was trying to establish commercial long-term relations with Acesita, the Brazilian leader in special steels, to sell in both markets and specialise their production Acevedo, PDI 3:3).

In terms of business values, Acindar's owner, Arturo Acevedo and his family, have supported a neo-liberal ideology. 'As there is more fluency of money and the labour market is deregulated, financial costs decrease and the firms continue with their internal processes of restructuring, the whole Argentinean industrial sector will be transformed into the engine of a sustainable economic growth,' -Acevedo replied to an *El Cronisla* questionnaire on 21 November 1995. Acindar's 'concept of control' has been Fordist, far from the firm being conceived as a 'nexus of treaties'. Its relations with labour are well known to have been strained and distrustful. The BEG concept has been one of hierarchical control inside the group and of individual competition outside. As a sector expert explained, 'Acindar was one [case] of commercial integration'.

Finally, when there were few plants producing the same product, direct control was sought at the regional level. One case was an Argentine company (Maleic S.A., producer of maleic anhydride in Ensenada, Buenos Aires province) bought by Brazil (Group Ciquine) through a majority equity venture. Ciquine, localised in Camacari, Bahia, acquired 50% of Maleic. The investment totalled USS 4 million, corresponding to 2.2% of Ciquine's liquid capital (which amounts to USS 180 million). The other 50% remained in the hands of four Argentinian firms: Ecofisa, Conevial, Codi and Lupia. In 1995, the venture was a monopoly, proving that 'it is easy to reach that stage by just buying one plant' (Ramal, PD1 47). In the early 1990s, Brazilian firms focused their entry strategies in Argentina on specific products, the ones with the most dynamic sales and growth, through direct capital investment, joint ventures or commercial representation. According to a consultant, the firms had high expectations of a recovery from Argentina's low level of consumption after the last hyperinflation. In general, Brazilian firms build their business by (i) locally producing one or two products that are leaders in the market, and (ii) complementing their supply through imports from Brazil. However, after the 'Real Plan' and the consequent costs increase in Brazil, the profit margins of importing offices in Argentina fell. They compensated for this by increasing Argentinean production and thus reducing the fixed costs per unit *(El Economista,* 11 November 1994:13).

8.3.2.2,3 Transnational firms

Since the late 1980s, transnational firms have undergone management restructuring while adopting regional and global strategies - so-called 'glocal' strategies. The most relevant case, with an impact on steel and petrochemical intermediate products, has been the automotive sector.[16] 'The scale and changing scope of the investments also reflect the fact that most [TNCs] plan

to use their integrated operations in Argentina and Brazil as their exporting base for Latin America. Projections beyond the year 2000 place Mercosur among the top five global producers. Its capacity is expanding to three million units in Brazil and 700,000 in Argentina, with production plants being installed rapidly because of the tariffs for non-Mercosur producers. Regarding autoparts, their Mercosur operations benefit from joint purchasing policies for components ... [Mercosur stimulates linkages, e.g.] 12 autopart companies from the Piedmont region ... with Argentine companies, spurred by Fiat's presence ... facilitated by Antenna Piamonte.'
(www.tradcport.org/ts/countries/argentina/mrr/mark0052.shtml).

The restructuring occurred first in the automobile sector, then in others, adapting their old behaviour within macro-Fordism to the new competition. 'Du Pont, as an example of TNCs, is different from global [TNCs] because they were copying national barriers. Du Pont Argentina and Du Pont Brazil were enemies [to the extent that] Brazil and Argentina were. They worked/behaved like in a radial wave and maintained (heir separate [spaces]. Thus, who initiates the process and the form of integration? The mother-house! It eliminates ... the middle strata. For example, [if] one side comes to depend on the other and puts an Argentinian in command of Brazilians, who will be the ones who really control the business and its regional strategy' (Castagno, PDI 22).

TNCs intensified the integration of production and distribution strategies at the regional level. As mentioned above, Dow improved its positioning in the region through Argentina's privatisation. 'Dow [had been] in the petrochemical pole in Rio Grande do Sul, waiting for the Brazilian privatisation, to take it as a model for Mercosur'(Dow, PDI 72). However, the PBB privatisation took place first.

Some experts were positive about the role of TNCs in regionalism. 'In a second stage, TNCs could act as a catalyst. They do not operate in an isolated way, due to the ownership of raw materials. For example, Shell and YPF links. Shell owns Polibrazil, which is the Brazilian representative of Pelroken. Meanwhile, Petroken (with YPF) exports a lot to Brazil. The two firms produce the same polypropylene. TNCs behave in this way because of their over-supply' (Ramal, PDI 47). Shell do Brazil was installing its first thermoplastic rubber plant (used in the production of adhesive plastics resistant to high temperatures, and for roads). The production process was to be integrated with Shell Capsa of Argentina, which would provide Shell do Brazil with a raw material to make thermoplastic rubber. The new plant would meet Brazilian as well as Argentinian demand for a product that was until then imported from the USA and France.

In another example, in 1991, Renault and General Motors had an exchange accord by which the former sold the Chevy 500 and Chevette in Argentina and the latter sold the Traffic Renault in Brazil. Because of this agreement, it was difficult for Renault to enter Brazil with the Renault 9 and Fuego, since they would compete with GM cars in Brazil, Nonetheless, Renault planned a 50% expansion over the figure for 1990, due to the Cavallo Plan and its consequent consumption boom. The Argentine boom paved the way for a Brazilian consensus among workers, assembly lines, *suppliers,* and government, to reduce taxes on automobiles from 32% to 16%. Argentinian demand reached 130,000 in 1991 and Renault's production until December was already sold out in September *(Gazeta Mercantil Latinoamericana,* 21 September 1991).

Hirst, a researcher on Mercosur, explained that, 'Up to [mid-1995], the international image of Mercosur [has gone] beyond what has really been constructed (as a legal and institutional commitment), due to international marketing. This is so because the economic and trade dynamism within Mercosur impacts on the globalisation process, particularly on TNCs' interests, namely the automobile sector' (Hirst, PDI 32).

Yet, TNCs can also complicate regionalism. From 1995 until Brazil's devaluation in 1999, the most important Mercosur conflict centred on the automotive sector and its regimes, national as well as regional. The underlying issue was attraction of capital investment through competition. 'Although Brazil ... eclipses Argentina, investment continues to flow to [the latter] because of the 'balance trade' clause [which] grants lower tariff rates to imports of local producers that balance their imports with equal amounts of exports.' Local manufacturers are also importers (with 34% share in 1996 in Argentina), with rapidly expanding distribution channels. Import financing relies on foreign sources (i.c. the U.S. Eximbank) since local credit is either unavailable or available at very high interest rates. Therefore, individual importers had only 5.9% market share in 1996 (www.tradeport.org/ts/countries/argentina/mn7mark0052.shtml).

Above all, TNCs have been concentrating on their core activities and divesting the rest, especially when production is less intensive in technology, and when their companies are to be listed in stock markets. These strategies, as argued in Chapter 6, are part of a search for business scope at a world level, and as such, usher in a transformation of TNCs into global firms. Examples are AKZO Nobel, which sold its Nylon 66 plant in Brazil to Du Pont *(Algeineen Dagblad,* 9 February 1997), and, more important, Rhone-Poulenc with Rhodia, also in Brazil.

TNCs' strategies have also been formulated for expansion to the rest of Latin America. These relate to the search for larger business scales, as part of 'globalisation'. Let us take the example of Repsol in the petrochemical sector.

Repsol is a Spanish oil company established when Spain entered the EU, which remained a State enterprise until its privatisation in 1999. After integrating the productive chain in Spain, it planned to do the same in Latin America. It first bought Gas BAN, north of Buenos Aires, in 1992. It was interested in the 10% of YPF shares in governmental hands, but could not get a positive response at the time. Thus, Astra was to be Repsol's base. In June 1996, Repsol bought 37.7% of Astra-Capsa (with interests in the oil, gas and electricity sectors). This Argentine BEG had concentrated on Argentina and Venezuela, while Repsol wanted to expand into Mercosur. When Repsol had Astra's reserves of 200 million oil barrels, it exploited licences in Bolivia and Colombia. It also bought 20% of a gas unit in Trinidad & Tobago, the production to be destined for Spain, After Ecuador announced its - brief as it was - economic opening up (when ex-Minister Cavallo was in Ecuador as President Bucarain's advisor on privatisation), Repsol bought eleven oil stations and obtained another 14 through licensing arrangements. 'The firm expected to have 63 soon, at least to cover 10% of Ecuador's market. In Peru, the first privatisation case was the La Pampilla oil refinery near Lima, where Repsol constituted half of the consortium with YPF, Mobil and three other local firms. They bought 60% of La Pampilla for CSS 82 million. In Mexico, Repsol acquired firms in Saltillo and Nuevo Laredo, while waiting for others in Mexicali, Monterrey and Mexico City. In 1999, before being privatised, Repsol was concluding the purchase of YPF's shares and the control of YPF, with the Argentinian government.

8. 3. 2. 3 Concluding remarks

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 go beyond it, as the interviewees remarked in 1995. Although the first movements of business actors may have begun in their neighbouring countries within Mercosur, the strategy was 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 established significant linkages, not just to export or to invest individually, but through their entrance into economic, social and political networks within the Mercosur member countries. This allowed them, first, to attempt a consensus within the networks, and, second, to broaden the basis for oligopolistic competition.

NOTES

[1] For example, the World Trade Press provides the countries[1] profiles of 'business culture' including 'tips for foreign negotiators'. World Trade Press, at www.invertir.com/13busin.html.

[2] For the first time, at the 1994 World Economic Forum in Davos, the Lausanne-based Institute for Management Development evaluated Argentina among 41 countries in its report on competitiveness. Argentina was ranked 27th for 'its reliable and adaptive governmental policy'; its worst performance was in science and technology, where it was ranked 37th, and the second-worst was in economic power, where it was ranked 35lh. This ranking reflected, among other tilings, Argentina's low expenditure on science and technology: only 0.8% of total imports between 1991 and 1993 were for research equipment (Bustos, 1995:23, 26).

[3] In November 1994, Gregorio 'Goyo' Perez Companc opened the First of his network of oil stations in Argentina, in his space of influence around San Lorenzo distillery in Santa Fe, with the official launching of the naphtas SL (for San Lorenzo) under a rcd-and-black (with a green stripe) flag. Oscar Vicente, the PC vice-president, and Tadeo Perich, the operations chief, stated that PC would expand very slowly (ten stations in 1994, 30 in 1995, and 100 by 1998). The company's leading competitor was YPF, followed by Shell. San Lorenzo processed 5,000 m3/day, and is investing in expanding it to 6,000 m3/day. Isaura processed 4,000 m3/day, YPF had two plants processing 24,000 m3 in La Plata, and 20,000 m3 in Lujan de Cuyo. Shell had 16,000 m3, and Esso 12,000 m3. Perez Companc had already made another small investment in the north-west, through REFINOR, in Campo Duran, the distillation plant formerly owned by YPF. REFINOR began with only two stations. In November it had ten and planned to expand capacity to supply 50% of the north-west market. In May 1996, REFINOR was to install a reformer and expand capacity to 20,000 m3/month. Then, the plant could distil naphtas, while in 1995 it could only produce gas oil and other heavy derivatives.

[4] Politics is related to the general socio-economic and political order of a specific communily/society, including how business people relate to the political sphere that establishes the legitimate actors, rules of the game, arenas and strategies. Policies are a State's conception, implementation and control of rules in specific areas.

[5] From the 1930s, Argentine business associations were actively engaged in the formation and decision making of governments, as well as in the coalitions backing coup d'etats. Brazilians supported changes in political regimes in a more subordinated position, as in 1964 (see Viguera, 1995:16-17).

[6] The 'Argentina Group' was initially constituted by: Amalia Lacroze de Fortabat; Rafael Blanco Villegas (GIA); Jose Luis Menghini (IMPSA); Mariano Castaneira (Roggio S.A.); and Carlos Bulgheroni (Bridas S.A.). Ils co-ordination was in the hands of Ing. Menghini (Argentine embassy, 1995:144).

[7] Some of these studies are listed in Chapter 3, subsection 3.2.2.1

[8] An example is Luis Majul (1994) *Los Dueiios de la Argentina* (The Owners of Argentina), Vol. I and II. Buenos Aires: Editorial Sudamericana:

[9] The Plapiqui/Pidcop is an independent institute of the national university UNS and the national research council Conicet. Established first as an informal group after an agreement with the United Nations between the end of 1962 and beginning of 1963, it created, and runs, the postgraduate studies in chemical engineering at the UNS. In addition, it trains those working in the Bahia Blanca petrochemical complex and provides technical assistance to all firms in the complex. It has also given training to Brazilian firm personnel, and has received many Ph.D. Brazilian students at its centre.

[10] In 1981, Bridas was the biggest in terms of sales. Astra, Bridas, and Perez Companc gave up the oil sector and oil interests. Astra was the owner of Carboclor, while Bridas owned Polibutenos Argentines. Ipako, of Garovaglio and Zorraquin, was the only one that remained exclusively in petrochemical production. It controlled the sector in 1984. Astra and the Swiss firm Brown Boveri also owned equity shares in Ipako. The second private group in the sector was Perez Companc, particularly after 1987. The other two actors that dominated the sector were PASA (foreign) and the State. Ipako (45'h in the national ranking in 1984) controlled 70% of Polisur (40th in 1984) and Petroquimica Bahia Blanca (54'h in 1984).

[11] Exemplified by the case of PIDCOP in Bahia Blanca, Argentina (interviews with Eng. Capriati, Eng. Brignole, and Eng. Arcodaci, PDI 45).

[12] '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 partners: Odebrccht, the U.S. oil company Amerada Hess Corp., and exploration and production company British-Borneo' (Reuters, 4 February 1999).

[13] In 1995, Odebrccht was operating in 20 countries, on four continents, in the areas of construction and engineering, chemical and petrochemicals, infrastructure and public services, and cellulose. The structure encompassed 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; an insurance firm; and the Odebrccht Foundation. In 1997, Odebrccht had approximately 40,000 employees, of whom 29,000 were in Brazil and the rest abroad.

[14] 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 mainly produced polypropylene, polyethylene, and EVA. It was present in Triunfo (southern Brazil) and Itatiba in Sao Paulo, producing 360,000 tpy of polypropylene. With its subsidiary OPP Polyethylene S.A., it was again present in Triunfo (southern Brazil), Bahia (north-east) and Sao Paulo, producing 480,000 tpy of polyethylene and EVA. The first goes mainly into autoparts, electronic components, packaging, furniture, etc. The latter is used in shoes, films, toys, and

food packaging. The voting composition showed that 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 Copesul central in the south. OPP Petroquimica also held shares in UNIPAR, a holding of sectoral firms among which was the Sao Paulo central (PQU Petroquimica Uniao) (ww.odebrecht.com.br).

[15] Trikem was founded in 1996, after the incorporation of Salgema Industrias Quimicas S.A.(created in 1977) with CPC - Companhia Petroquimica Camacari (created in 1979). It produces PVC, caustic soda, chlorum and EDC. It had three PVC units, in Bahia, Sao Paulo and Alagoas, producing 440,000 tpy. CQR (Companhia Quimica do Reconcavo), controlled by Trikem, produced 552,000 tpy of caustic soda and 464,000 tpy of chlorum. From chlorum, it obtained 520,000 tpy of dichloretane, a raw materia! used to manufacture PVC. The composition of voting capital showed a high degree of long-term co-operation between EPB (a holding controlled by Odebrecht), which had 69.4%; Mitsubishi Chemical Corporation (13,4%); Nissho Iwai Corporation (10.06%); and Fundacao Portus de Seguridade Social (7.09%). It also showed three represented preferential shareholders, BNDESPar, IFC (WB group) and PREVI (pension fund of Banco de Brazil officers). Trikem has shares in Norquisa, the controlling holding of COPENE, the raw materials central of the Camacari petrochemical complex (ww.odcbrechl.com.br).

[16] The TNCs in Mercosur's automobile sector arc, among others, Chrysler, Fiat, Ford, GM, Peugeot, Renault, Scania, Toyota and Volkswagen. Demand in Mercosur grew at an average annual rate of 14.8% in 1992-97, with peaks in 1992 and 1993-95 for Argentina and Brazil respectively. In terms of market share in 1995 and 1996, imports and exports of cars and cargo vehicles showed Brazil in Erst place. However, in passenger vehicle imports in 1996, Brazil gave way to South Korea, England, Japan and Chile. Argentine exports had Chile as their first destination in both 1995 and 1996. Imports are more expensive models, while exports arc small cars intended for lower-income consumers.

Part Four:

Mercosur's Regionalism and Business Actors' Involvement

9 Mercosur's Open Regionalism and Regulation: the Role of Business Actors

9.1 Introduction

The contradictory assessments of Mercosur (mentioned in Chapter 3) as well as business actors' behaviour with regard to regionalism beg for some clarification. To what extent did business people, the other key actors besides governmental officials, pursue the path of regionalism in the region? To what extent and how were they associated with the regulatory process involved in regionalism? If they were involved, what reasons led business actors to engage in policy-making related to regionalism in the first place?

The argument is as follows. In its very conceptual tenets, Mercosur's 1990s '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, the involvement of businesses has also been a response to their autonomous perceptions of, and interests within regionalism. This argument is developed in three sections. The first looks at Mercosur and the concept of 'open regionalism'; the second considers business actors' involvement within regionalism; and the third points to the perceptions and interests that explain their behaviour. Many quotations from interviews providing interesting evidence arc placed as endnotes so as not to break the flow of the analysis.

9.2 The experience of Mercosur

9.2.1 Mercosur's regulatory process

Although the major characteristics, history and structure of Mercosur have been presented in Chapter 4, this section will highlight the points that are necessary to grasp business actors' behaviour with regard to regionalism.

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 harmonisation of sectoral policies. As regards its status, Mercosur has been both a customs union and a legal person in 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 greater bargaining power in international negotiations. The customs union, though, is being implemented only gradually, and is not expected to cover all sectors of the economy before 2006.

As already stated, Mercosur's establishment was a consequence of a decade-long unilateralism.[1] In addition, these countries have a multilateral trade insertion in the world economy, their total exports being divided in roughly equal percentages among North America, South America and the European Union, as seen in Chapter 5.

Mercosur negotiations started under the newly elected presidents Carlos 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 implement the results of those negotiations. The idea of supranationality was rejected from the beginning and the foreign ministries were given the States' 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, the first priority in the region was to attract capital flows and provide a stable framework for capital integration. The two sectors examined here, especially petrochemicals, were particularly concerned with both the issue of capital formation and the question of scales.[2] 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 that way, the probability of trade conflict could diminish while that of 'capital formation' could increase[3] Moreover, there was a governmental recognition that, if this failed, regionalism would fail as well.[4] Correspondingly, a primary goal of both Argentinian and Brazilian national governments has been that of macro-economic stability. For the governments, 'the question is to create the conditions for attraction of capital'.[5] Argentina's goal was stated by. Jorge Campbell, Argentinian Secretary of State for International Economic Relations, in 1994: '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' (Campbell, 1994). The expectation was that the enlarged

Mercosur market would couple investment with greater economic competition and efficiency.

It 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.[6] Public decision making with regard to regionalism has remained within the executive sphere, while the key actors have been governmental 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).

Mercosur has so far remained strictly intcr-govcmmental and based on the Argentina-Brazil bilateral axis. Its inter-governmental working bodies have neither the autonomy to set their agendas, nor financial resources of their own. Moreover, their decisions can only be reached by consensus and cannot be implemented directly. They need first to be 'internalised' through State approval and endorsement. The only supranational regulation until 1995 was Annex I of the Asuncion Treaty with its 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.[7] Mercosur officials arc simultaneously national civil servants. As 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 the 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 stable positions have facilitated consensual decision making, which in turn has enhanced personal channels.[8]

The definitive Mercosur structure was established by the Ouro Preto Protocol, which came into force on 1 November 1995. It added the Trade Commission and the Economic and Social Consultative Forum to the structure. 'Die former has a supervisory role and handles complaints on trade matters, while the Joint Parliamentary Commission and the Economic and Social Forum have so far remained consultative. The current structure was briefly described in Chapter 4.

Out of the ten working groups (WGs) established in 1992, WG 1 (on trade and tariffs) has been essential to achieving a consensual common external tariff structure. The task of the working groups in general has been to harmonise the national norms with the ideal of 'levelling the playing field'.[9]

Mercosur's goal of hamionising sectoral policies includes the issue of industrial policy instruments (e.g. those concerning trade, tax and credit). However, the issue of industrial policy as such has not been mentioned, nor have its possible instruments been delimited - with the exception of the reference to sectoral accords before 1995, which will be explained later (Markwald and Machado, 1999:74; Leipziger *el al.*, 1997:14). According to an industrial consultant, in order to restructure and modernise the sectors, 'the only serious possibilities arc trade policy and/or industrial policy. However, Argentina has neither the disposition nor the capacity, particularly to aspire to allocate prospective investments' (Lopez, PDI 36:25). The point was clarified further by Motta Veiga (Brazilian economist at the National Bank for Economic and Social Development - I3NDES): 'Nothing was discussed in Mercosur, neither rules nor policy directions. There were two predominant ideas: (i) that the most efficient policy would displace the less efficient one, and (ii) that the object and/or limits of the regulatory capabilities *(competencia regulatoria)* could not be discussed' (Motta Veiga, PDI 41:9).

The restructuring has been left to the firms themselves. One of the oldest Argentinian policy advisors on steel, and president of 1LAFA (Latin American Steel Association), Mr. Llorens, 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 up, has increased the external competition. This has led rapidly to concentration, while the State does not feel responsible either for industries sector-wise or the small and medium enterprises' (Llorens, PDI 59:10).

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'[10] and capital-intensive sectors in regionalism. Due to the existing important structural asymmetries between the countries in the industrial sectors,[11] the idea was to prevent a crisis that could be serious enough to stall the process. These sectoral accords depended on voluntary action, and did not need to 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 Argentine Secretary for

International Economic Relations, and current Minister nf Industry, Alieto Guadagni, the sectoral accords were supposed to increase the *intra-sector*-based trade, counteracting the //zZer-scctor-bascd emphasis of the general approach (Guadagni, 1993). The only sector accord ever approved by Mercosur, and included in the ALADI system, was the one for 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 their static nature. There are those who criticise them (Yeats, 1997), those who sec them as a natural process resulting from shortened geographical distances (Machado and Markwald, 1995), and those who are enthusiastic about them (1RELA, 1997, Leipziger *et al.*, 1997). Figures showing the significant increase in intraregional trade have been included in Chapter 5.

Both State and business actors, however, have considered the issue of dynamic trade effects to be the most important. This issue was mentioned in Chapter 5 and is discussed here further in connection with business actors' behaviour. According to Leipziger *et al.*, there arc three arguments for dynamic trade effects in Mercosur. These would stem from (i) the capacity of larger markets to attract FDI, (ii) the exploitation of economies of scale larger than the current national ones, and (iii) 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 (discussed in Chapter 5), '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 principal subregional members balanced out. During the past two years, Brazilian involvement grew rapidly, last year receiving more than 70% of total resources entering Mercosur' (IADB-1NTAL, 1998). The growth of intra-industry trade is one of the three best indirect measures of the dynamic effects of trade liberalisation.[12] 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 consists of intra-industry trade.

Considerations about dynamic effects are translated into reality as Mercosur ensures effective market access to the firms of the member countries. Out of the total universe of goods, around 85% were liberalised as from January 1995. Mercosur has an average CET of around 12%,[13] which is rather low compared to the region's previous levels of protection.[1,1] 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 the Regime of Adaptation *(Regimen de Adecuaciori).* This mechanism for phasing out the remaining barriers to trade involves decreasing tariff rates covering particular items until 1999. In the case of steel, the tariff range goes from 10% to 15%. However, non-tariff barriers have remained significant for many steel products (see Table 3 in Machado and Markvald., 1997:186).

The minimalist treatment applied to industrial policy at the regional level has allowed 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. The safeguards for steel have been internalised into the Regime of Adaptation. In 1995, in petrochemicals, there was 'one exception included in the Regime of Adaptation. High-density polyethylene enters with quota and then with tariff[1] (Van Den Brocck, PDI 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 (Hascnclcvcr and Lopez, 1998).

There arc other barriers that remain, due to the two 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 petrochemicals more than steel, due to threats of triangulation through the smaller countries and the broader range of products involved.

Another problematic area is beyond the sectors. It concerns the difficult relationship between the goal of macro-economic and exchange-rate stability on the one hand, and increasing deficits in the balance of trade and volatility in capital flows on the other. After each major financial crisis (Mexican, Asian, etc.), the CET and interests rates are increased. In particular in Brazil, firms are squeezed between more expensive 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) in order to maintain price stability after the 'Real Plan'. The first exemptions included petrochemicals and meant a reduction in the external national tariff to just 2%. Subsequent exceptions included, among others, steel and fertilisers. Therefore, the priority of stability is experienced through a tacit acceptance that, at the Mercosur level, uncertainly and a low degree of State compliance are part of regionalism.

Since 1995, Mercosur has been facing the issue of deepening integration with moderate success. Harmonisation of national policies and regulation of services, competition, consumer protection and the regime for the automotive industry have been debated. Agreements have been reached with regard to these issues, unfortunately without much progress.[15] They have cither not been implemented or been backtracked into renewed renegotiation or conflict. ‘In fact, the remaining obstacles to the full consolidation of Mercosur as a customs union appear to be less associated with the trade regime related to third countries, than with the instability in the levels of protection and other obstacles - of regulatory nature, bureaucratic and infrastructural - to the intraregional trade flows[1] (Machado and Markvald, 1997:183).

These obstacles have triggered many trade complaints from the private sector, 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* arbitrage commissions.[16] Brazil, particularly, has been adamantly against any supranational tribunal.[17] 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 judgments. 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 during 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. Two legal instruments on the issue were signed, one
.1. between the member countries of Mercosur, and another between Mercosur members and associate countries.[18] Moreover, Argentina and Brazil have recognized the autonomy of the will of contracting business parties in deciding that 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.[19] Thus, within regionalism, there has been a gradual process of privatisation and de-territorialisation of commercial law regarding conflict resolution.

9.2.2 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’. I'he values essentially relate to economic and political liberalism,[20] including the search for stability, consensus, and a minimal regulatory role for the State. The evidence making explicit the concept of ‘open regionalism’ is based on 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 adhesion 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 States in Mercosur countries have repeatedly declared agreement with European Commission Vice-President Manuel Marin’s definition of open regionalism. Formally, the concept has been legitimised through Mercosur’s relations with the EU, through their 1995 Framework for Co-operation that seeks to create a transatlantic free trade area. The introductory statements of that document make a point of ‘underlining, in particular, the importance of an open regionalism’. This concept may diminish any concerns about 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 that their bloc would not-discriminate against outsiders.

Mercosur has largely been in consonance with this stated vision of ‘open regionalism’, as explained in Chapter 4. The Asuncion treaty had from the start a clause for enlargement. In addition, Mercosur has been placed within the ALADI system, which means that associate membership is open to all Latin American countries, for which there are ongoing tariff renegotiations. In December 1995, Agenda 2000 reinforced enlargement as one of the main priorities for Mercosur, together with the goal of a common trade policy. Two countries, Chile and Bolivia, have become associate members. Canada and Central America have signed agreements with Mercosur. Free trade negotiations are also under way with the Andean Group. Finally, the Mercosur countries are participating within the Western Hemisphere free trade negotiations, now called AFTA.

In public presentations given at the first meeting of the European Commission and Mercosur Joint Co-operation Committee (Brussels, 11-12 June 1996), Mercosur representatives laid out 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-libcral 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, Argentinian businessman, at Brussels seminar, 10-11 June 1996). This consensus focused on Tour issues: macro-policies of adjustment in terms of stabilisation, micro-economic policies in terms of deregulation, 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 1994 publication *Open Regionalism in Latin America and the Caribbean*, it explained the environment for 'open regionalism* and 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 into a world conceived as multipolar, while preventing their turning into a closed trading bloc. To comply with the concept, several conditions have to be met, as seen in Chapter 2. The main ones arc trade liberalisation, harmonisation of standards, and flexibility in the institutional regional regimes. Business actors were invited to participate on four grounds. The first 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 interest. Hence, ECLAC favoured flexible and low institutionalisation. There would be neither political representation along party or parliamentary lines, nor supranational bureaucracies. However, the second ground recognised that 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 rfe *facto* integration phenomenon of Anns 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, z/i *the design and implementation of integration policies\(JiCL\C,* 1994: 97-8).

ECLAC's late director Faynzylbcr clarified ECLAC's ideas in an interview (Fajnzylbcr, 1994). ECLAC sees an 'open participatory system' as intrinsic to its proposal. This participation is 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 will be seen in the next subsection.

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 'spillover' 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, f inally, business actors should actively participate in the decision making, design and implementation of policy.

9.2.3 The role of (he State in Mercosur's regionalism

Mercosur is a regional integration arrangement (RIA). In other words, Mercosur is a political agreement among States to assemble resources, by which States intend to maintain a predominant role. It must be clear, however, that regionalism, as discussed in Chapter 2, is broader than a RIA, and, like globalisation, implies actors other than the State. As an institutional arrangement, Mercosur is a part of regionalism, not all of it. Under the circumstances of the 1990s, the role of the State has been shifting from protection of its sovereignly and developmental policy-making, towards providing stability and ensuring economic openness.

However, each member state has shown a different vision with regard to Mercosur, based on different values concerning the State's role and the needs of the national system of production. States also display different dynamics in the relationship with their civil societies. Hence, the regional consensus on what regionalism should be pertains only to the main goals of Mercosur's regionalism: openness and integration of capital. As a consequence, the roles and political agenda of each State in the region have remained autonomous, fundamentally untouched by regionalism.

In Argentina and Brazil, the governments and elites have diverged over two issues. As far as insertion into the international economy is concerned, Argentina opted for an automatic alignment with the USA, while Brazil considered itself a 'global trader', therefore maintaining a higher degree of autonomy. Furthermore, as regards competitiveness, in Argentina the dominant trend was towards non-economic regulation, while Brazil's approach was more gradual, since it still considered regulation an important attribute of the State. As seen in Chapter 6, in Brazil the concepts of industrial co-operation, industrial networks, and industrial regulation have been more significant than in Argentina. In the latter, we can only find individual cases of virtuous co-operation, it is not ingrained in the governmental policies. Only with the increase in unemployment, and particularly after the Mexican 'tequila crisis', have the concepts mentioned above gradually regained their 'attractiveness'.

Brazil, after having experienced a neo-liberal period under Collor de Mello, has been seeking a middle way between liberalism and a transformed State co-ordinating role. In 1997, Brazil's National Bank for Economic and Social Development (BNDES) was broadening its role. In 1993, the bank had given out USS 3.2 billion. In 1997, it allocated USS 16.46 billion to support the exports of sectors suffering from the opening up of the economy, from telecommunications to automobiles, textiles and shoes.[21] Goldman Sachs representative Paulo Lemc criticised the Bank, believing that Brazil should eliminate the public deficit, end fiscal incentives and subsidies, and reduce labour costs. In contrast, Ericsson's Carlos de Paiva Lopes (closing an operation with BNDES) was supportive, saying, 'the bank is financing the country's production!' (Gazeta Mcrcantil Latinoamericana, 27-29/03/98:1). In 1998, the BNDES was opening further credit lines with the IADB as well as with the World Bank.[22]

In Argentina, there arc other noticeable actors (c.g. from the governmental and from the agricultural and financial sectors, Cavallo [1995] among others) supporting a nco-Liberal vision that believes in individual competition, allocates a minimal role to the State in a multilateral international system, and tends to restrict the concept of regionalism to liberalisation of exchanges. The new context of capital inflows in the region after 1991 meant that exports, competitiveness and trade surplus were no longer the requisite for the balance of payments in these indebted countries.[23] The massive capital inflows provoked a revaluation of the currency, diminishing the possibility of using the exchange rate for trade policy objectives. Moreover, the exchange rate was fixed. The Argentinian establishment was against any intervention in the economy. Contrasting with the dynamic rates of trade growth, the divergence between the two countries brought about a low level of institutionalisation and harmonisation of rules within Mercosur.

Even the definition of Mercosur, both as a customs union and as a legal subject by international law in 1995, was the outcome of a socially constructed policy-process which included an intense interaction with outsiders, mainly from NAFTA and the EU (see Sanchez Bajo, 1999). As Hirst explained: ‘There was a tension on the level of public institutionalisation from an exogenous variable: the relations with two other trade blocs, the EU and NAFTA. The tension was (i) towards institutionalisation and (ii) against it. The pressure towards public institutionalisation came from the EU with the expectation of making Mercosur more reliable. It would broaden the authority and mandate of Mercosur as such. The pressure against it came from the USA, and is related to the Anglo-Saxon vision of regional integration, close as well to that of the UK. The argument was that it would create obstacles to the future American Free Trade Agreement’ (Hirst, PDI 32). There were two idealised visions of regionalism in the region, portrayed as the European approach giving priority to the prevention of social fractures,[24] and the Anglo-Saxon one emphasising stability and investment (*Sucesos Sumario,* 11 July 1997).

Until August 1994, there was strong opposition to transforming Mercosur into a customs union. In 1993, the main question became whether a free trade area was a better option, in view of possible accession to NAFTA (Argentina was eager to follow Chile in negotiating with NAFTA and the USA government). On the one hand, Argentine exports to Brazil had increased, through which Argentina’s balance of trade was compensated. This was clearer after October 1994 with the implementation of the ‘Real Plan’. On the other hand, the risks were high if Argentinean industry turned out to be non-competitive with Brazil and the rest of the world.

Firms displayed two types of major reactions. The economic sectors that felt more threatened sought solutions to increase their industrial competitiveness. At the same time, they sought retaliatory as well as compensatory measures, for example, in 1992 and 1993, the UIA (Argentinian industrial union) requested several measures: a change in the exchange rate, sanctions against Brazil, anti-dumping measures, pressures against Brazilian export incentives, and compensatory tariffs. The government’s response was to increase the ‘statistical import tariff from 3% to 10%, and, in the second half of 1992, to set up a permanent follow-up mechanism between the UIA and the Ministry of the Economy (Hirst, PDI 32). The follow-up mechanism, established for intra-Mercosur relations only, was a State response in exchange for a rejection of the use of safeguard clauses at that time. Argentinian businessmen who thought of Brazil as the engine for developmerit found themselves doubtful about whether Argentina should engage further in the integration process with Brazil (Cristini and Balzarotti, 1993:40-1).

9.3 Business actors' response to Mercosur's regionalism

The previous section analysed Mercosur's 'open regionalism'. This section reviews how business actors have responded to it. Have they been associated with the regulatory process involved? Given the region's structural heterogeneity (Becker and Egler, 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 (Payne and Bartell, 1995). However, the main issue at stake here is whether the involvement of businesses has continued with their traditional fragmented and self-centred behaviour, or whether they have been able to accept the general 'rules of the game' and a general articulation of the political arena and the policy-making process (Viguera, 1995).

As seen in Chapter 6, involvement of business actors in national politics is not new in the region, but there has been a renewed intensity and heightened visibility of such involvement since the 1980s. it was during that decade that debt and the State's fiscal crisis affected the two sectors, which had evolved during the ISI period, and the sectors experienced national economic crises, uncertainty and instability.[25] In the 1990s, they underwent structural national reforms. First in Argentina (1991-95), and later in Brazil (1994-98), the two sectors were privatised, their tariffs reduced, and their regulation dismantled or reduced.[26]

Although it is difficult to separate business actors' strategies linked to internal reform from those due to regionalism, this section will emphasise the latter. From Mercosur's early beginnings, business representatives had been preparing the ground for regionalism. Parallel to the spreading 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 Argentinian Brazilian Economic Integration Programme (ABEIP) 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.[27] Already at the start of Mercosur, the Argentinean-Brazilian general bilateral chamber was playing a significant role. It was the Bilateral Argentine-Brazilian Trade Chamber (BABTC) that organised

Mcnem's first visit to Brazil. 'Then, the first Menem trip to Brazil was a charter organized by this chamber, based on the silent work done previously. Only this year did this come to be publicly known' (Rivera Otero, PDI 42:10). Both the petrochemical and steel sectors had been members of the BABTC for about 20 years, from the time of ALALCXALADI. Besides, the predecessor of the 1995 BABTC director 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' (ibid.:38). Hie ABEIP - which preceded Mercosur - was implemented between 1986 and 1990.

The two sectors were experiencing considerable changes in activity.[28] However, in petrochemicals, 'transformations in organisation, quality, processes, etc., [did] not seem attributable to Mercosur *per se,* but to the trade liberalisation 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.' (Ilasenclever and Lopez, 1998). Similarly, the portrait of the steel sector at the Word Bank was that 'the big [Mercosur] firms have entered into agreements of cooperation, while the [Brazilian] medium-scale ones have tried to enter into the Argentinian market through the control of distribution and/or associating with the few remaining independent laminators. The latter have been the most marginalised from negotiations' (interview with Paul Meo, World Bank, Washington, April 1997).

9.3.1 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 be forged, 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 them with new roles and capacities. Along with the privatisation of the sectors, some important long-term regional alliances were built, as seen in Chapter 8. Those engaged in the changes were considered strategically offensive-oriented holdings and 'first-movers'.[29] Sectoral chambers had an instrumental role to play in the negotiations, offering a restructured neutral place to meet and co-ordinate. The Latin American chambers of II.AFA (Latin American Steel Institute) and APLA (Latin American Petrochemical Association) in particular took up the latter role?[0]

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. After having considered important examples of network building in the previous chapter, this section now turns to the regional policy-making face of business actors' strategies, linked to the new competition, through a discussion of the sectoral accord. 'The cross-participation in privatisation in both countries' was one of the two main symptoms of a regional steel restructuring. The other was the steel sectoral accord, already mentioned in the first section of the chapter. Signed in 1992, it was 'surely accompanied by another one not formally approved but more concrete' (Lopezand Porta,1994:124-5). What was this accord about and why was it the only one successfully approved, while the petrochemical accord failed?

What was it about? A steel manager described it. 'We deliberated, between private sectors, and it was agreed [that there would be] no price controls; no new subsidies; no price discrimination (clarifying that this agreement came after the steel agreement, and that it means Brazilians would sell to Argentinians at the same price as to their Brazilian alliances); and no unfair competition through dumping' (Jcrsonsky, PDI 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?[1]

In the steel sector, the explanation given for the success of the sectoral accord was that industrial policy restructuring was an issue 'left to the firms themselves within the SA … But the SA were not applied directly' (Llorens, PDI 59:26). For a steel manager from Argentina, it was in reality a period of co-operation 'technically called SA' (Jersonsky, PDI 61:2). 'The issue was how to generate a framework in which a predatory position would not be allowed' (ibid., 61:19). The premiss was that plant specialization and privatization would bring about industrial policy restructuring. A Brazilian steel manager had a similar view about the sectoral accord: 'firstly, co-operation was sought, but trade issues prevailed due to the conjuncture, the opening to imports' (Vidaurre Poubel, PDI 97:9).

An intense period of restructuring began from 1991 under the Menem and Collor de Mello governments. There was high instability, economic as well as political. To make matters worse, in 1992 there was a recession in Brazil and the Argentine peso was overvalued. In addition to the burden of unilateralism, the two sectors were experiencing a downturn characterised by a global cycle of over-supply and low prices for steel and petrochemical products. As explained earlier, Brazil's steel sector was 8.5 times bigger than Argentina's. Altogether, the developments were perceived as a 'death threat' by the Argentinian steel firms. In Brazil, internal recession constrained any import liberalisation, and in any case the smallness of the Argentinian steel sector compared to the Brazilian one made it no threat. At the same time there was the option of sectoral accords, which could be undertaken by the firms themselves. In the process of regionalism, this was a period of transition from the ABE1P towards the Asuncion Treaty's establishment of automatic liberalisation across-the board. In Argentina, Cavallo was moving from the Ministry of Foreign Affairs to the Ministry of the Economy with a monetarist project to secure macro-economic stability. National coordinators of the WG 7 (on industry) in the two countries gave related answers to the question of why the steel sectoral accord was more successful than the petrochemical one: Tt was approved because of the moment. The petrochemical one had demands within economies under full deregulation. Thus, the latter was rejected.' Said the Argentine WG7 co-ordinator (Ameri, PDI 4:16). 'They [steel] arrived first, and were approved as part of [Mercosur and the ALADI system] as a bilateral agreement' observed the Brazilian WG7 co-ordinator (Brun, PDI 13:12). Timing and being the first-mover were essential.

From within the Argentine economy ministry, '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 at a time of opening up and privatization. It would have decreased the degree of freedom of movement. If changes had been necessary at the macro-economic level, the public sector would have been tied hand and foot' (Crespa and Makuc, PDI 62:11). In 1992, at the same time that the Brazilian government accepted Mercosur's steel sectoral accord with Argentina, a tripartite accord was agreed concerning Brazil's automotive sector.

Academic researchers explained sectoral accords as policy instruments chosen by the governments and offered as a 'two-way strategy for [regional] negotiations' (Hirst, PDI 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' (Lavagna, PDI 35:18). The acceptance of the steel accord was facilitated because it seemed to follow in the steps of the EU. '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.:10). Moreover, ECLAC's proposal for 'open regionalism' stated that the sectoral accord was a key mechanism: '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' (Hirst, PDI 32:20) and as 'fragmented business initiatives with specific interests and a vague regulatory framework' (ibid.: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 sectoral accord had the role of postponing tariff liberalisation in terms of both products and periods (Latin American Steel Institute manager, Llorens, PDI 59:26). Even if all this is correct, there seems to be a more fundamental underlying offensive strategy. It worked, in fact, as an open space for the private sector to handle the existing asymmetries (structural and regulatory) by themselves, asymmetries which the States were unwilling to tackle, and for resolving which States invited business actors' involvement. Thus, the issue of the sectoral accord encompassed the process of privatisation and restructuring of the first half of the 1990s, at the same time enabling business to build regional networks.

The petrochemical sectoral accord was mainly rejected because of obstacles in terms of contents and timing. One of the objectives of the petrochemical sector was to defend the market share against extra-Mercosur imports (Rama!, PDI 47:23). They wanted an automatic implementation of anti-dumping measures, and this was not compatible with the Asuncion Treaty. It should be remembered that, at that time, international competition was intense due to recession in the DCs, low demand, and lower prices, as for steel. However, after the Cavallo plan was implemented, the country's international reputation was at stake, given the government's international commitments to unilateralism. The Argentine government was against both anti-dumping and safeguard regulation, although there were individual exceptions. The governmental began to regulate these areas only in 1993. Without these measures, the petrochemical sectoral accord meant little since it would have not represented what business actors wanted. Finally, the rejection of the agreement was inevitable after the private sector stopped lobbying for it because there was little time till 1994, when Mercosur was to 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 Foreign Trade Secretariat who did not like the accord. The main real issue [at the time, became] the harmonisation of the CET' (Mariani, owner of a Brazilian holding, I'DI 39:13) Business actors in petrochemicals concentrated thereafter on preparing the proposals for harmonising the sector tariffs and technical standards.

9.3.2 Constant Hows

In 1996, commodities and semi-processed goods represented 43%, and manufactures 56%, of total intraregional exports (Markwald and Machado., 1999:65). Trade in petrochemicals between Argentina and Brazil has increased strongly in this decade. In 1995, Brazil's petrochemical exports to Argentina were worth US$792 million, while imports were valued at US$ 360 million, accounting respectively for 74% and 84% of Brazil's total petrochemical trade with Mercosur partners (AB1QU1M, 1995). In 1995, Brazil, which is responsible for almost 80% of Mercosur's petrochemical supply, produced 26.5 million tonnes of petrochemicals.

A similar trend may be observed in the steel sector, with the difference that Brazil is a net exporter of steel. Although the two countries arc not important to each other, since Brazil is a world leader in steel and the bilateral intra-industry trade is also small, changes began to occur in 1993. Compared with 1992, Argentina doubled its share in Brazil's total steel imports to 9.9%, while Brazil accounted for 48.2% of total Argentine steel imports in 1993 (compared with 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 coefficient of 92 between Argentina and the rest of the world, a special report on the region's steel sector anticipated the possibility of regional specialisation and co-opcration (Nofal, 1994:35-6).

Intra-industry flows have 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 accounted for approximately 30% of the 1996 total bilateral trade (Machado and Markvald, 1997:201-4). In 1999, the same researchers have validated the hypothesis that intra-industry growth in the region is only due to Mercosur (Markwald and Machado, 1999). This leads to a situation in which national firms and holdings perceive Mercosur as one domestic market.

As mentioned in subsection 9.1.1, 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 enabling 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 raised their stakes through regional trade and investment, but they have also sought to ease flows within their cross-border networks through harmonisation of norms. In 1994, out 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, which is 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 related to scales of production. The solutions to the new needs stemming from the economic sphere, in particular harmonisation, have to cover the whole regional space, and not only the networks. Thus, solutions must be legitimised 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 WG 7 co-ordinator Ameri, PDI 4:4; Argentine WG 3 co-ordinator Bcron, PDI 10:16). Brazil did not have enough incentives to accept the option, and, besides, it considered the proposal harmful to its sovereignty. The *de facto* arrangement resulted in the enforcement of the national rules at final destination, which, according to interviewees, meant Brazilian norms. How did business actors react to this situation?

In June 1992, as seen in subsection 9.1.1, ten working groups (WGs) were established to harmonise nonns within the region. Those closely related to petrochemicals and steel were WG 3 (technical harmonisation), WG 7 (industry), and WG 1 (tariffs). Co-ordinators of the WGs maintained in the interviews that politicians decided the technical part, but without providing clear political guidelines or priorities, the idea being that there should be no regulation at the supranational level (Lamarque, PDI 6:15). As mentioned above, the WGs had to prepare regional norms by consensus and then present them to the Common Market Group (CMG) for approval. WG norms could be drafted in two ways: through consultation with business actors or through direct voluntary action by business: 'We worked by consensus and then norms had to be approved by the CMG' (Sanchez, PDI 15:23). 'The WG 3 was divided into two types of harmonisation: voluntary [which included ISO quality and production norms] and obligatory.' Voluntary because the norms could only be harmonised (including discussion, drafting, and proposal to the authorities for approval and later implementation) if the economic actors agreed to it. Since the lower-tier, or secondary, Mercosur bureaucracy could not tell the business actors what to prioritise, those had to decide the WG 3 priorities themselves.

The 1990s policy style in the region was evolving towards co-operation between State and business (Peres Nunez, 1996). The concept of 'open regionalism' acknowledged this need and called on 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.

From the very beginning, Mercosur governments had a top-down and reticent approach to full participation of business, signalling that the integration 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 [there was] little [participation by business actors], it was enough to capture the functioning of inter-governmental negotiations, especially at a time when the Brazilian government did not care to keep them informed. Then we got the information from the Argentinians, who had more access [to the government].' (Mariani, owner of a Brazilian holding and representative of Brazil's Chemical Chamber, PDI 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 government's side, it was, above all, a question of information and efficiency in policy-making. Business actors had the technical expertise coupled with inside knowledge of 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 to see that the national process of structural reform involved not only 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 governmental 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 Nunez, 1996:26). Dr. Lavagna confirmed this process: 'The chambers joined in, the firms helped with the question of information' (Lavagna, PDI 35:28). Mariani explained: 'This was up to one moment, I believe in 1993, when they started the discussion on the harmonization of customs tariff nomenclature. The government recognized they could not work out the chemical sector because it was so long and complicated. Unofficially, the two governments asked both national sectors, which is typical in Latin America. This never became an official invitation, while the governments benefited from the negotiations. Negotiations may have started in 1992. In Brazil it was in the Ministry [of Industry, Trade and Tourism], in Argentina in the Secretariat of Industiy'(Mariani, PDI 39:17).

After this recognition, business actors participated all along the process, through two main types of representatives who always represented 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 at regional meetings, it was the sectoral associations that acted in the name of UIA within the Mercosur working groups and the Mercosur Industrial Council. This was due to both UIA's lack of 'its own army' and the 'contrasting interests within the association' (Gaibisso, PDI 52:22). The roles of the national industrial 'umbrella' organisations in regionalism were illustrated in Chapter 8, subsection 8.2.5.2.4.

Business actors from both the steel and petrochemical sectors participated in WG 3 and actively assisted WG 1, while only the petrochemical sector did so in WG 7. An increasing mix between public and private became normal. WG 7 (industry) was found disappointing since its remit did not include drafting of regulatory norms (WG 7 co-ordinator interview).

WG 3 was perceived as successful because harmonisation was discussed and endorsed by the firms and sectoral chambers. Within WG 3, they could decide the agenda and approve decisions by consensus. On the Brazilian side there was a problem of representation in the steel sector between the still State-owned firms and the private ones that dominated non-flat production. Two parallel associations were in conflict, and the governmental negotiations over harmonisation of sectoral nonns were therefore paralysed. This conflict of representation was resolved as privatisation proceeded, and ended with the merging of the two associations while keeping the 'trade mark' best known worldwide. After this, hannonisation proceeded apace, and the WG proposals were gradually incorporated into the Mercosur agenda for approval (Siqueira, PDI 2).

The WG 1, working on the common external tariff, was also perceived as successful because the proposals for the hannonisation 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 Argentinian 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 on the size expansion of firms and integration in two ways: with the raw material 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, but Petrobras remained State-owned while Brazilian petrochemical firms were being privatised. 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 were higher in Brazil for basics and plastics, although the situation was the reverse when considering the Argentine statistical tax of 10%'((his tax was 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 half 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 have distorted it with exception lists in the second half of 1994, to the detriment of the logic of the tariffs' (Mariani, PDI 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 are a response to the lobbying capacity' (Pena, 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) do not seem 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 mainly among the private business actors. The ratification stage involved 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 Stale. State officials were the ones who debated the draft and approved or rejected it. In the beginning and at the end, States decided. In the process, business actors were engaged in furthering 'deep integration' (Lawrence, 1996).

Significantly, managers of the sectoral chambers recognised that governments still had the 'upper hand' in the regionalism process. [32] 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.[33] O'Donnell's (1994) description of the 1990s 'delegative' democracies in the region as liberal but less accountable 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 gives an idea of how 'deep integration' may be gradually achieved (interview with the manager of the Argentine Industrial Plastics Chamber, Sanchez, PDI 15). Chambers representing a mixture of enterprises, where the majority are small and medium-scale, and which may thus be regarded as 'smaller', tend to work much harder and in a highly professional manner.

In 1991, under the Argentine Industrial Plastics Chamber (CAIP) initiative, Uruguay's AIUP and Paraguay's CIPP were invited to join the CAIP in creating COMINPLA-Mercosur - the Mercosur Commission of Plastic Industries. Cominpla-Mercosur is an informal organisation, with no formal structure. Each chamber is represented by two representatives and two deputy-representatives. Meetings rotate in the Mercosur countries. It can create technical commissions, which have actually become a very 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, technical committee on Plastics and Environment, was established in May 1995 at the Brazil fair. The first committee 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. Brazil has traditionally had a much greater opening of tariff items, which entails a more detailed and specified structure. The Argentinian nomenclature was more reduced, therefore each tariff position included a broader range of products.

The second technical committee, on harmonisation of packaging and labelling rules, was so successful that *all its proposals were incorporated* into the Mercosur legislation. These rules dealt with the requisites for food packaging, and testing as well as laboratory methods. The proposals were then given to Working Subgroup.3, where CA1P permanently worked with State officials in regional policy-making related to 'Mercosur obligatory norms'.

The third Cominpla committee worked on the most important plastic products used by the construction industry, first on water tubes and later on gas tubes. Work was intense in 1995 because there were serious obstacles to harmonising Argentinian and Brazilian nonns. 'ITie main issue was that *harmonising quality norms* implied the complete national industrial restructuring of one of the two. Argentineans were against it, arguing, 'Why should we reconvert our industry to sell only to Brazil?' However, exporting outside Mercosur was difficult due to the volume of tubes and transportation complications. Thus, the final solution was to work out nonns similar to the ISO ones. Both countries had to adapt halfway. In 1995, Cominpla was looking forward to implementing the ISO 9000 norms.

9.3.3 Search for regular patterns and certainty

At the end of 1994, another transition began, in which new demands for regular patterns of interaction were created, mainly in terms of mechanisms for conflict resolution and effective State compliance with what was agreed. According to interviewees, the conflicts that arose when entering the customs union implementation period pertained to sectors' claims against States for not observing their 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 the 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' (Mariani, PDI 39:22).

A manager of one steel holding described how they react to State non-compliance with regionally approved norms: 'The Mercosur project is very ambitious. To renegotiate, 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' (Jersonsky, PDI 61:9).

In the 1990s, business has slowly been shifting to supranational mechanisms of private governance in the search for conflict resolution mechanisms. Dagobcrto 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 the conflict reaches the governments.'[34]

This is consistent with interviewee responses in 1995, whose strategies for conflict resolution will be reviewed in the next section. The speed of negotiating a solution and implementing it was not the only justification. Business actors consciously avoided politicizing conflict, which, they believed, would otherwise be harder to resolve. As the Director of the Latin American Steel Institute argued: Tn ILAFA they have participated in the dumping issue. These were meetings to prevent taking the governmental way, and to de-politicize the issue' (Lllorcns, PDI 59:8). As observed in subsection 9.1.1, Mercosur has been gradually accepting a system of private arbitrage and mediation. The pattern of privatisation of conflict resolution, as exemplified in the above excerpts, matches these more recent governmental trends.

A more recent example occurred at the end of 1997 while the Asian financial crisis was going on. The Argentinian president overtly supported the Brazilian measures taken in response to the crisis and the threat to Brazil's macro-economic stability. Quick negotiations led to a temporary higher CET and the offer to Paraguay and Uruguay of more exemptions to the CET (two months later, these were still neither known nor used).

9.4 The agenda of the petrochemical and steel sectors within Mercosur

The old institutional frameworks were shattered, while their 'dynamic core' passed from the State to the 'market'. This was recognised by ECLAC in its call for 'open regionalism'. Meanwhile, because the 1990s saw the consolidation of national 'pacts' between elites, new 'national' projects were carried out. In Argentina, activities coalesced around 1990. In Brazil, the process appeared more confusing until 1994, but between 1994 and 1998, one pact was worked out between the elites.

According to the findings of the field research conducted in 1995 in Argentina and Brazil, from 1990 to 1995 there were two key-issues explaining the firms' agendas and priorities:

(i) national liberalisation of the economies
(ii) globalisation

The two were heightening competition as well as bringing about a qualitative change in economic co-ordination. Globalisation was felt primarily in three issues:

(i) Standardisation, particularly in relation to the sectors' demand industries (mainly automobile and autoparts).[35] Since the sector produces industrial commodities, standardisation included issues such as the ISO certificates and compliance with environmental norms (ISO 9000,9100, 14000).
(ii) The need for long-term contractual relationships, particularly at a time of crisis for these industries.
(iii) The search for internationally competitive business scales.

Liberalisation brought a massive wave of cheaper imports, particularly after the success of Cavallo's and Cardoso's stabilisation plans, and was carried out in conjunction with other structural adjustment policies, namely deregulation and privatisation.

Besides, in 1989/1990, 'macroeconomic restrictions made us expect only a slow GDP increase ... the problem is that exogenous factors [negate] our efforts, such as the changes in economic policy' (steel producer). Thus, the first priority was stability, in order to face the key issues. This was at the top of the Mercosur agenda as well as that of the sectors. The purpose was not only to attract investment, but also to boost sales, since the sector's products have high elasticity coefficients (e.g. plastics, construction and household metal appliances).

9.4.1 Priorities

Table 9.1 shows the sectors' priorities within Mercosur in two columns. The columns are not mutually exclusive. However, while competition may reside in the need to reduce costs and internalise profits, co-ordination seems to be the 'pillar' that could enable long-term accumulation of capital and the enlargement of both economies of scale and business scales.

Table 9.1 Sectors' priorities in Mercosur

Co-ordination	Competition
Srab/Zfry	*Reduction of costs*
• Public exposure of government-private coalitions • Attraction of investment	• Regulation, e,g. labour • Taxes • Transport • Interest rates • Conflict resolution
Increase of business scales	*Increase of business scales*
Improvement of co-ordination internal to the firm and the economic group, within the process of internationalisation and extension to other LA countries	• Internalisation of profits • Diversification • Verticalisation • Internationalisation
Trade	*Trade*
Standardisation of products and product quality	• CET and CET exceptions • A D and safeguards • Triangulation threats
Comprehensive restructuring of sectoral institutions	

The priorities given above influenced business coalitions to give public and strong support to the Ministers of the Economy/Financc in the implementation of stability plans, and to support the re-election of presidents that would sustain them. In Argentina, with the Convertibility Law, inflation fell to 0.5% in August 1991. There was an agreement with the IMF (which impacted on external credit), privatisation started, the stock market rose by 100% in September 1991, interest rates fell, credit was re-established, which meant more consumption of durable goods. Finally, steel consumption reached 55 kg/inhabitant in 1991 (*Siderurgia Latinoamericana* no. 378, October 1991).

From 1990, business supported Menem in Argentina, and rejected Collor in Brazil. By 1997, the situation was to be reversed. As just one example, in January 1997, two news items were published at the same time. In Argentina, the Group of Eight (the most conspicuous representation of big business) met with Menem. After the meeting, they told the press they opposed the call by UIA's head to 'consider' a third term for Menem, which would have required constitutional reform. Two of the group affirmed that they had not even considered it. Instead, they supported flexibility and labour reform. That had been the objective of their meeting with Menem. In Brazil, Cardoso won the first vote in the Chamber of Deputies to allow his re-election. 'Banking and industry rejoiced, since they supported his move from its inception.' The Deputies' virtual approval was conducive to a probable re-election in 1998 *(Internet Headline News,* no.731, 30 January 1997).

Traditional business behaviour in the region has been sector-wide and fragmented. Businesses have been considered weak in the face of a strong State by Hirschman, dependencia theorists, and O'Donnell, among others (see Payne and Bartell, 1995). Given the situation of an increasingly 'Hobbesian society', a factionalist and clientelistic political system, and their own low business scales, businesses saw the need for a substantive macro-economic consensus to facilitate further capital accumulation (With the crises, 'the problem is also the loss of critical mass of the business undertakings' value, especially for new investments,' stated a petrochemical firm manager). After attaining price stability, 'the economic agenda of the current administration contains challenging objectives which, when achieved, will bring about the reduction of national production costs compared with international parameters. [These include] a permanent fiscal balance, the reform of the fiscal and social security systems, ... privatisation and the deregulation program' (Campos Soares, 1995:4).

In the face of mounting imports, the steel and petrochemical firms resorted to cost cutting and downsizing, accepted reduced profit margins until 1994, and actively lobbied the States to reduce regulation, and decrease taxes and interest rates, transport and labour costs (e.g. through their industry chambers) (on steel, see *Siderurgia Lalinoatnericana,* no. 378, October 1991). At the same lime, the sectors faced a global recession cycle. Thus, they also sought anti-dumping and safeguard measures.

Overall reduction of the so-called *national costs* was an essential ingredient of the government-business coalitions in both countries, costs that were perceived as the result of the previous macro-Fordist system, where organised labour, small and medium enterprises and the central State, had bigger roles.

There was competition for resources and political influence, leading to regional economic concentration, but also decentralised responses by BEGs. Why the latter? The emerging core firms were articulating their holdings, relations and alliances according to whether they tended towards micro-Fordist or Toyotist conceptions of industrial control and development. Yet, there was no regional hegemonic or articulated conception in this regard.

A new concern for the sectors was environment. The steel sector acknowledged growing consciousness and political pressures in this regard. Thus, new legislation and institutions of control that could compel plant closures or expensive investments in new anti-pollution equipment were introduced (*Siderurgia Latinoamericana,* no. 399, July 1993:4). When privatisation began, there was an intention to include the environment issue in the process, first in Argentina and then in Brazil. This was because the issue could reorient new investment in plants. However, the environment issue got 'out of hand' and the States decided 'off the record' to stop any public mention of or debate about it. Although legislation may be up to date at the national level, its implementation is another matter entirely.

Nevertheless, the new environmental as well as quality issues were enforced 'more than if [they] were law' (Rivera Otero, PDI 42). The programme for obtaining ISO 9000 quality certification was a point in Brazil's favour. One such certificate was registered every day in Brazil, placing the country third internationally, after Japan and Germany, in terms of quality issues. (*La Nueva Provincia,* 11 February 1995:6). This brought technical and sanitary questions to the fore, with Brazilian officials and producers tending to resort to these to prevent imports from Argentina.

During the Mercosur negotiations, two main differences surfaced concerning, not surprisingly, the most controversial issues related to regionalism: scales of the sectors in the two countries;[36] and the degree of industrial integration (Brazil is much more integrated, while Argentina has a higher coefficient of imports). According to a researcher and adviser to the Argentinian government and the petrochemical industry, these were the reasons for all conflicts. While Brazil's exports of petrochemicals were low (about 15%), they account for about 60% of Argentinian petrochemical imports. In contrast, Argentinian exports are much less significant to Brazil.

However, there was a basic difference between the two sectors: the steel sector was no threat to Brazil, which was a net exporter of iron ore and steel (although imports of Argentine steel and steel products ranked sixth and ninth in Brazilian imports for 1994). The petrochemical sector was also sixth (diverse chemical products), ninth (organic chemicals), and fifth (rubber manufactures) in the rankings. However, plastics and plastic manufactures ranked third in Brazilian imports during 1994.

Moreover, the Brazilian economy turned around from 1993, driven (as in Argentina) by the growth of automotive, autoparts and household appliance sectors. Thus, the bilateral tensions of 1992 were overcome by the 19.3% expansion (10.6 million tons) in apparent consumption of flat steel This grew by 21.4% after Brazil's privatisation of the steel sector was completed, which allowed national production capacity to rise to almost 19 million tons per year.

Business lavished resources on internal restructuring (though not every firm met its goals, as one international business consultant interviewee noted, referring to one family firm with a particularly authoritarian management style). Restructuring became important in both sectors in 1990?[7] In the case of foreign companies, the initiatives came from the mother company.[33] Diversification and increase of exports was seen as a condition for survival. Internationalisation was a must.[39]

9.4.2 Main business strategies

The most common traits in business' strategics to restructure the firm and/or group have been:

- concentration on central 'competencies', on the core business in which the firm or group is strong;
- associations with other firms for specific objectives - to complement each other, specialise, and reduce costs and risks (e.g. by reducing green-field investments);
- differentiation into specialised products with better returns on the capital investment;
- globalisation into the world market, trying to distribute the localisation of regional production, seeking maximum global profits;
- increase of X-efficiency and reduction in costs of traditional activities;
- increase of scales, especially business scales, through fusion and joint ventures, following the path of (he largest firms in the sectors, e.g. Ili-mont with Shell, and Union Carbide with Enichem and Atochcm.

Table 9.2 outlines the main politico-economic strategies of business actors, in relation to their building of a new concept of control and organisation.

9.4.3 Temporal focus during Mercosur's transition period

The agenda of business actors had a temporal focus on specific priorities within Mercosur. The business agenda was not only determined by, but also affected the process of integration by creating new objectives of economic and organisational co-opcration within each sector, and, more significantly for regionalism, particular sectoral policy network objectives. Three short-term periods can be distinguished between 1990 and 1995.

Tah/e P.2 *Main politico-economic strategies of business actors*

ndustrial verbalisation: hree reasons	Managed trade in three forms	Hierarchic co ordination at three levels to achieve one goal and two main capabilities
. Economies of scale, technology and transaction costs	1. Policy response to the EU and USA in terms of AD and safeguards (both have been major demanders of A-D measures)	Hierarchic co-ordination: 1. intra-sectoral level 2. intra-holding or conglomerate level 3. intra-firm level
. Monopolistic element (entry barriers, price fixing)	2. A-D as individual move at the national level.	Goal: Enlarging and controlling their business scales
. 'Rent' absorption from refining	3. Cartel-like arrangements, but not real cartels	Two main capabilities: 1. financial 2. lobbying

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This was a time when business faced the biggest national as well as international shocks in terms of low prices, high competition and low demand, while national privatisation was only beginning.

At the micro level, taking into account that the Asuncion Treaty (signed on 26 June 1991) included sector accords in harmony with ECLAC's proposal, the most important move was to formulate and present sector accords for both sectors.

At the macro level, the major concerns of business were stability, the need to form coalitions either to support the implementation of a successful stability plan (e.g. Cavallo's, with the Group of Eight) or to get rid of what they considered the biggest obstacle to it (e.g. the impeachment of Collor de Mello).

2. 122211224

In July 1992, the Schedule of Las Lenas invited the private sector to participate in the harmonisation of national regulations, in accordance with ECLAC's call for the broad participation of main actors. At the same time, the Schedule ratified the choice of 1 January 1995 as the date for implementing Mercosur as a customs union.

At the micro level, the main action was to participate in the working groups established for that purpose, in some cases taking the leadership, as expected in the ECLAC proposal.

At the macro level, the owners participated heavily in the privatisation process, not only of their own sectors, but of services as well, while foreign investment was important and regional financial markets were increasingly developing.

3. *[99 1994*

This period marked the height of increasing costs (c.g. from newly privatised services) and competition. However, international prices began to rise at the end of 1994. At the micro level, the main action was to define the structure of the CET, while resorting to individual defensive moves (c.g. requests for anti-dumping measures). The CET for the two sectors was in fact approved on the basis of the proposals developed by the industry chambers, while exceptions (e.g. in steel) to the CET were in relation to specific firms.

At the macro level, there was greater debate on the benefits of a free trade area instead of a customs union. This debate ended after the conflicts over the main trade issues were resolved at the Buenos Aires summit. On 5 August 1994, the CET was defined, together with two regimes: of Origin and of Adjustment *(adecuaciori)*. The Trade Commission was created.

On 12 December 1994, the Ouro Preto Protocol was signed. Mercosur was implemented on 1 January 1995, recognised as an ‘imperfect customs union’ by its members. All these actions could only be undertaken through a comprehensive reorganisation and restructuring of sectoral institutions, which took place from 1990 to 1995, while the industry chambers found their roles changed. The restructuring took place at the sectoral, national, binational and Latin American levels, as reviewed in Chapter 8 and in this chapter.

9.5 What led to business actors’ becoming involved in Mercosur’s open regionalism and what role have they played?

Mercosur’s regionalism has been characterised by high trade growth together with minimal institutions and regulation. The priority has been the achievement and maintenance of economic stability. Motta Veiga mentioned that Mercosur lacked several conditions until 1995 (Motta Veiga, 1995). There was a need to develop a regional community vision as well as mechanisms to follow up national and regional economic policies; gather information; and strengthen decision making, implementation and evaluation capacities. Other important mechanisms were also weak. These concerned the negotiation of conflicts, representation of interests, and the space to propose alternatives of community interest. The last could absorb tensions, provide legitimacy to regionalism, and increase its efficacy. 'In general, solutions were found at the presidential level. The most important - though not only - factor in Mercosur's transitional period has been the political will of Argentina and Brazil to continue the regional integration process. This determination was vital, given the lack of co-ordination in the two countries' macro-economic and micro-economic policies, and the choice of a low degree of institutionalisation' (ibid.).

This may have been true in general. However, the picture appears qualified if a sectoral approach is taken 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. They played several roles: aggregating, representing, channelling intensity of preferences, influencing policy-making, and beyond, when States did not have the information and knowledge needed to conduct and carry out negotiations, such as on harmonisation of norms. The sectors' representatives, as socio-political organisations, appeared to have a division of tasks while 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 (of both ABEIP and Mercosur), lire sectors analysed here have strengthened Mercosur in the areas identified as being weak in 1995 by Motta Veiga.

Business actors have been involved in the construction of the regional market. They have also engaged in quality and environmental norms that were seen as the future non-tariff barriers to sustainable market access, filling the vacuum left by decreasing state regulation. However, experts have recognised that 'firms do react, but in general do not act', meaning that business actors wait to see a public commitment to a specific policy trajectory, and in particular to verify that such a commitment is sustained. This sustainability entails the existence of a political and social coalition supporting a particular vision of society: a development path with its needs, rights and obligations. Firms either seemed unable to artieulate a thoroughly public vision of development, or were not ready to take on such public risks. Firms have asked for institutional regulation, though ready to cover their own needs with sectoral regulation if necessary. There has been no element of supranationality in Mercosur so far; legitimate regulation can only come from the national political bodies and the State. Thus, while regulation has been formulated regionally, it has to be publicly ratified at the national level before it can be implemented. This requirement has become a hindrance since 1995, given the low degree of compliance with Mercosur rules by States.

Thus the political sustainability of the process has not been exclusively due to presidential will, as is usually suggested (Motta Vciga, 1995; Manzetti, 1993:131); the process of co-ordination undertaken by business within the framework of regionalism, as described above, has also contributed to the sustainability. '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 countries or regions that differ substantially in their policies in this sector' (llasenclever 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 llasenclever and Lopez (1998) reflect the fact 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. However, they dread enlargement that may threaten their market shares and the kind of regulation that already exists. What they fear most is any obstacle to the expansion of their business scales. They fear that if such expansion is halted, they might not survive the new type of competition. In fact, industrial groups that enter into alliances appear to have become stronger as a result.

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 measures that were a response to that possibility and to the threat posed to Brazil's macro-economic stability. Quick negotiations led temporarily to a higher CET and offers to Paraguay and Uruguay of additional exemptions to it. Menem's support was followed publicly by the two Argentinian and Brazilian industrial umbrella organisations in a document called the '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 were the improvement of inter-governmental consultation and a common position in international negotiations *(La Ley,* PET/Mercosur, 15 January 1998:20).

It has now been recognised that The process of trade liberalisation requires increased international regulation. To avoid possible conflict between the creation of trade blocs and trade liberalisation 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 historical and economic environment surrounding regionalism. Regionalism has been instrumental in responding both to challenges that preceded the advent of 'open regionalism', and to those that nowadays go beyond it.

Industries such as petrochemicals and steel, with large economies of scale, 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 engage in conflict with another member of the same RIA. It should be noticed, however, that this behaviour in the 1990s is a far cry from the traditional perception of firms as profit maximisers, arm's-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 in the economic cycle.

However, the 1995 interviews indicate a more fundamental consideration in the business actors' rationale. Business actors rationalized the new type of competition through the concept of 'business scales', which envelops and transcends the concept of economies of scale until now applied at the individual production-plant level. This concept was argued in a Ph.D. thesis on the petrochemical sector in Brazil (Oliveira, 1994)and has been discussed in Chapter 7. Luciano Coutinho's sectoral study argued that only a petrochemical firm 'capable of USS 3 billion per year of sales can compete'. Odebrecht, the biggest petrochemical firm in Brazil, had sales of only USS 1.2 billion in 1997.[40]

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. Important challenges lie ahead, such as social and environmental concerns, technological development and subregional marginalised economics. However, those exceed the scope of this study.

NOTES

[1] Shahen Abrahamian (officer-in-charge of die Global Interdependence Division at UNCTAD) has affirmed that neither multilateralism nor regionalism were the main force behind the liberalisation of trade in Latin America. *Il stems to me that the main impetus is basically unilateralism.* Percy Mistiy (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: 30-1). See also Tussie, 1998:91.

[2] ‘In Brazil they must make an integrated industry. But with imagination, it can be reached* (interview with Dr. Amilcar Pereira da Silva Filho, PDI 5:30, chemical engineer, consultant to Ciquine and Polialdcn in 1995. He had worked for 35 years in Petrobras, and has subsequently been technology manager of Pctroquisa, and commercial director of Petroflex). Jovclino, 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 belter, in a process of integration of capital* (Gomes Pires, PDI 60:12).

[5] ‘Intra-zonc [regulation] is the fundamental key to the harmonization of the process of formation of capital* fAldo Feuer, Argentinian economist, PDI 57:6).

[4] ‘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 WG 7 on industry, and representative of the Ministry of Industry; PDI 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 does not. This situation could not [be allowed to] 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:41). In 1998, ‘trade in automotive [products], auto-parts, freight containers and transport vehicles 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 USS 4.6 billion and accounted for more than 31% of bilateral trade. Maintaining the rate of expansion that the Argentinian-Brazilian automotive

sector achieved during the first six months of 1998 would suggest that by year-end it could reach USS 5 billion. This figure would increase sector involvement to 33-34% of bilateral trade' (IADB- FNTAL, 1998).

[5] Brun, PD I 13.

[6] The owner and also general manager of a Brazilian petrochemical holding (Mariani, PD1 39:20) explained in 1995: Tn the chemical sector, governmental negotiators were stable. The major negotiators were from Itamaraly (the Ministry of Foreign Relations), Finance, and Industry and Trade (its foreign trade section). From all these, the most important one after the Plan Real was the one of Finance.' On the Argentinian side, the situation was even clearer. In an interview with the author, Dr. Lavagna explained: ‘Before and now, the one to decide is the Ministry of the Economy. There are two aspects, one formal and one real. When Cavallo was in die Foreign Relations Ministry he wanted to bring diem from the Economy 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 it is in the Ministry of the Economy' (Lavagna, PD1 35:23).

[7] 'Fhe Secretariat had both its first Director (appointed by a Mercosur meeting) and its first autonomous budget for 1997-98.

[8] ‘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).

[9] ‘The great advantage of the Common Market is that sovereignty is partly abdicated. What is impoilant is die harmonization of legal and tax issues, to level the playing field' (Caudal, main advisor to ABIQUIM, the Brazilian Association of the Chemical Industry, 21:3).

[10] The Argentine Deputy Secretary for American Economic Integration affirmed that the sectors under negotiation were chosen according to the sensitivities surrounding their production and restructuring (Sabra, 1993:55 1).

[11] To give an idea, in 1995, Brazil's steel sector was 8.5 times larger than Argentina's. Analysing die tlirec-ycar period 1994-96, it is evident that Brazilian petrochemical production was approximately nine limes greater than that of Argentina, visible consumption was six times greater, and exports were five times higher. (Hasenclever and Lopez, 1998).

[12] Intra-industry trade occurs when there is simultaneous export and import of products from and into die same industrial sector. It is usually measured with die Grube! and Lloyd coefficient, rating from 0 to 100. A stable coefficient above 40% indicates die existence of such trade. 'Hie 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, 1989:390). They concentrate on allocative efficiency and tend to disregard technology and social relations (i.e. with labour). Regarding productivity, steel in die region shows

high absolute competitiveness (relative to the USA), while the plastics sub-sector in Argentina has improved in TFP (World Bank 1996, in Lcipziger *et al*.. 1997: 9).

[13] 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 January 2001 and in Uruguay and Paraguay by 1 January 2006'(source: mkaccdb.eu.int).

[14] In Brazil, die average tariff dropped from 51% in 1988 to 11.3% at the end of 1994.

[15] 'Una Curnbrc fria para el Mercosur', *El Cronista Comercial*. 24- July 1998.

[16] As Pena explained: 'For conflict resolution there arc several stages: 1 A first phase reviews conflicts of opinion and imbalances in trends of trade. 2. A second phase [is] in the Common Market Group (CMG), problems were dealt with here first. 3. A third way is the Brasilia Protocol, which foresees three 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 [is a substitute for) the CMG, but if it fails, then it goes to the Brasilia Protocol or the CMG itself (Dr. Felix Pena, who has been a stable Mercosur negotiator on behalf of Argentina and is currently Argentina's Under-secretary of Foreign Trade, interview 88:11). For Dr. Botafogo (Botafogo, PDI 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*. binding and without appeal.

[17] 'The system of conflict resolution seems to have attracted most attention in academic and legal domains in Brazil. There were many in favour of creating a Mercosur Justice Court, following the example of the Luxembourg Court, the EU or the Andean Group. For the Brazilian government '... the current needs of the integration process do not support such a stand, which neglects obstacles of constitutional nature, and, importantly, neglects the virtues of the mechanisms established in the institutional structure of Mercosur'. (Minister Jose Botafogo Goncalves, Brazil's Mercosur negotiator and, in 1999, Brazil's ambassador to Argentina, PDI 76:5).

[18] AFP-Agencc France Press, 20 July 1998.

[19] 'Parlamento uruguayo estudia convcncion sobre contratos intemacionales. Uruguay pone al dia su legislacion por el Mercosur* *(Sucesos Mercosur*. 21 July 1998).

[20] 'Liberals in government thought of RI in terms of locking-in the reforms at a supranational level' (Dr. Winston Fritsch, former Secretary of Economic Policy in the Brazilian Finance Ministry, in 1994, PDI 30:11).

[21] In 1997 R$ million, Agriculture received 730; Industry, 6,769; Infrastructure, 7,638; Services 1,332; Social, 1,426. Total: 17,895.

[22] The 'IADB opened a credit line to the BNDES'. In Washington, the BNDES president, Luiz Carlos Mendonca de Barros, opened the line of credit with IADB for USS 900 million in order to finance small and medium enterprises. Three areas were the priority: small and medium enterprises, private infrastructure and social projects. Hie new BNDES director for social issues, Beatriz Azeredo, was also discussing another credit line for USS 1 billion for health and education. The BNDES, she said, would invest USS 2 billion in these areas(G7ze/a *Mcrcanfil Lafinoamericana,* 27-29 March 1998: A-5).

[23] Actually, this was true until the 'tequila crisis'. In 1995, the 1993 and 1994 deficits were reversed, and 1996 exports totalled USS 24 billion (10% higher than 1995). Exports to Brazil were $6.3 billion in 1996, 70% up from 1994. Also in 1996, a complete system of parallel customs was discovered in Argentina. Hie liberal economist Eduardo Conesa concluded that this was overlooked by Cavallo to hide the real figures. The real deficit in the balance of payments, when the parallel customs (USS 7 billion) and illegal exports of gold are included, may have been USS 16 billion for 1996. With die official expectation of a 5% GDP growth, this may have reached USS 20 billion in 1997 *(LaMaga,* 25 December 1997:4).

[24] The EU 'model' was perceived as 1) recognising regional, social and structural differences within the country-members of a RIA, 2) hying to balance these differences in order to keep the overall social and political cohesiveness, while preventing harsh disruptions (whether social, financial, economic or institutional).

[25] A steel producer explained that in 1989/90, 'macroeconomic restrictions made us expect only a slow GDP increase ... the problem is that exogenous factors [negate] 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', (the business development manager of Rhodia, Rhone-Poulenc group, Sao Paulo (Schocair, PDI 48:13)).

[26] See Lopez (1997) and Erbcr (1997) for die 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 (1997) on Brazil.

[27] A representative of the Plastics Chamber in Argentina said: 'The relation with Brazilians stalled in 1986, when we perceived the globalisation process of tire economy, and, Uierefore, our role in the process has become very active' (Sanchez, PDI 15:1).

[28] In 1995, Kosacoff, ECLAC's economist, described the new typical stylized firm in the region: (i) From an industrial firm it changes to incorporate assembly as well as its own system of commercialization and distribution. This leads to a situation where higher profits are possible in Mercosur in the short run. This also happens because of the non-tradables effect, (ii) The entrepreneur is more sophisticated, and has simultaneous management and financial representatives abroad, joint ventures in inputs, and market share. The entrepreneur's rationality responds to the international, macroeconomic and regulatory framework. It leads to the expulsion of labour and there are no externalities (Kosacoff, PDI 34:37).

[29] "Hie first to move were Techint and Usiminas, [the latter] recently privatised' (Campbell, PDI 19:4).

[30] APLA is the sector-based organisation that appeared 15 years ago to promote the petrochemical business. First, it waited for a strong political signal, e.g. in terms of creating one common market, to change its business strategies. Then, its structure and role changed to meet the two most pressing needs of the sector: RI and environment. APLA's structure already offered advantages. '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]' (interview with the manager of APLA, Maltese, PDI 38). For that, it changed its statutes and created CEQPLA (a business committee including the chemical sector). This committee had the goal of establishing a common language and bringing together the executives of firms and die chambers of the region.

[31] C.A. Leone, 'The importance of Mercosur for die Argentine steel industry', Latin American Iron & Steel Conference, Rio de Janeiro, 15-17 May 1994.

[32] 'The political apprehension against institutionalisation did not diminish the participation of the States' bureaucracies in the process' (Dr. Hirst, FLACSO researcher on regionalism, PDI 29:32). According to APLA's manager (Maltese, PDI 38:39), 'die governments still have die upper hand. In fact, Mercosur gave governments back the initiative, because before, during ALADI and ABE1P, die Finns had negotiations to themselves.'

[33] 'Concretely, all negotiations include 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 to undertake research studies on a product-by-product basis [because it is only with in-dcpdi knowledge of each product that State negotiators could bargain over so many interests].' (Nestor Braidot, 1995 Director of the International Studies Centre in the Argentinian Ministry of Foreign Relations, PDI 12:13.)

[34] Source: Dagoberto Lima Godoy, [1]O Mercado Comum do Sul na otica empresariaP, in *Bo/etim de Integracao Lafmo-Americaria* no. 14. Available from http://www.aduanciras.com.br/gctec/mcrco/14/artigos/8godoy.htm.

[35] 'Purchasing will be globalised (while) Mercosur - that for us includes Chile - receives the biggest percentage of our total exports' (from a manager interviewed at a petrochemical multinational company in Brazil).

[36] Brazil's steel sector is 8.5 times larger than Argentina's. The petrochemical sector is 4.5 times larger than that of Argentina. Another example: Sao Paulo state's economy is the same as or even bigger than Argentina's.

[37] A major steel group in Argentina restructured itself in mid-1990, centralising its core activities and outsourcing much of the rest. In 1995, one of its main firms had 1,170 clients for outsourcing, of which die majority were SME. Acindar's restructuring towards speciality steel production, widi higher value added, is anodier hint of the

move towards a more flexible specialisation (customised products for relatively smaller markets).

[38] e.g. Rhone-Poulenc. Interview with an international consultant.

[39] One Argentine steel group had subsidiaries in the USA, Singapore, Dubai, and China. The restructuring had led to the establishment of a Management Office for Exports with several divisions, each related to a geographical zone, plus a broad network of representatives in 40 countries ‘to provide closer attention and a more efficient service to clients’.

[40] Odcbrecht’s Director Alcncar, ‘Odcbrccht quer superpctroquimica', *Joraal do Brazil,* 11 March 1998.

10 The Institutionalisation of Regionalism

10.1 Introduction

This chapter analyses the *institutionalisation* process of Mercosur's *regionalism* in the 1990s, while reconsidering the concept of *political leadership*. The theoretical aspects of these three concepts were explored in Chapter 2. If regionalism is to be of any historical significance, it should show sustainability, and thus institutionalisation. For regionalism to be sustainable, it cannot be confined to policy-making. As stated in Chapter 2, institutionalisation is a process by which patterns of relations may be co-ordinated in a regular fashion, embodying particular values and normative rules. Consequently, patterns become approved, regularised and possibly formalised into new structures. The adjective 'policy-led' has been avoided in this dissertation so that the discussion would not be diverted towards a debate on whether regionalism is policy or market led, and so that there will be no confusing 'policy-led' with 'State-led' policy-making. These issues were precisely those under investigation.

This chapter, on the basis of the previous ones and using interview excerpts that emerged as relevant from the qualitative analysis, focuses on the same themes as the theoretical discussion in Chapter 2, subsection 2.3.3. A number of variables will now be analysed, divided into the ones that have delimited the more visible boundaries of Mercosur's regionalism, and the ones that have supported its inner building process. The former (in section 10.2) are the politico-economic background, hegemonic values, international organisation of Mercosur, scope of regional regulation in relation to the sectors, and the existence of an intervenient condition for a new political leadership. As regards the inner building process (section 10.3), the variables are the rules guiding the process and pattern of institutionalisation in decision making and conflict resolution, also reflecting a formalisation of roles and a lengthening of horizons in terms of time and space.

10.2 Visible boundaries

10.2.1 Politico-economic background

Throughout this study, both a changing politico-economic background and a shift in the sources for building political leadership in the region have been observed:

- In the 1990s, State-civil society relations evolved through different dynamics in each country, while facing restructuring processes at both global and national levels. At the world level, multipolarity emerged after the end of the cold war, while productive sectors experienced a restructuring not only of firms and groups, but also of modes of production. As a consequence, their socio-cultural institutions (e.g. sectoral organisations) underwent transformation as well. The hermeneutic examination of their experiences suggests the existence of a relation between ideas vs. institutionalisation on the one hand, and a restructuring of the modes of production on the other.
- Implementation of the regionalism agenda against the background given above was based on particular core values. Politically, liberalism provided such a core, with nco-liberal values as the most doctrinaire tenets. Economically, there was a tension between monetarists and structuralists. Public institutionalisation was kept minimal and State-led. Its political sustainability appeared to be based on presidential will and 'leadership', and thus possibly subject to reversal.

During the ISI period, protection of internal markets was central to national growth, while the incorporation and adaptation of technology from DCs and the establishment of large firms replicated the Fordist system of production. Macro-Fordism became a hegemonic mode of production in the two sectors' production complexes, centrally co-ordinated by the State - a major key to macro-Fordism. The review in Chapter 6 showed that while constructed within an *assisted capitalism,* both countries' sectors had *connective State institutions* up to the mid-1980s.

In the 1980s, the industrialisation of the region and its democratisation were contextualised by both the debt crisis at the international level and the crisis of macro-Fordism at the national level. The outcome was that access to credit and capital accumulation could no longer be secured. At the same time, through convergence in values and perceptions, a new political leadership gradually emerged. The process commenced in the second half of the 1970s (1976 in Argentina and 1978 in Brazil), evolved during the 1980s, and culminated in empowerment at the State level in the 1990s. 'Elites that have been previously "de-unified" must become "consensually unified" in regard to the basic procedures and norms by which politics will henceforth be played' (Sartori, 1987:xi). In Argentina and Brazil, convergence proceeded according to two dimensions:

(i) the extent of structural integration (formal and informal networks of communication and influence), and
(ii) the extent of value consensus (relative agreement on formal and informal rules and codes of political conduct and on the legitimacy of the existing political institutions)

While States lost the capability to co-ordinate policy-making and secure access to capital and credit, business actors grew in economic and political autonomy. Through financial liberalisation, these actors had direct access to foreign capital and credit. Both steel and petrochemicals progressed in terms of their technical integration and production processes, and by the end of the 1980s had become the most important national exporters.

As early as 1986, Argentinian businessmen believed that regional integration would be a success. During 1986 and 1987 there were more than a hundred bilateral business meetings, on an individual basis, by associations or chambers, or in the form of industrial fairs (Campbell, 1987:18). At this stage, RI was definitely more important for Argentinians than for Brazilians. An important result of these meetings was an increasing 'structural integration' between businessmen from the BEGs and public officials. 'The de-industrialisation process and the anti-export bias, plus the bureaucratic regulations (and previous governments' alliance with labour) had made the public administration and businessmen 'natural' opponents. The lack of consensual development goals [value consensus], and the rent-seeking culture, created a relationship of rent-seekers and rent-distributors of state privileges. This was a relationship of administrator vs. businessman or administrator *for* businessman. The integration with Brazil created a new pattern of administrator *with* businessman, a pattern of co-operation towards a common interest' (ibid.:19).

10.2.2 Hegemonic values in regionalism

As stated, liberal ideology has been at the core of Mercosur's regionalism. 'The system of beliefs was at the centre. There was a kinship of political views in Argentina, Brazil and Chile' (Hirst, PDI 32:54). 'Liberals in government thought of R.I in terms of locking-in the reforms at a supranational level' (Fritsch, PDI 30:11). The purpose was to establish an internal regime of 'generalised' principles based on liberalism. During the period under study, State ministers and secretaries tended to come from particular universities and/or business think-tanks (such as Fundacion Mcditerranea and CEMA in Argentina, PUC and Funda?ao Gctulio Vargas in Brazil), with a technical background in economics- and a liberal or neo-liberal public stand.

Mercosur State actors shared a few basic notions about regionalism, in the sense of shared epistemic ‘values’. These basic notions stemmed from the ideological ‘core’ of liberalism, in terms of:

- limited role of the State
- limited regulation
- lack of explicit industrial policies
- free trade
- liberalisation, both financial and economic
- opening towards the rest of the world
- modernisation of the economy.

The myth of modernity was still at work, as the Argentinian co-ordinator of WG 3 put it. The perception was that there was a correlation between the degree of consensus on neo-liberaI policies and the achievement of a superior modernity. As Millelman noted, ‘Unlike autocentric regionalism [of the 1930s], the neoliberal variant is extroverted: it entails an opening to external market forces’ (Mittelman, 1996:191)? In the case of Mercosur, the extroverted variant lent itself to the concept of 'open regionalism’.

However, the existence of this ‘epistemic community’ could not draw together the separate political agendas of each State, based on different values concerning the State’s role and externalities in the mode of production. In Argentina, the political system appears to be more centralised at the presidential level, while having increasingly embraced neo-liberalism, the thrust of which is to dismantle the role of the State. The portrayed ideal of the country was that Argentina should specialise in raw materials, agriculture and services, developing them as areas of comparative economic advantage. This means that, within the system of production, externalities and co-operation were not seen as very important, and therefore should not be the primary focus of encouragement.

In Brazil, in contrast, the elites have maintained their belief in a stronger role for the State. Still, they have shifted towards a more liberal view in which the State has a regulatory role but none in production. Brazil’s main comparative advantage is believed to lie in the restructuring of industrial sectors, although raw materials and services are also seen as important. Thus, the need for a stronger State role, but also the perception that externalities and co-operation within the system of production are extremely important.

Due mostly to this tension, the rules that have guided the process of institutionalisation of regionalism (which will be reviewed in subsection 10.3.1.1) remain highly instrumental at first sight. The most important ones concern consensus and inter-govemmental decision making. However, normative rules of regionalism, shared by the political leadership, have also existed, and have been necessary to make the process sustainable. They will be analysed in subsection 10.3.1.2.

10.2.3 International organisation of Mercosur

In the 1990s, amid the search for the global economic integration of both countries, rapid technological change and world restructuring in the industrial sectors, the first priority of Mercosur was attracting capital to the region and providing a framework for capital integration, as was stated in Chapter 9.

In this context, the most powerful ministries in both countries were the economic and financial ones. Foreign ministries were subordinated to the economic priorities. Three examples support this idea:

1. It was symbolic that the two major economic ministers of the period (Cavallo and Cardoso) had been foreign affairs ministers previously.
2. Both countries continued to have separate foreign policies. In the beginning, Mercosur may have been a matter of foreign relations, but later it became an economic issue.
3. The economic and foreign affairs ministries of both countries are part of the Executive power. Public decision making with regard to regionalism has remained within the Executive sphere.

Relations between the main ministry actors and other State actors revealed a considerable distance between them.

1. The Joint Parliamentary Commission was finally institutionalised in 1992. It was created at the last moment because it had been ‘forgotten’, as an interviewee put it.
2. Meanwhile, the embassies of the member countries played a role as co-ordinating organs within the Common Market Council (CMC) until 1992. They carried on after that as negotiating units, but no longer in a co-ordinating capacity.
3. In 1992, eleven working groups (WGs) were established to harmonise norms, dealing with sectors and specialised issues. However, the

groups' scope and power over concrete issues were limited. The WG bureaucracy continued to be national State bureaucracy. These national bureaucrats had different roles and restricted access to information in comparison with the main negotiators. Therefore, in this study they are labelled secondary bureaucracy.

4. At the end of 1994, the Trade Commission and the Social and Economic Forum were created. The former institution has played an important role in the subsequent customs union period, but in instances of conflict there have been no grounds for the creation of jurisprudence or legal precedents that can be used in similar cases.

> Mercosur has been perceived as very precarious, not only because of the underdevelopment of the region, but also because of the technical strategy chosen by the government, leaning towards a minimalist type of institutionalisation. This feature differs from the EU's case, which started with in-depth negotiations for the Rome Treaty. Instruments are shallow. It was a political option because there was no consensus on one single RI model. On top of that, there was a political apprehension about an institution that could go beyond trade. (Hirst, 1995)

The divergent dynamics and autonomous national agendas on foreign and internal policies (Hirst, 1995) reinforced the idea that presidential political will was the decisive factor sustaining regionalism in the 1990s. Furthermore, a new type of political regime seemed to emerge in the two countries, which O'Donnell has called 'dclegative democracy' because political representation and accountability are weak. There is neither institutional progress nor much governmental effectiveness in dealing with social and economic crises. In such a context, the president's individual leadership appears to have a paramount role.

Further, in Argentina, the relationship between the Executive and the Legislative had a low profile in the 1990s. In contrast, in Brazil, there was a permanent dynamic of bargaining, which has stabilised since 1995. In both countries, the Executives systematically resorted to 'emergency decrees', either bypassing the national parliaments or counting on their later acceptance.

In Argentina, the social actors were demobilised until the mid-1990s, and increasingly antagonistic in the second half of the decade. In Brazil, the social actors displayed higher mobilisation and capacity for negotiations. The Brazilian political dynamics were such that every policy issue was affected. There was no rapid legislative process. The number of actors and negotiations was never-ending.

10.2.4 Intcrvcnicnt condition for a new political leadership

A significant intervenient condition did arise for a new type of political leadership to appear in the region: various agents with cognate values, grounded in economic networks, gradually constructing shared understandings. In the 1990s, business, and in particular the BEGs, have been ascribed the status of 'leaders', but the issue is whether they may also have had a socio-political role in regionalism. 'Business leadership' has been a fashionable concept in the 1990s. Traced within the interviews, it appeared to have several dimensions. Business leadership referred to the co-ordination of the sector in decision making and structuring (e.g. 'Pidcop was a special experiment in R&D co-operation for industrial development... Pctroquisa was interested in Pidcop's experience but, since then, it has lost *leadership* [protagonismo]' - Capriati, PDI 45:10). This was related to the 'core firm' concept in each sector, the one with capacity to co-ordinate the successful development of the sector. However, such capacity appeared also to cany a national connotation.

Business leadership in terms of a firm within the sector was explained as the consolidation of leadership, which in turn was the consequence of 'centralising the core concern and outsourcing the rest, (e.g.: 'big firms are consolidating and centralising the activity in the nucleus of their business, with a lot of outsourcing. This is where the SMEs could find a place. Siderca is doing this' - Tizado, PDI 68:12). 'Technology and technical knowledge were considered fundamental to making the position sustainable, leading on the one hand to specialisation among firms and on the other to higher-quality products. This phenomenon may occur in one or several firms within the same economic group. Leadership was also the consequence of export volume, price, and 'investments by the other firms of the group' (Schmale, PDI 109:2).

However, underlying all the previous statements, 'business leadership' meant, above all, the achievement of a main goal: to expand regionally and globally in new markets (i.e. through privatisation, joint ventures, and investment in quality and services). The main perceived necessity was to expand spatially, referring to both scales of production and business scales, which required special entrepreneurial efforts and thus a new managerial culture to co-ordinate the process.

Some interviewees were also happy to show that they were leaders in the implementation of State structural adjustment policies, as a showcase for the core ideology in the home country (e.g. the Argentinian oil company YPF took pride in its personnel streamlining achievements following privatisation): 'YPF also showed leadership in the adjustment'. (Nells, PDI 113:22)

10.2.5 Scope of regional public regulation in relation to the sectors

The scope of regional public regulation was minimal in the 1990s. Probably, the most important observation has to do with the exclusion of any explicit industrial policy. Other issues that were highly sensitive were planning and anti-dumping measures, while environment was on the agenda but considered as 'postponed'. At the same time, a handful of sectors still enjoyed special policies. In the 1990s, the major favoured sector was automotive products.

These issues were directly considered and pushed forward by the firms. However, they were not publicly accepted because they were not on the hegemonic agenda. Therefore, they later became the objects of private sectoral agreements. These agreements certainly did not carry the same weight as public policies, but they reflected the necessity for the firms to resort to regulation of some kind.

In the case of anti-dumping measures, APLA's manager explained that 'A-D was not an important issue *per se.* There were [cases] in PVC' (Maltese, PD1 38:23). Another interviewee corroborated this: 'After a decree was passed in 1994, the cases were dealt with by the Secretary for Industry in Argentina. In 1994, there were some [cases of] A-D with quotas for PVC' (Guz, PDI 90:4). An interviewee recognised that A-D on PVC was in reality aimed at the USA and Mexico, not Brazil. The only major issue within Mercosur concerned thermoplastics, where the conflicts over scales and investments were severe (Van der Brock, PDI 53:19)). In 1992, there was much lobbying, and strong pressure for non-tariff and A-D measures in Argentina ((Ramal, PDI 47:23). In return for a negative response from the Ministry of the Economy, a mechanism for the exchange of information and business participation was created. After the 1992 perception of crisis, 'the time schedule was respected by the Deputy Secretary from 1992 to 1993 according to the Code on Customs' (Crespo, PDI 62:14). 'But the government was unwilling to implement either A-D or safeguards up to 1994. And then, since there was too little time left until the end of 1994, firms set the issue aside. However, after 1994, these were incorporated in the Common External Tariff (Ramal, PDI 47:24).

The main issues that were dealt with in Mercosur until 1995 were:

1. tariffs, including CET (Common External Tariffs)
2. norms of origin
3. harmonisation of norms
4. free trade zones (FTZs)

5. (since 1993) small SME development projects
6. drafts on intellectual property

The last three were either implemented within the framework of national policies (such as SME projects in Brazil) or discontinued a few months later (such as the policy on free trade zones). In any case, they did not become Mercosur policies. In contrast, the first three policies did. In the sectors studied here, they were the ones that were formulated by business actors themselves and presented to the public authorities for the stage of ratification.

The analysis of implemented regional measures shows how differently steel and petrochemicals were treated, considering that the two have similar economic characteristics as intermediate sectors. It is significant, then, to consider the other characteristics of the sectors: their socio-political organisations and relations with the State, their own 'values' and their relations with other sectors of the economy (e.g. oil and automotive). The oil sector in Argentina, closely linked to the financial sector at home and abroad, was strongly favoured by the opening up the economy, while the automotive one benefitted from protective measures.

10.3 Inner building process

At this stage, we can review the rules and patterns of relations in decision making and conflict solution, guiding the process of institutionalisation of Mercosur's regionalism.

10.3.1 Rules: Instrumental and normative

10.3.1.1 Instrumental rules

Instrumental rules were directly posed by the member states to guide Mercosur's decision making and conflict resolution, guiding the process of institutionalisation of Mercosur's regionalism, but without setting a common political line. The main instrumental rules were the following:

The strict inter-governmental character of the decision-making organs (Bergovoy, PDI 9:5). For example, at Las Lenas in 1992, the politicians decided the technical part of the WG's work, but without clear political guidance, or without stating political priorities, without *'regulating'* or *'leading'* the process. Thus, the WG found it complicated to set the priorities for its work.

Consensual decision making, as an instrument that ensures (i) the maintenance of the State's fundamental role in each country, and (ii) control over the scope and depth of the RIA so that it docs not affect the previous point.

> Itamaraty is the co-ordinating organ of the integration process. The Mercosur institutional structure defined by the Ouro Preto Protocol of 17 December 1994, from the Brazilian government's point of view, is perfectly adequate to the needs of the integration process in the current stage of consolidation of the Customs Union. The inter-governmental character of the decision-making organs and the consensual system of decision making are instruments that simultaneously permit each country to preserve its fundamental national interests and to guarantee that the progress of the integration process has the exact reach that the four member states of the Asuncion Treaty may wish to give it. (Botafogo Goncalves, PDI 76:12:4)

10.3,1,2 Normative rules

Normative rules, unlike instrumental rules, lend not to appear explicitly. They embody the basic values framing Mercosur's regionalism and, as such, arc the most important. The normative rules are to be discovered, observed, as they are worked out and struggled over (c.g. 'in the beginning, the strategic stand of the firms in many sectors was to observe and discover the rules of the game') (Lamarque, Argentinean Embassy in Brasilia, PDI 6:6). Different stages of institutionalisation (e.g. that of Mercosur as a free trade area and incomplete customs union) require institutional regional norms to be adapted, usually entailing at least some uncertainty and conflict over their redefinition (ibid, PDI 6:28 about 1995 onwards). Such adaptation of norms, except in the case of changes in basic values or core ideology, is guided by the existing normative rules for decision making.

According to interviewees, as the countries were entering the 'customs union implementation period', their conflicts pertained to sectors' complaints that States had not complied with previous agreements, while advances were expected in terms of harmonisation of technical and phytosanitary norms, together with price and credit-policy for the conjuncture.Normative rules responded to Mercosur's priorities - investment and integration of capital - in order to enhance the process of capital formation, while taking into account the politico-economic background.

With a lack of consensus on the type of RI model (concerning the role of the State and the need to foster co-operation within the system of production) and an emphasis on instrumental rules, regionalism's low public institutionalisation highlighted the fact that State compliance could not be automatically ensured: sovereignty should not be challenged.

The main normative rules in Mercosur's regionalism have been flexibility, compliance from States, symmetry and bilateral axis:

- Flexibility. This seemed a property of the consensual and intergovernmental instrumental rules. Yet, it was a normative rule functional to conflict resolution amid low public institutionalisation and 'open regionalism'. Thus, flexibility reflected the existence of multiple priorities (Ameri, PDI 4:25; Jovelino, PDI 60:9) and alliances, in the context of primary goals 'exogenous' to regionalism (stability-capital attraction).
- Compliance by States as secondary. Flexibility carried a low State compliance with publicly approved regional norms. This normative rule was not a surprising outcome, and led to particular business strategies as well as increasingly conflictive stands with the two Executives, as well as later in Argentina with the presidentialist system.

  Thus, the author disagrees with the general understanding of researchers in the region, who state that the 'asynchronic stabilisation plans' spurred business into a second, parallel process. This latter process was not parallel. It was complementary, and an essential element for Mercosur's sustainability, as institutionalisation proceeded successfully on the basis of the sectors' co-ordination and rule making.

  The lack of State compliance affected various types of accords:

  (i) Private-private agreements already sanctioned as Mercosur public norms. In 1995, Brazil did not comply with what had been agreed within sectors (e.g. CET, as in petrochemicals). The justification was the priority of macro-stability. Although business reacted from both sides to different extents, the Argentinian State made no official complaint. During the 'transition period', the sectoral negotiations and rules allowed state autonomy to assure stability without leading to open conflict. Tire latter also took place in steel (Jersonsky, PDI 61:5).

  (ii) Private-public agreements approved by consensus at lower level, and then rejected at the highest level (e.g. Beron, PDI 10:13 on CMG recommendations).

  (iii) Public-public agreements on Mercosur, as in the possible exceptions to the CET (to use the same example as in (i) above), approved at the end of 1994. Such exceptions were redefined and expanded by Brazil at the beginning of 1995, especially in March-April, due to its balance of trade and for reasons of stability. There was acceptance from Argentina, and a complaint from Paraguay. In this case, jurisdiction was exercised collectively by States through consensus, but allowing for sudden change if macro-economic stability was perceived as being threatened. For business there was no recourse but continuous *'re-negotiation'*.

- Symmetry - reciprocity as a rule. Symmetry was applied to national as well as sectoral negotiations and decisions (e.g. in exceptions to the CET). It was applied to the bilateral and general national trade balances, as well as the sectoral balance (Sanchez, PDI 15:6, Hirst, PDI 32:49). Regional negotiations were based on symmetry. Symmetry was easy when it was between produced-produccd cases. It had, though, to be either compensated for or bargained as an issue-linkage when that was not the case (e.g. wine vs. sugar, corn and oil vs. industry). Such a multiple 'bilateralism' in form differentiated relations case-by-case on the basis of 'particularistic grounds or situational demands', and reproduced a low public institutionalisation, appearing like the 'practice of co-ordinating national policies in [dyads] of ... states', as Keohane recognised (Ruggie 1992:567).
- Bilateral axis between Argentina and Brazil. This bilateral axis operated in decision making. To present but a few examples, this rule could be traced in the automobile regime, free zones, and conflict resolution mechanisms (Pena, PDI 88:10; Lucangeli PDI:37:66, Decision 29/94 of the Automobile Regime legally included the bilateral sector agreement between Argentina-Brazil). It could also be observed in the taking of the final decision for implementing an 'imperfect' customs union instead of a free trade area.

10.3.2 Mercosur's patterns of institutionalisation in decision making and conflict resolution

10.3.2.1 Decision making

In the beginning, States tended to reject the participation of the private sector, giving the appearance that the process was going to be automatic and systematic. Business should not be perceived to be imposing itself. However, as observed in Chapter 9, an increasing mix of public and private was the norm. Priorities and issues were first proposed by the private sector, and then presented to the second level to be ratified, in this case the State and the highest organs in Mercosur (which are inter-governmental). The States were the ones who then approved or rejected the proposals. Eventually, the matter went back (in actual practice) to the private sector, which continued with its work into further issues in the subsequent period.

The reality may be that both the State and business met each other half way. The re-establishment of democratic political systems was also an attempt to re-embed private exchanges (including fiscal issues) within State regulatory capabilities, under enhanced public control. The 1990s 'delegative democracies' (to use O'Donnell's term) partly renounced such an attempt, since their main political allies, and promise of their economic policies, were located in the BEGs. Thus, even under the 1990s hegemonic values, States remained contested terrain among different groups (for and against regulatory State capabilities).

10.3.2.2 Conflict resolution

The system of conflict resolution seems to have attracted most attention in academic and legal domains in Brazil. There were many in favour of creating a Mercosur Court of Justice, following cither the example of the Luxembourg Court, the EU or the Andean Group. For the Brazilian government, the current needs of the integration process do not support such a stand, which neglects obstacles of a constitutional nature and especially the 'virtues' of the mechanisms established in the institutional structure of Mercosur, based on the normative and instrumental rules given above. These mechanisms for conflict resolution were discussed in Chapter 9.

As national balances of trade showed growing deficits, and the maintenance of stability required extremely high interest rates, governments resorted to increasing non-tariffs (e.g. the 'statistical tariff in Argentina) and tariffs, as well as particular exceptions to the Mercosur CET or their own national tariffs. These caused many sectoral conflicts after 1995. Moreover, uncertainty was increased by government non-compliance with what the sectors had themselves prepared and governments had approved. The normative rule of flexibility caused tension, and after 1995 complaints began to mount against judicial weaknesses.

10.3.2.3 Formalisation of roles

During 1990-95, there were two levels of role formalisation within regionalism, at the State and private sector levels, with an increasing specialisation within public and private bureaucracies dealing with regional issues. These roles tended to correspond to two spaces, the national and the transnational (regional), originating a differentiation in terms of the space covered by their rule making and enabling the effective building of the regional market.

State

Two types of bureaucracies have been formalised, with a demarcation between national and regional roles.

(i) Top-level bureaucracy: This type of bureaucracy was small, stable, with the members having considerable knowledge of each other and rotating through different posts. These main negotiators, in particular Argentinians, have a history of being rotated through Brussels and Washington, Brasilia and Buenos Aires."[1]

(ii) Secondary bureaucracy: This was also rather stable, but technical, remaining within each country, without much knowledge of the 'other' and having little say in terms of options and political design. (Ameri, PDI 4:6 (Bergovoy, PDI 9:7). These bureaucrats worked mainly within the Mercosur working groups on harmonisation of norms under the rule of consensus. This rule obliged them to decide at all costs by consensus, 'but sometimes, when they were elevated to the next stage, they [the norms proposed] were rejected because previously the counterpart had arranged to do so. By counterpart, 1 mean the private and the public authority together' (Beron, PDI 10:13). 'We worked by consensus and then norms had to be approved by the CMG'. 'The WG3 was divided into two types of harmonisation: obligatory and voluntary (e.g. ISO quality norms) (Sanchez, PDI 15:23). Obligatory [harmonisation was] on food and automobile security. Voluntary harmonisation depended on the firms themselves.

Private Sector

Business representation in Mercosur public negotiations was by sector, and those working on regionalism knew their Mercosur counterparts well.

In the Mercosur working groups, sectoral associations and sometimes BEG owners (who were directly invited) participated in the negotiations and drafting of regional norms. Even in the case of the national industrial 'umbrella' organisations, such as the Argentine UIA, sectors were directly represented in the Mercosur Industrial Council and participated in the Mercosur WGs, although in the name of the UIA.

As sectors restructured, their institutions were also transformed. And as regionalism created new demands in terms of information, decision making and conflict resolution, their roles adapted in order to respond to the new needs. The cases reviewed included APLA (Latin American Petrochemical

Association), the Argentinian Chamber of the Plastics Sector (CAIP), and in steel, IBS.

Business was also involved in the development of new associations, regional and political, either to work in the 'other' country, or in both countries, or in the whole of Mercosur.

As shown in Chapter 4, business actors in the region did not want the process to be confined to the Mercosur level; it was perceived as only one step in a larger process. Already in 1995, Mercosur also included Chile for them, while Venezuela was to be part of the region. Their perception of this spatially expanding process *precedes* their stand on Mercosur integration: they believed that their sectors would benefit from economic integration. A more conflictive matter was deciding on investment and the harmonisation of norms. At the same time, their perceptions also shared the RI ideological core, in the sense that they were critical of the role of the State.

10.3,2.4 Lengthening of horizons

There was a lengthening of both time and spatial horizons, by which regionalism was embedded into the so-called 'globalisation'. In terms of the agenda of business, space seemed most important.

Time

First, there is a historical path of previous negotiations within ALADI. These negotiations brought into Mercosur a tradition of sectoral negotiations, reciprocity, and symmetry. These negotiations referred only to trade and were conducted on an annual basis. Mercosur negotiations displayed a conspicuous lengthening of the temporal horizon.

The feeling of the process being irreversible was shared by both public and private negotiators. 'There is no alternative to the blocs in a context of globalization, with a parallel regionalisation,* said a representative of the Ministry of Foreign Affairs (Lucangeli, PDI37:37).

The representative of a core steel Finn affirmed: 'I, among others, wrote an answer about this question. My answer was: Negotiated liberalisation - no doubt; conflicts vs. positive synergies - yes; blocs move towards world integration - yes' (Jersonsky, PDI 61:15).

Space

The following two quotations provide a clear idea of the lengthening of the spatial horizon for Mercosur's business actors.

'With the opening up, regionalisation, and regional blocs, we see a scheme of one America without customs. There are also inter-bloc arrangements that can achieve progress, as between Mercosur and the EU. There is a more global approach' (Maltese, PDI 38:13).

'We call it Southern Cone, which includes Chile. Mercosur receives the majority of our total exports. We do not know the markets, or what will really happen. There are imports, much change, it will consume the same as DCs, and there arc no sales of intermediate materials because final products are purchased. Purchasing will be globalised, except the distances' (Schocair, PDI 48:18). Let us remember that in 1995 Chile was not yet an associate of Mercosur. 'The chains should be competitive. The sector-based information/ statistics are wrong and incomplete. We must have chains of strong value, but not only one firm (as in Japan and Korea). There is the need for optimizing the use of capital, and investing only when it becomes necessary. We are doing a lot here' (ibid.:19).

10.4 Conclusion: Regionalism and institutionalisation

In the context of financial globalisation, LDCs with an already substantive industrial development encounter pressures under particular vulnerabilities. In Mercosur's regionalism, the States' major objective becomes stability for capital attraction, in order to allow their existing industries to expand their scales. The Executive, and particularly the national presidents, play the major political role, showing one-man leadership with less accountability. Presidential will appears to be paramount in decisions, mediation, and resolution of conflicts of interest in the regional integration process. It seemed an upward delegative institutionalised system with little formalisation of roles, structures and organisations.

In the 1990s , however, a process of institutionalisation complemented the public one, with business displaying complementary leadership objectives (see table 9.1), therefore playing a complementary role. In fact, sustainability was also due to this complementary political process of co-ordination and prioritisation of issues. , It appears that, during the decade, business actors slowly shifted to supranational private mechanisms of governance, while searching for certainty in the institutionalisation of regional norms and mechanisms of decision making and conflict resolution at the public level.

Table 10.1 Complementary leadership objectives

Leadership objectives	States	Business
Co-ordination	Territorial function	Non-territorial
Prioritisation of issues	Stability	Scales and scope

Table 10.2 presents the main State and business instrumental rules in decision making and conflict resolution in regionalism, comparing the 'transition' and the 'implementation of the customs union' periods (between 1990 and 1994, and between 1995 and 1998, respectively).

Table 10.2 Instrumental rules for decision making and conflict resolution

	States	Business
Decision making		
1990-94	Inter-country/ consensual	Sectors' inter-country/consensual
1995-98	Basically Inter-country/ consensual	Supranational/ sectoral co-ordination shifts to core firms
Conflict resolution		
1990-94	Inter-country/ consensual	1st consensual 2nd turn to State
1994-98	Basically inter-country / consensual	Private supranational system emerging? Consensual/ request for higher regional institutionalisation due to non-compliance by the State(s) and no internalisation of norms into national territory

From the 'social' perspective, there has been an emergent class that Cox (1987) calls a 'transnational managerial class', a class that includes not only global business elites, but also officials from those international organisations and elements of State bureaucracies that are most responsive to the needs of the emerging world economy (Helleiner, 1997:97). From a 'cultural' standpoint, it appears 'as a process that has been characterised by the spread of values of modernity' (ibid. 98).

By enquiring further into two industrial sectors (steel and petrochemicals) and their relation to regional policy-making, a qualified process of institutionalisation and of regionalism has gradually emerged. The historical review of their politico-economic development up to the 1990s (see Chapter 6) has highlighted an new type of socio-political leadership. The 1990s political leadership was a mixed pattern built by public and private actors, organised within both civil and political society, increasingly transnational at its nucleus, and institutionalising regionalism as a distinct field of power

NOTES

' Factional elites: politics-as-war in zero-sum game.

[2] A consensual unification presents a positive-sum game or politics-as-bargaining (Sartori, 1987), although elites may oppose each other on ideological and policy questions.

[1] Mittclman (1996:189-213).

[1] In the case of Argentina, Diego Guelar left the national parliament, was appointed ambassador to Brazil, and then to Brussels, to the EU. Alicto Guadagni passed through both Ministries of the Economy and Foreign Relations, then was appointed ambassador to Brazil, and is currently Secretary of Industry, Herrera Vega (Ambassador to Brazil), Campbell, and Lucangeli were in the Foreign Ministry. In 1990, Cavallo was Minister of Foreign Relations, and later Minister of the Economy. Magarinos worked first in the Ministry of the Economy, as negotiator on the automotive industry, and in 1997 as trade representative in Washington. Sanchez was the Mast man' of Cavallo working on Mercosur issues in the Ministry of the Economy until July 1998. In Brazil, examples are Botafogo Goncalves, Renato Marques, Simas Magalhaes and Denot Medeiros in the Foreign Ministry; Ms. Brun,. Martins Mello, and Winston Fritsch, who were in the Ministries of the Economy and Industry. Denot Medeiros is ex-Ambassador of Brazil to ALADI, ex National Co-ordinator of the Brazilian Section of the Common Market Group (Mecosur), and ex Deputy Secretary General for Integration, Economic and Foreign Trade Affairs at the Brazilian Ministry of Foreign Relations. Bornhausen from Brazil and Sanguinetti (as adviser to the Commission) from Argentina were stable negotiators within the Joint Parliamentary Commission.

11 Conclusions

1.1 Introduction

This study has approached the subject of regionalism through an historically grounded research strategy. The case study is Mercosur, and the dissertation concentrates on two industrial sectors: petrochemicals and steel. The evidence collected from interviews with sources from industrial sectors as well as governments was examined from the meso-level (Esser, 1993) and with a sectoral focus. In view of the period covered (with an emphasis on 1990-95 and a follow-up until the beginning of 1999), the issues of globalisation and world economic restructuring also needed to be examined in order to observe any relation with the theme under investigation.

The subject is not only current at a time when globalisation and regionalism are considered established tendencies in the world; it is also crucial for less-industrialised countries searching for development strategies and forms of international insertion in the post-cold war era. Rejecting Fukuyama's Panglossian call for an end to history, this dissertation explores the ongoing transformation of the world political economy.

A main objective has been to trace the private regional co-operative strategies in economic sectors which developed as part of, and in response to, the public/official, regional economic integration arrangement (RIA). Private regional co-operative strategies are defined as the functional and structural institutional processes and arrangements that forge linkages between the national economic sectors. Public and official RIAs are defined by the preference of States to establish a new socio-economic, legal and political entity that may increase both the bargaining and negotiating powers in relation to third parties. Both private regional co-operative strategies and public RIAs are part of what is currently termed 'regionalism', here understood as the voluntary disposition of a grouping of countries to associate their resources, knowledge and capacities, developing links (private and public), common rules and practices into institutionalised arrangements. 'Regionalism' is thus a policy-making process. As such, it covers a regional space with the purpose of creating sustainable regional patterned relations which arc both socio-economic and political.

Therefore, this study did not aim to measure regional integration or regionalism, nor to depart from a clear typification of Mercosur. Rather, there were two other aims: first, to uncover and understand better the process that led to the creation and definition of the market and regional regulation, and, thence, to grasp Mercosur's regionalism; second, to reveal and comprehend the process that advances the possibility of a differentiated social and institutional field covering the region, which could explain what has made Mercosur sustainable so far.

Despite many obstacles, Mercosur has been a customs union since 1995, and its most apparent and striking result has been a huge increase in trade. This last factor has been taken up by U.S. government officers like Mr. Garten (Garten, in Petrash, 1997) and by North American researchers like Pastor and Wise (1995) to draw differences between Mercosur's RIA attempt in the south and the NAFTA attempt in the north. The former is supposedly about trade linkages, while the latter is portrayed as being predominantly based on productive and technological linkages, and therefore allegedly has a lesser risk of reversal to protectionism and is more sustainable. In addition, the Mercosur region has a history of ISI policies, and business actors in the south are not expected to support the RIA attempt strongly. Furthermore, in the Mercosur region, the sustainability of the RIA process has been explained by two factors: the political will of the national presidents and the dynamism of individual firms. The research thus had to be broadened: How have firms interacted with the governments? Has such interaction been based only on individual initiatives? Has it had any influence on, or any role in, the Mercosur arrangement?

In this context, the sectoral focus was not intended to provide a generalisation for a regional integration process as a whole. The author decided to concentrate on two similar sectors with important economies of scale, which were economically prominent and politically sensitive in the countries concerned, and therefore likely to react to, and influence, regional integration policies. Given the lack of general theory and scarce analysis of the sub-national level and cross-national co-operation, as seen in Chapter 2, a sectoral focus was considered a suitable starting point for the research. Besides, the meso-level perspective was intended to reveal agendas and bargains, as seen in Chapter 2 (and quoting Susan Strange, 1998). The reasons for the selected approach and focus were expounded in Chapter 3.

This chapter continues now with a revision of the argument, followed by an exposition of theoretical findings stemming from the dissertation. Next, the chapter draws on the theoretical and policy-making implications and future directions for the study of regionalism in the new century. The chapter ends with a brief commentary on two issues that arise: the market as an institution, and business scales and scope as underlying forces of the 'globalisation' of a capitalist net-economy.

1L2 Recapitulation of the argument

Chapter 4 illustrated the fundamental characteristics of Mercosur that have been important in the actions and development of mcso-level business actors within regionalism. Mercosur was from its inception a non-hegemonic, non-supranational regional integration arrangement, giving high priority to the market. Concerning industrial restructuring, both the Argentinian and Brazilian governments recognised that Argentinian industry was to bear much higher costs than Brazilian industry would. However, the Argentinian government considered the problem of asymmetry within Mercosur to be only the result of ‘governmental regulations’ that altered trade flows due to disproportionate ratios between prices and costs, and took a liberal stand against State regulation. At the same time, though, ‘safety valves’, such as the lists of exceptions and sector-based agreements, were allowed during the process of coalition building to increase support for regional integration.

Chapter 5 showed that Mercosur’s most conspicuous outcome - growth in trade and investment - has been delivered by the private sector’s dynamism, although the sustainability of Mercosur’s ‘open regionalism’ is said to have rested on strong presidential will. Institutional development has been minimal, while trade growth has not only been impressive but also steady, though probably aided by lower transport costs and geographical proximity. Intrarcgional trade grew by more than 250% in five years (1990 - 95), and its average annual growth was 28.8%. The expectation that the creation of an enlarged market, namely the regional market of Mercosur, would attract foreign investment proved well founded: investment flows have been extremely important in the process.

A neo-functionalist view may interpret Mercosur’s narrative as one in which the increase in firms’ regional linkages and trade has contributed to the legitimacy regionalism, while institutional density has proceeded slowly, as needs arise. A neo-realist explanation, where States are the fundamental actors in any international trade regime, may also be justified: governments have confined Mercosur’s RIA to inter-governmental decision making. However, if the ‘axis of this [new] regionalism is not [based] on trade’, as others upheld in the region, it appears doubtful whether past theories on regional integration and international regimes, as observed in Chapter 2, can provide a convincing explanation.

Mercosur has been confronted with bilateral trade and investment tensions after sequential financial crises in the world. The main crisis was the Mexican ‘tequila effect’ of 1994, and the last have stemmed from the Asian and Russian financial crises since 1997. As a consequence, Brazil devalued in early 1999. It thus remains to be seen whether the impressive trade growth will be sustained, and whether the governments will develop the necessary regional supranational institutions and mechanisms in order to cope with these tensions. In this regard, if Mercosur's sustainability only rested, as portrayed, on both the presidential will to resolve conflicts and trade growth based on individual firms' initiatives, the hypotheses of a return to State protectionism and the demise of Mercosur might be more probable.

Yet, against that trend of thought, field-work has shown for the first time that the basis of this southern RIA attempt was not trade. Throughout the research, the understanding of regional integration and its enveloping globalisation process increasingly focused on the mechanisms of co-ordination and rule making, by which new perceptions and subjectivities were being constructed. Hence, an initial finding of the research is that regionalism, as a concept, proves useful for emphasising the field of policy making and regulation.

Because few Mercosur business people were expected to accept liberalisation, the sectoral focus was meant to highlight actors' accountability. Besides the traditional assumption of regional business as rcnt-scckers with a protectionist attitude, they had a tradition of segmented action (Viguera, 1995). Neither of these two characteristics would ensure strong pro-free trade coalitions with governments (Pastor and Wise,1995). Sectors such as petrochemicals and steel had evolved under an 'assisted capitalism' with a rentier culture and were not expected to change in the short run (ECLAC/CIID CAN/93/S41). However, already in 1995, Payne and Bartell affirmed that Latin American business leaders were behaving differently from the past (Payne and Bartell, 1995:257). In 1997, Bouzas used the indicator of intraregional Mercosur investment flows to support a similar view (as seen in Chapter 5).

As discussed in Chapter 3, industrial sectors with increasing returns to scale of production 'should be the ones who pursue a regional strategy' (Milner, 1996:80), and, consequently, would be more likely to be involved in regionalism. Industries that are not under perfect competitive conditions would prefer to export than to invest abroad, favouring liberalisation within a customs union. Additionally, since these industries experience cyclical periods of oversupply and low prices, it may be possible that during downturns they may prefer a regional customs union ensuring a margin of regional preference and stable market access.

Such contrasting stands needed further appraisal of business actors' rationale, strategies and involvement in the 1990s regionalism. Two limitations constrained the analysis. First, it was difficult to draw a clear line between the outcomes stemming from the simultaneous unilateral State liberalisation and structural adjustment policies in both Argentina and Brazil on the one hand, and the outcomes stemming from regionalism on the other. However, helpful orientation in this regard came from the qualitative analysis of interviewees' responses. Second, macro-economic and employment policies, as well as the industries' technological development, all important additional factors in the analysis of industrial sectors, were not analysed in depth in this study owing to research objectives and space constraints.

In order to explain Mercosur's business behaviour, with all its complexity and the divergent existing theories, it was essential to start the analysis from a different angle. On the one hand, emphasis was laid on the meso-levcl at which business coalitions and strategies have been evolving. In order to achieve this objective, the historical evolution of business behaviour from a meso-level perspective was also reviewed, since it could provide the means to understand the rationale of their strategies in the 1990s.

On the other hand, the focus on two industrial sectors streamlined the research. Consequently, Chapter 6 presented the historical development of the national regulatory and co-ordinating frameworks in which the sectors' strategies and identities matured. The 1990s political economy, as relevant to the petrochemical and steel sectors, was subsequently reviewed from a comparative perspective. Finally, these sectors' strategies within regionalism were assessed, reflecting a transition in the region from a macro-Fordist system of co-ordination to a micro-Fordist system with some Toyotist elements, to quote Ruigrok and van Tuldcr (1995). Due to this process, some holdings became autonomous from the State, playing an increasingly visible role in the regional political-economy and engaging in the newly emerging global competition.

This appeared to be the main additional factor influencing their strategies, whose major three elements, according to the qualitative analysis of actors' interviews, were: first, a world economic restructuring experienced through a changing system of production and distribution that was aided by technological developments; second, consequent larger and well-co-ordinated business scales; and third, the strategic definition of their business scope. The global competition of the 1990s was discussed in Chapter 7.

A complex industrial restructuring has indeed been evolving on a global scale since the mid-1970s (Dicken, 1998:437-8; Ruigrok and van Tulder, 1995). Thus, Fontagne notes that 'globalisation of the world economy passes through the reorganisation of production processes on a rather regional, even global basis … The importance of economies of scale, which imposes the reduction in the number of units of production, and the need to standardise the processes of production … combine 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 particular attention. Defined as all goods produced, reintroduced during the productive cycle and disappearing as such within the cycle itself, they comprise steel and petrochemicals. The intermediate sectors are important in globalisation, as shown by the continuous growth of their percentage in world trade. In 1996, they accounted for 50% to 60% of trade between Western Europe, the USA and Japan (ibid: last inside page). The choice of two intermediate sectors has thus proved of strategic importance in highlighting what the Mercosur regionalism was about and how it was built from within the region, while revealing an interrelation with globalisation.

The sectors' business culture and restructuring strategies that emerged from the field-work data and qualitative analysis were examined in Chapter 8. As Chapter 3 explained, petrochemical and steel products are commodities, i.e. standardised products, and characterised by increasing economics of scale, large capital investment, continuous processes of production, and vertical industrial complexes. With such characteristics, they tend to create oligopolies and monopolies, and to consider that certitude over the 'rules of the game' or policy regimes are important for their strategies. All these characteristics make them key business actors, likely to internationalise and to be heard by governments. However, it docs not appear sufficient to explain their involvement in Mercosur's regionalism as a regulatory and policy-making process. The reasons for and extent of their involvement in Mercosur's regionalism were given in Chapters 9 and 10.

In Chapter 9, regionalism in the States' agenda was linked to the aims of macro-economic stability and attraction of capital into the region. Regionalism in the agenda of business was connected to the goal of increasing business scales. The two sides were operating like tweezers in order to integrate capital within the region, enabling BEGs to incorporate their firms into regional and global production and distribution networks. In this regard, the 1990s regionalism was embedded in globalisation.

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 encompassed several functions: aggregating, representing, channelling intensity of preferences, influencing policy making, and beyond, when States did not have the information and knowledge that was most needed to conduct and carry out the negotiations, such as on harmonisation, definition of norms, and mechanisms for conflict-resolution. The sectoral representatives, as socio-political organisations, appeared to have a division of tasks while 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 (of both ABEIP and Mercosur). The sectors analysed here have strengthened all the weaknesses that Motta Veiga (1995) identified at the public level. However, this does not mean that an increasingly oligopolistic competition may not lead to future conflicts. Thus, from a political-economy perspective, business actors have been involved in the construction of the regional market.

The study reached several conclusions regarding Mercosur's regionalism during the period under examination, and in particular regarding its sustainability and the role of business actors in the process.

First, regionalism is a regulatory process by which regional patterns of relations may be gradually institutionalised. These patterns would then tend to be co-ordinated in a regular fashion, embodying particular values and normative rules, and possibly formalised into new structures. From a sectoral and meso-level vantage point, Mercosur's regionalism is seen as a process based on certain values, conceptualised under the name of 'open regionalism' and crystallised on the ground of a coalition of interests (State and business). Such a vantage point guided the understanding of regionalism: i.e., as a regulatory and policy-making process through which regional patterns of relations enter a stage of institutionalisation in order to achieve sustainability.

Second, Mercosur's success and sustainability have rested on a coalition of interests as well as of actors' participation in the process. In addition, although the general portrait of Mercosur is one of trade success and low degree of institutionalisation, sustained on the basis of strong presidential will, a sectoral focus at the meso-level, based on a grounded qualitative analysis, has provided a qualified and more accountable view. The evidence showed that Mercosur's sustainability has rested to a significant degree on the involvement and participation of business actors in various forms and degrees.

Mercosur's regionalism was not about trade. At the end of the century, this understanding has been reaffirmed by academia. As discussed in Chapter 2, the 1990s regionalism is 'new' because its core issues are not related to trade (sec Hettne *et a!.*, 1999).

Fourth, the sustainability of regionalism appeared to be constructed on a political-economic basis. On the one hand, sectoral restructuring was carried out at the regional level through the enlargement of business scales and a sharper definition of business scope, with some holdings becoming core firms within each sector. Regionalism has served both States and business in the 1990s context of globalisation, economic restructuring, and an emerging type of worldwide oligopolistic competition. This regional restructuring was embedded in the 1990s globalisation. The focus of Mercosur's regionalism was to ease flows that were increasingly internalised by holdings and big economic groups, in terms of production, distribution and services as well as information and management. **On** the **other hand, it involved a necessary correlation through regional norms and mechanisms** to ensure the certainty of constant regular flows within Mercosur, be they of capital, goods or services. Generalisations based on these two sectors, which have many features specific to them, should be avoided until other economic sectors have been studied. What is important to stress is that any changes in production systems need to be accompanied by appropriate co-ordinating institutions to suit the needs of emerging core firms or groups.

The fifth conclusion is that, **during the period under study,** Mercosur's **regionalism reflected a mixed-partnership in policy making between State-officials and business actors, within broader political regimes described as 'dclcgative democracies' by O'Donnell (1994). The** emerging regional policy networks have appeared sustainable as long as their co-ordinating capability is not threatened to an absolute degree by, for example, external financial shocks. Contrary to the idea that the regional integration process has taken place without supranational authority combined with a loss of State co-ordination through the unravelling of 'regulation', this study observed a delegation from the State to business actors to define regional regulation concerning their industrial sectors. This included issues such as the CET, competition rules, harmonisation of technical norms, mechanisms to resolve conflicts, etc., and tended to emerge through a negotiated convergence at the sectoral level. In this regard, States retained an important role, i.e. of enforcement of the agreed rules. While States' competition for investment influenced a debate on harmonisation of taxation, environment, and labour policies, which dealt with systemic costs to industry, business actors engaged in the building of sectoral regulation and governance through the supply of supranational institutions (nonns, agreements, mechanisms of decision making and conflict resolution) that could enforce common norms at the regional level.

Regarding the process of business actors' participation amid a general deficit of democracy in Mercosur, an important issue arises, that of accountability. 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 States cannot. Business actors' participation has occurred to the extent described in this dissertation partly because of the lack of mechanisms for representation and participation in policy making, whether it be a supranational bureaucracy or a democratic forum such as a regional parliament. In the end, the question lies ahead about 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 participation of society.

113 Theoretical and policy-making implications for the study of, and research into, regionalism in the twenty-first century

This last section is divided into two parts. The first discusses the theoretical notions advanced by the study and presents new hypotheses that call for further research. As will be seen, policy-making questions also stem from these theoretical implications. The second part debates two significant topics emerging from this thesis: the view of the market as an institution, and the view of globalisation as a new type of competition in today's capitalism which is underlined by the enlargement of business scales.

113.1 Findings of the study

Several notions which had already been considered in Chapter 2 have been retained in this study. These notions had been singled out through the bibliographical research done before the field-work. Others that surfaced after the field-work are presented here. First, **normative or legal boundaries are** not necessarily political boundaries. Moreover, these boundaries change over time. The dismissal of State-centred approaches makes it possible to research the existence of noimative spaces, and the avoidance of any trap based on common-sense perceptions of political boundaries.

Second, in agreement with Walker (1993), **the domestic versus international gap is incorrect.** 'This gap, based on the principle of state sovereignty and its resulting classic patterns of inclusion and exclusion hypothesised in theory, does not account for other claims to political identity, or for other activities and practices that take place across different states beyond national jurisdictions' (ibid., 1993).

Third, **identities are gradually constructed by actors' perceptions, needs and working experience, as well as through their interaction (e.g. in** this study, business actors and a reduced State bureaucracy that rotates among posts and countries, who remain focused on the same issues, sectors and business-State relations, as well as providers of interfaces between the national, regional and global levels). Thus, identities have been arising through the actors' participation in shared tasks and interests. As the articulation of interests at the regional level has been leading to new (business) strategies as well as to the genesis of actors, a sufficient critical mass of social actors and networks with the necessary resources has emerged, able to sustain regionalism and gradually create a historical trajectory in the region. In regionalism, regional policy making and resulting patterns of regulation appear as the interface between timing and trajectories: timing of decision making and implementation within a given situation, needs and urgencies; and trajectories that, at first looking chaotic or even unnoticeablc, later may take complete form and direction. In this sense, Mercosur's trajectory is defined by the interaction among key actors, embedded in the world politico-economic system, and remains an open-ended historical process. A key question for the future sustainability of regionalism may be not about open trade, but about whether and how regional regulatory norms and mechanisms, with a high degree of institutionalisation, may exist to manage crises, e.g., those stemming from the financial sphere.

Fourth, **the distinctiveness and histories of particular State agencies and of particular policy styles, as well as the fact that 'autonomous state activity can never really be disinterested in any meaningful sense' (Evans *et al.*, 1985), have to be reckoned with.** History matters by influencing future trajectories of thought and action and by opening certain paths and limiting others. This could be observed in the sectors' historical development, in the conformation of actors that would undertake key roles in the 1990s 'open regionalism', and in the priorities, agendas and strategies of business actors in the period under study.

Fifth, **public policy styles have particular 'logics' relevant to the analysis.** As McAleavey (1994) argued with regard to the European Union, the supply of lobbying (logic of membership that includes the issue of mobilisation of members) does not explain everything. The negotiating stages, which refers to the setting of rules, distribution or regulation, and the structure of the established decision-making framework, will also define the 'logic of policy'. In the 1990s context of world capitalist restructuring through the so-called globalisation, it seems inappropriate to think of policy making as before, even if it includes a good deal of co-operation between States and the private sector. But the policy-making style argued by Peres Nunez (1996:26), or ECLAC, in which State-authorities decide and others implement (e.g. business chambers)', may no longer be accurate. Concrete negotiations and decision making may be done at a first stage by the would-be implcmenters due to the strategic resources that they have internalised, and which can now be co-ordinated at a transnational level. In such a case, the process may be the opposite of the one outlined by Putnam (1988). Negotiations may be undertaken by actors other than the State. They could also stem from a delegation of roles and tasks, as in the case of Mercosur's 'open regionalism'. Is it not due time to consider clearly that economic actors are also historical political actors with conscious strategies, as Sally ascertained in the Ph.D. thesis 'States and Firms, Multinational Enterprises in Institutional Competition' (Sally, 1995:219), or *'soggetti storici'* in Gramscian terms?

Together with the above ideas, reconfirmed through the research, new ideas have also come to the fore through the field-work qualitative analysis, as explained in Chapter 3. First, **research on regionalism should explore the existence of actors, mechanisms and results regarding co-ordinating** mechanisms for decision making and conflict resolution. This should not be undertaken under individualist assumptions, so as not to overlook any process of leadership and co-ordination, advancing through a socially constructed process and not from individual imposition in dual contests (agents A and B). By process, not by function, an institutional system may build a 'reflexive intelligence' that may offer adaptive strategic responses. This, in fact, appears to be the key to competitiveness. However, when States become part of a commodification process (e.g. through privatising and subcontracting), 'mobilised for economic purposes and from economic motivations alone' (Hollingsworth and Strceck, 1994, Chapter 11), sustainable and efficient co-ordination among actors within society becomes difficult. Such a process does not allow adaptation to multiple changing needs, which make up a complexity that cannot be handled solely through economic motivations. For example, the issues of conflict resolution and justice have remained an open question, with uncertain answers even for business actors. The sustainability of regionalism requires a debate on the role of institutions as moderators, given the complexity of values that underpin human society. Antonio Barros de Castro, professor at the Federal University of Rio de Janeiro, recognised this in a rather forceful way at the closure of the XI Congress of Brazilian Economists in September 1999: 'The relevance of institutions in their role of moderating capitalism can be understood as the difference between a nuclear reactor and an atomic bomb. A nuclear reactor has moderators, while an atomic bomb does not.'

Second, the need for leadership remains all the same, to ensure a minimal coherence in terms of values and priorities for a group of people (an industrial sector, a country, a region, etc.). In any process of institution building, units of people responsible for issue-areas and for the decision-making processes become the key. Networks also need co-ordination together with legitimisation stemming from one or more sources of authority, because networks alone cannot enforce resulting agreements. If networks are also embedded into broader systems, an ultimate need for 'public' institutions and authority will arise.

Third, while advocating further research into the sub-national and meso-levels beyond the State, the concept of State remains relevant with regard to actors' strategies and policy making. Globalisation and competition for investment, not to mention LDCs' financial-economic crises, have challenged the space, role, autonomy and sovereignty of the State to an unprecedented degree. Nevertheless, the ensuing 'deregulation' at the national level does not appear to usher in an institutionally 'thin* neo-classical order.

Fourth, if the idea of autonomy of the State as a whole seemed inappropriate, since the State is a complex system with multiple structures, the autonomy of the State's structures connected to the industrial sectors studied here was also challenged. The process observed in this study has led to the perception of the State as an interdependent / dependent subsystem within the world system. Indeed, the State was observed as a site for agency by partnerships of a variety of actors.

Fifth, throughout Mercosur's regionalism, a tension between the issues of international insertion and industrialisation could be observed. The lack of consensus over long-term development strategies and means to achieve them has helped to ensure a low degree of institutionalisation and a low degree of harmonisation of rules. At the end of the 1990s, the industrialisation strategy most followed has probably been the search for insertion into regional as well as global networks. New questions would be: Have there been better alternatives for business actors in the sectors studied within the Mercosur region? Is the same happening in other economic sectors? What is the impact of such a 'net-economy' in the region in social, political and economic terms? Does it make sense for States to support the creation and competitiveness of firms through active industrial policies, if core firms of the same sector (probably foreign) will later acquire and/or control them?

In conjunction with the above, the question of sustainability of industrial networks arises in the event of any political or military crisis at the world level. Are there alternatives in case of a contraction due to grave financial crisis? How fast could these be developed? After visualising the issue of globalisation in a more concrete fashion than through vague or general debates, and just to challenge theoretical thinking, could the phenomenon of emerging, globally managed sectoral networks and chains be contrasted with the centrally managed economies of the past? Do they have anything in common, or arc they totally different?

A topic that surfaced in connection with entrepreneurial versus managerial culture of business actors, and with the issue of restructuring strategies, has been the autonomy of the firm as a condition for entrepreneurial rationality. Any firm that lacks autonomy, in particular in its management, appeared as a ‘hostage’ to other priorities, rendering it less flexible and capable of taking advantage of existing economic opportunities and/or formulating initiatives.

Future research should thus take into account that there is a rich, yet-unexplored path opened by this dissertation: at the sectoral level across nation-states; at the meso-lcvel in which actors may co-ordinate actions and mechanisms through networks and associations; and regarding the processes of institutionalisation, including investigation into the roles and tasks involved in the construction of leadership over key issues and path options. The inclusion of history and culture, and a multidisciplinary approach are also important. In this case study, history and culture enabled the author to draw attention to different theoretical conceptualisations and new understandings of regionalism.

11.3.2 Emergent topics: the market as an institution and globalisation as a new type of competition in capitalism

The market as an institution

While Lorenz has seen regionalism as the policy making (political and institutional construction) of regional integration (see Chapter 2), transactions or exchange relationships are in-built within institutional niles. Moreover, a general belief remains that nation-states and legal norms established by them are the basis of industrial policy and market exchange. Yet, rules can be unwritten, culturally and historically bound, customary, politico-economic, transnational, and/or created by others actors.

Institutions are viewed differently in the various academic disciplines and schools of thought (Beeson, 1997). In economics, institutionalism focuses on transaction costs, path dependency and incentive structure. In political science, two main strands of individual and of historical institutionalism have developed. The first one considers the institution as a political actor on its own, at most concerned with collective action and common goods, but neglecting domestic bases, contending State interests and preferences, as well as the economic and political imperatives for the formation of interests and policy. Historical institutionalism has been criticised for the lack of a methodology that can be replicated.

From within IPE, this study has examined the role of regional business policy networks, the dynamics and outcomes of the regional policies regarding the chosen industrial sectors, and the agendas and bargaining power positions of the firms and governments, in particular from 1991 to 1996. This approach to IPE and to the role of business actors takes as its point of departure a study of the sectors' historical development and the Finns they include: the firms' strategies towards Mercosur and the cross-border value-adding networks they may have built. It also analyses those representatives who, as actors, have participated in the building of Mercosur's regionalism.

Thus, this study has come to view the market as a double-sided politico-economic and historical construction. A market is a human-made institution that exists insofar as repeated exchanges occur in the long term under certain rules (Polanyi, 1957), for which these rules must be institutionalised. 'The market - as the place where trade relations among individuals (legally equal and legally able to trade) arc created - is an institution that should be created through the definition of collective rules that foster positive dynamics among these individual actors.' (Bianchi *el al.*, 1994:29).

Any market, as an institution, needs rules to ensure its existence and functioning. Therefore, as soon as the State surrenders its regulatory role, that role is taken over by other actors. This is not a value judgement, but the recognition that regulation is needed to build a market. In this sense, it is possible for capitalist markets to develop separately from States (as 'corridors' across countries and regions, as nct-cconomies).

For the process to be understood, the firm needs to be reconceptualised as a historical actor, 'as a social and economic actor that contributes to defining the market in which it operates' (Sapelli, 1993:104). Sapelli builds on Chandler's work, emphasising that 'it is essential to remark that the organisation cannot be understood only as an abstract principle opposed to the market (as in the current a la mode dichotomy of hierarchy/market recited in any manual), because there is no “Robinson-Crusoc-market" pre-existing the hierarchy or organisation' (Sapelli, 1993:110). As in Galilean thought mentioned in Chapter 3, Sapelli calls for the conception of the firm as a process characterised by a plurality of logics and rationalities, not as an instrument, 'lire organisation ... understood as association ... that constitutes its environment, the latter being an arena of plural organisational dynamics' (ibid.:113). Following Sapelli's conceptualisation, the firm is then an association among actors who embody strategies of behaviour and of cultures, while its environment includes not only firms but also the socio-political associations with which the firm constantly interacts. Historically, the firm is 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).

In short, there is no pre-social or impersonal market. The current common-sense concept of a 'free market' would perhaps be more appropriately expressed by the concept of competition. Instead, the market, in Auerbach's sense, 'is the reification of a collection of relations of behaviour among participants' (Auerbach, in Sapelli, 1993:120). This thinking appears close to Bourdieu's conception of fields and markets that become autonomous, differentiated from others, throughout modernisation (Lash, 1990). Accordingly, citizens become actors in a conscious way, through a socially constructed and context-bound process. Perception of necessity and preferences contribute to the formation of identity and choice. The latter are not external. Indeed, the two are re-elaborated according to previously experienced historical events under particular politico-economic circumstances in particular cultures. Events in this case are not just happenings, but are particular instances carrying a catalytic impact in the minds of the actors. Such an impact leads to the perception of necessity and possible options, priorities and agendas.

Institutionalists have recently developed concepts such as *'road maps'*, incorporating the impact of values and ideas, and social and political orders, in the making of policy, by which the 'road map' becomes embedded in political institutions (Goldstein and Keohane, 1993:3, in Beeson, 1997). As m economics, there has been a recognition of 'path dependency' in 'the development trajectories' of institutions and economics (North, 1990). Trajectory as a concept has been applied to the analysis of financial stock markets after the 1987 U.S. 'Black Thursday', and has been introduced into the literature of political economy of development (Gamble and Payne, 1996). Reading of history can be used as an analytical tool to explain politico-economic processes of development (Gamble and Payne, 1996). In a certain sense, these concepts may be seen as evolutionary, and, within international relations they may be read as functional. However, they should not be taken as unidirectional, permanent, or necessarily systemic.

Accordingly, this dissertation assumes that there is a 'historical path' where the market is seen as a historical socio-political construction. In this case study, regionalism is seen as a historical process in which certain forms of coherence emerge.

Globalisation as a new type of competition in capitalism

Various findings of this study tend to redefine the concept of globalisation. This is not intended to reduce the multifaceted debate on globalisation. However, when it comes to the world economic restructuring and competition, emergent economic networks in the same business concern and within the same sector are highly visible. A constant stream of news seems to strengthen the argument that globalisation may not lead to free trade, but to 'net-trade' and a 'net-economy'.

Thus, it may be better first to consider the concept of competition, and then to analyse how the market is constructed. A principal view of globalisation in this dissertation is that it was fuelled by the enlargement of business scales and sharper focusing on business scope, and that the rationale seemed to be the search for control of resources and assurance of co-ordination among the various firms and actors within each possible network. If this perception is accurate, a more appropriate debate on the so-called globalisation can be opened, and its whole process, significance and repercussions may be examined under a new light.

Yet, 'economic globalisation' has not just been an economic process. From the 'political' vantage point, it has also been a phenomenon characterised by the emergence of increasingly extensive governance structures reaching beyond the States. (See Hclleincr, 1997:97; Strange, 1997; and Castells, 1998). This dissertation, with field-work done mostly in 1995, highlights this very process.

In this study, globalisation docs not seem to have erased borders, distance or hierarchy, but, rather, reconfigured them through the 1990s competition. Any serious debate should take this into consideration, that it does not seem to be just an ideological recourse, but to be composed of significant elements that construct it as a powerful teleological rationale in a changing capitalism.

The concept of business scales, which has appeared through the qualitative analysis, awaits sharper definition in economic terms, to enable measurement and comparison among sectors and networks, and to analyse the extent to which world economic flows may now be internal to networks.

A debate on economic globalisation restricted cither to nation-states or to firms' individualistic competition appears inconsistent. A debate about globalisation as the culmination of the free market seems inappropriate and questionable. Could nco-rcalists, liberals or any State-centric approach guide the debate properly? There is, indeed, a need for critical realism and a global political economy approach to twenty-first century research.

In this new light, and as regards the expectation of a global free market through the so-called globalisation, could the space of the Tree' market not be receding? Economic space should not be confused with the concept of the market. First, because a market can be observed as an institutional construction of human beings. A market can never be free, business actors may be. If the transactions and rules of the 'market' become increasingly internalised within firms and holdings' networks, whose rationale is based on the priority of enlarging business scales to ensure their survival, will the expectation of a free market remain? Or could this process mean a transition towards a global planned market, access to which will depend on the participation inside networks, hierarchically built and led by big transnational economic groups? Can this be more efficient in economic terms than the old idea of a free market? Can this be more sustainable, more equitable?

Let us stretch this disquisition to other sectors where small and medium enterprises (SMEs) may constitute the majority. Considering the expansion of 'net-trade*, what is the space left for autonomous or 'free' small and medium business actors? What could the results be in terms of labour and employment? If the issue of business scales increases in significance, can policies aimed at industrialisation neglect the issue for sectoral clustering and meso-levcl institutions to provide the scales otherwise unattainable, and to sustain the various SME members in many ways (e.g. with regard to quality and technical norms, trading, R&D, social needs of members)? May future industrial policy be conceived only with individualistic assumptions, without measuring externalities or envisioning diachronic trajectories?

Further, the concept of 'open regionalism', examined in Chapters 9 and 10, has been shared by two regions in the world during the 1990s: Mercosur and South-east Asia. This is another angle to explore beyond this dissertation. Why was the concept used for certain regions and not others? Was it because they were the most industrialised LDCs that could engage in the new world competition? Was it because they had large enough critical sectors for the so-called globalisation process, better viewed as an emerging net-economy (i.e. automobiles, intermediate products)?

In the 1990s, as a Brazilian economist put it: 'Capitalism rather than self-sustained growth seemed assured in Brazil' (Bresser Pereira, 1996:120). The same may be said for the Mercosur region. Self-sustained growth undoubtedly remains one of the most daunting challenges for Mercosur. One more question concerns Mercosur's 'openness' to spheres other than the economic one, in order to provide an option for sustainable, equitable and democratic development for the region. And last, but not least, a fundamental task for regional actors will be to self-situate in and respond to the constantly changing global political economy. These challenges cannot be answered in this dissertation. However, if this study has created a better understanding of Mercosur's regionalism, it has attained its objective.

Appendices

A1 Mercosur's Institutional Structure

Decision-making bodies

1 Common Market Council (CMC, Consejo del Mercado Comun or Consellio do Mercado Comum)

As Mercosur's highest political body, formed by the national foreign relations and economics and/or finance ministers, it is responsible for the political direction of the KI process. This body issues norms, called "decisions". State presidents may attend its meetings. Under its authority, there are Ministers' meetings since 1995.

Ministerial meetings

Ministerial meetings are attended by ministers for the economy, education, justice, labour and agriculture, and central bank presidents. These meetings were established by CMC Decision 1/95. Also in 1995, meetings of culture ministers were instituted by CMC Decision 2/95, and meetings of health ministers by Decision 3/95. In 1996, interior ministers' meetings were added by Decision 7/96. In 1997, industry ministers were included through Decision 7/97.

2 Common Market Group (CMG, Grupo Mercado Comun/ Cornum)

The CMG is the executive bureau and is made up of four permanent representatives and four alternates from each country, appointed by their respective governments. The CMG must include representatives from the national ministries for foreign affairs and the economy (or their equivalents) and from the central banks who are directly involved in the KI implementation (a total of 32 persons). The foreign affairs ministries are responsible for the organisation and functioning of the CMG. In its sphere of respopnsibility are ten sub-working groups, *ad hoc* groups, and specialised meetings. The CMG issues norms, called 'resolutions', which are binding on all member states.

(i) Working groups (WG, Grupos de Trabajo/ Trabalho)

The WG review the issues that are the CMG's responsibility. Annex V of the Asuncion Treaty established ten groups: on trade (no. 1), customs (no. 2), technical norms (no. 3), fiscal and monetary policy (no. 4), land transport (no. 5), maritime transport (no. 6), industrial and technological policies (no. 7), agricultural policy (no. 8), energy policy (no. 9) and macro-economic policy co-ordination (no. 10). Later the CMG created a working group on labour (no. 11) and simultaneously introduced the *ad-hoc* meetings, such as on institutional issues and regional development.

The WG played an important role during the 'transition period', when they were considered to be *ad hoc* groups. Their long-term existence was uncertain until August 1995, when it was decided to continue them. Since 1995,' ten WG have been covering communications (no. 1), mining (no. 2), technical regulations (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). A WG on health (no. 11) was added in 1996.

(ii) Specialised meetings

Specialised meetings operate within the CMG and are in charge of advancing RI outside the economic and trade issues, such as tourism and science and technology, which were institutionalised by Resolution 20/95. Justice, education, culture and environment were taken up as well. Social communication was added in 1996, while women's issues were added in July 1998.

(777) Ad hoc *groups*

Ad hoc groups advise the CMG on sector-based issues and on Mercosur's foreign relations. Since 1995 there have been *ad hoc* groups on services, institutional aspects, the sugar sector, Mercosur-ALADl, and Mercosur-WTO (World Trade Organization). In 1995, two *ad hoc* groups were added to deal with "external relations" with non-member countries and government procurement. In 1996, another was constituted to discuss "public policies that distort competitiveness".

(iv) Groups on services

In 1998, the CMG ended the *ad-hoc* group on services and created an auxiliary group on services, with the aim of organising and implementing annual rounds of negotiations for ten years in order to liberalise the regional trade in services.

(v) Technical Co-operation Committee

The Technical Co-operation Committee advises on and implements technical co-operation between Mercosur and the European Union, the Inter-American Development Bank and other financing institutions.

3 Trade Commission (TC, Comision/Commissao de Comcrcio de Mercosur)

The TC is the main technical body administering the common trade policy started in October 1994. It has ten advisory technical committees, which are responsible for the following issues: tariffs (no. I), customs duties (no. 2), fair trading practices (no. 3), trade distorting public policies (no. 4, suspended in 1997), competition (no. 5, created in 1996), disloyal practices and safeguards (no. 6, created in 1996), consumer protection (no. 7), non-tariff barriers (no. 8), the automotive sector (no. 9), the textile sector (no. 10). The TC meets at least twice a month and issues directives that are binding on the member states. The directives are transmitted up to the CMG. In 1996 the TC was the only constantly active body, though without a permanent geographical headquarters. Brazil has been competing with Uruguay to have the headquarters established permanently in Florianopolis.

Body of parliamentary representation

Joint Parliamentary Commission (JPC, Commision/ Commissao Parlamentaria Conjunta)

Formed by 16 parliamentarians from each country, the JPC participates in harmonisation of legislation and works on parliamentary ratification of Mercosur regulations. It transmits its recommendations to the CMG. It is not a parliament in itself, and although it was instituted by the Integration

Treaty of 1988, it was constituted only six months after the signing of the Asuncion Treaty. It has an executive and a permanent administrative secretariat in each country, and several specialised sub-committees.

Advisory body

Economic and Social Consultative Forum (FCES, Foro Consultivo Economico Social)

The FCES represents the economic and social actors. It is a space where business and labour, and non-govcmmental organisations, can discuss RI policies and propose specific nonns. Its composition and functioning were still undefined by 1996. The forum is an advisory body and issues recommendations which are presented to the CMG. In 1998, its most conspicuous members were the national confederations for industry, national labour unions such as the Argentine CGT and Brazilian CUT, and, in the case of Argentina, the national association of big landowners (Sociedad Rural Argentina).

Support body

Administrative Secretariat (Secretaria Administrativa)

The Administrative Secretariat is based in Montevideo and offers administrative assistance to the other organs. It is the only body with a permanent geographical headquarters and budget, paid in equal parts by the Mercosur member states. In 1997, the Secretariat finally inaugurated its permanent offices in Montevideo, issuing its first *Bulletin* on 1 June 1997.

NOTE

[1] By CMG Resolution 20/95.

A2 Atlasti Networks

1. Paradigm (2): the political economy of regionalism
   Comment and network

2. Attraction and integration of capital/s (1)
   Network

3. Business culture (3)
   Network

4. Business agenda
   Network

5. Paradigm (1)
   Network displaying core codes

Paradigm (2) - network view

Comment

1. Context

Mercosur's regionalism is being implemented in a world context marked by three major dimensions.

(i) The so-called globalisation process (with 26 quotations attached, and related to codes of standardisation, long-term relationships and business scope for firms' strategies.
(ii) The world economic restructuring.
(iii) State restructuring originating in the financial crises of the 1980s and 1990s and sustained under the 'nco-liberal' ideology.

Thus, while globalisation implies a global approach and co-ordination by firms and sectors, neo-liberalism implies the retreat of the State and the decrease of its co-ordinating capacities through deregulation and privatisation. The context is associated with the condition, because perceptions struggle and lead to the main condition for the 1990s regionalism , which in turn establishes the priorities and core ideology for the RI agenda.

2 Condition

Regionalism in the 1990s should serve two main interlinked purposes, which are the condition for the success and sustainability of Mercosur's regionalism:

(i) opening a large region to capital
(ii) integrating new capital into existing capital within the region

The condition thus includes the following dimensions:

- macro-economic stability
- political stability under a core centre of liberalism
- liberalisation in trade and finance

The State's role then changes towards providing stability and ensuring openness in order to attract both long- and short-term capital flows into the region. However, the States have different ideological cores and agendas with regard to Mercosur, based on their ideas about the State's role and needs in the national system of production. States also have different relations/dynamics with their civil societies.

3 Phenomenon

The condition then has led to the more visible phenomenon of Mercosur's regionalism. This phenomenon can be seen as two sides of a coin. On one side, trade is perceived as Mercosur's major success; and on the other, public institutionalisation is low, and the sustainability of the process is thus considered to depend on presidential will as well as on individual private firms that feel encouraged by Mercosur's trade success. This phenomenon has the following two main dimensions: low institutionalisation and no supranational regulation.

4 Intervenient condition

At the same time, however, and stemming from the 'globalisation' process, we have the sectors' and firms' agendas, which include codes such as:

- business scales and scope
- business strategies of restructuring, including their associations
- individual business strategies
- raw materials

- business objectives related to economic-organisational co-operation

Their restructuring has two main goals:

(i) enlargement of business scales and greter focus on business scope
(ii) achievement of business scales and scope through improved co-ordination

Thus, the firms will tend to resort to a system of institutionalisation of expectations, nonns, rules, decision making and conflict resolution across national borders. This is why it is fundamental to look at institutionalisation, and not institutions, as well as at policy-making and not only public norms.

5 *Consequence*

The above leads to private sector-led regulation, with the consequence of integration of capital (which had been desired in the first place), namely the establishment of networks in the sectors at regional level but also beyond Mercosur. This is where regionalism in the 1990s is linked to globalisation.

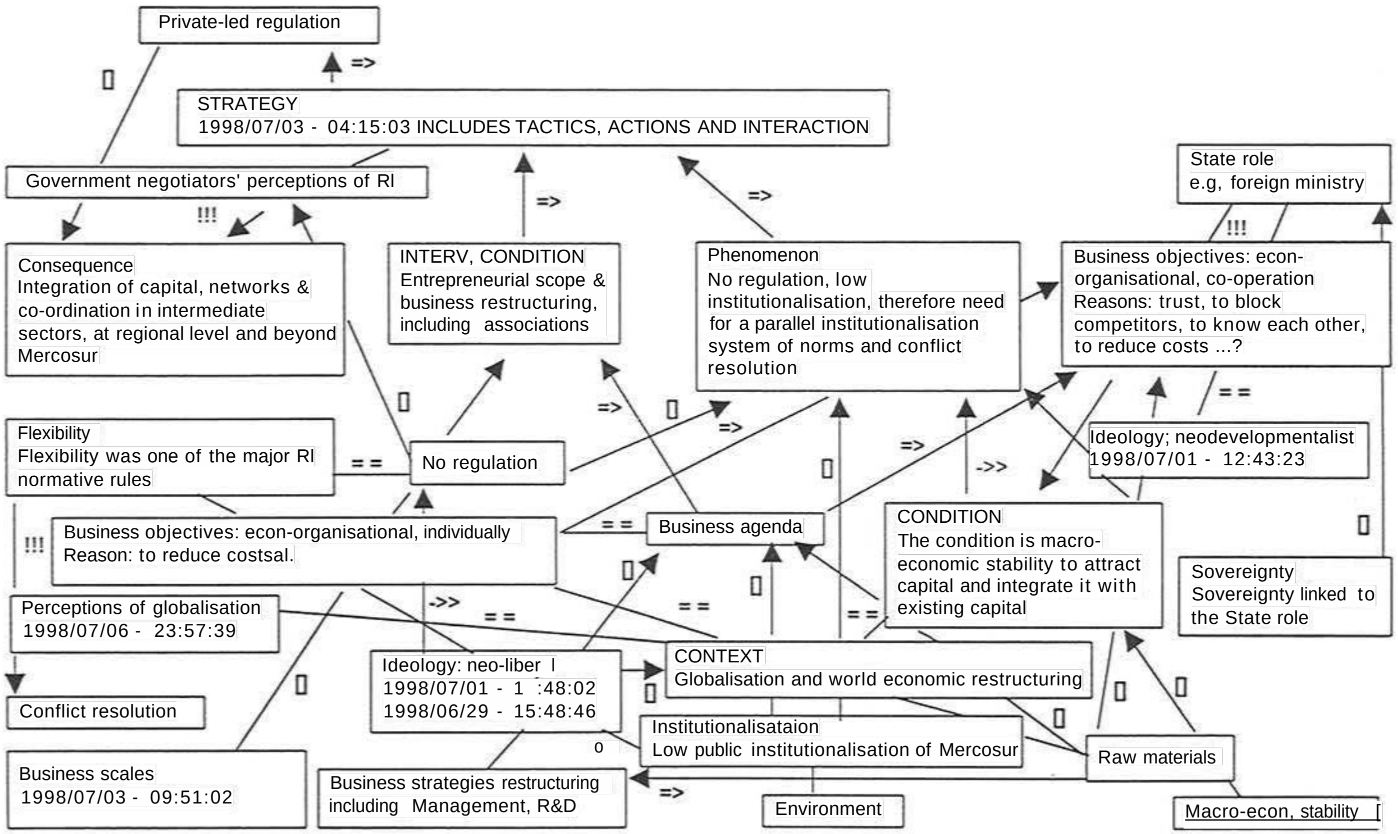
Total number of nodes: 26
Codes (25):
Business agenda {121-14}
Business objectives econ-org co-operation {46-4}
Business strategies re-structuring {58-4}
CONDITION {0-4}~
Conflict solutions {33-2}
Consequence {0-2}~
CONTEXT {0-3}~
Business scales {54-1}~
Environment {45-2}
Flexibility {2-3}~
Government negotiators' perception of RI {79-4}
Ideology % neo-developmt {10-1}—
Ideology %neo-liberal {19-2}—
Institutionalisation {55-6}—
INTERV. CONDITION {0-3}~
Macro-cconomic stability {36-1}
No regulation {17-6}
Perceptions of globalisation {25-2}~
Phenomcnon {0-4}—

Private sector-led regulation {0-3}
Raw materials {28-6}
Sovereignty {4-1}
State role {157-5}—
STRATEGY {0-7}-

Legend for figures on pages 347-52

=> ... is cause of....
[] ...is part of...
!!! ...is instrumental to
?> ... explains...
!> ...justifies...
*> ...supports...
-» ...is the causal condition of...
= - ...is associated with...
<> ...contradicts....
<-> ...is not together with....

Paradigm 2: Political economy of regionalism



Network view: Attraction and integration of capital/s 1

Super 30/06/98 18:02:46

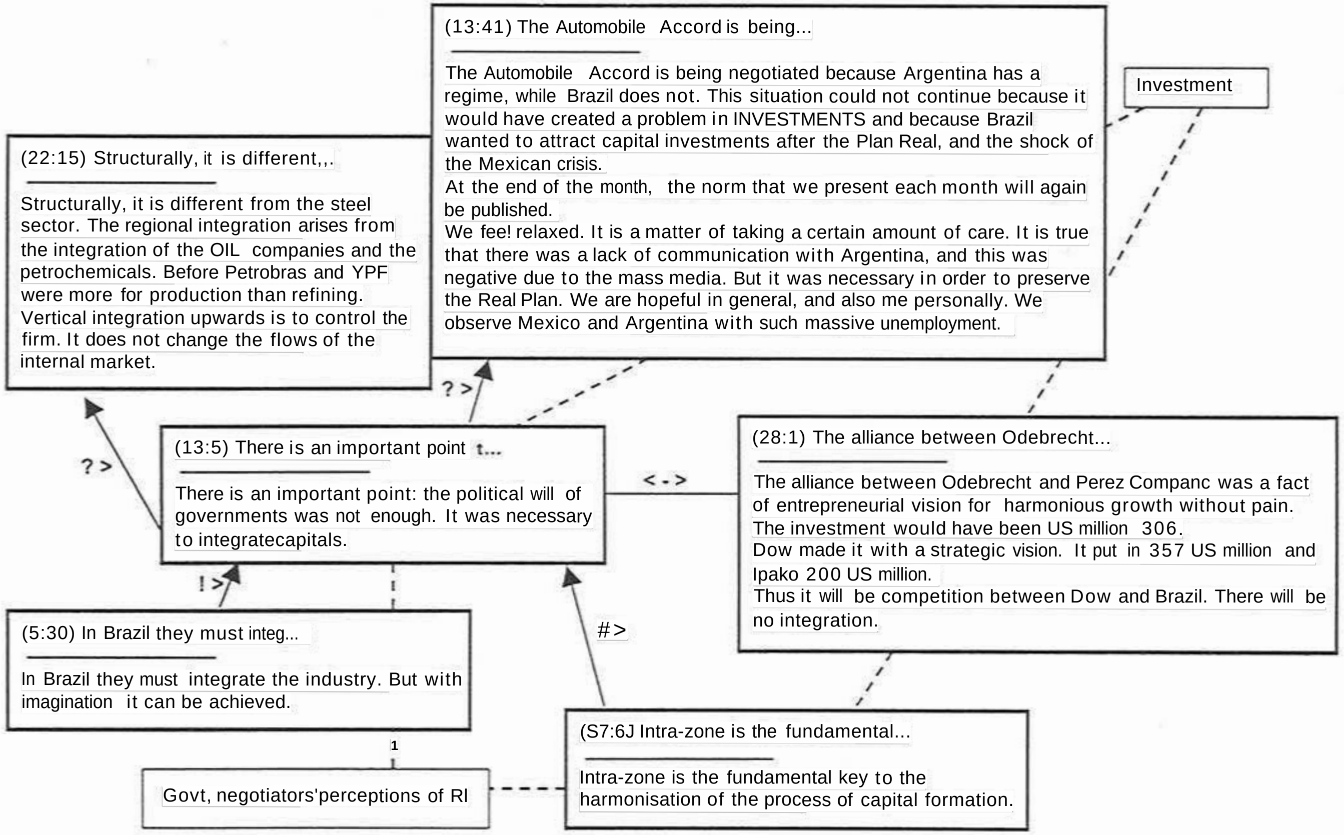
Total number of nodes: 8

Codes (2):
- Government negotiators' perceptions of RI {79-4}
- Investment {28-2}

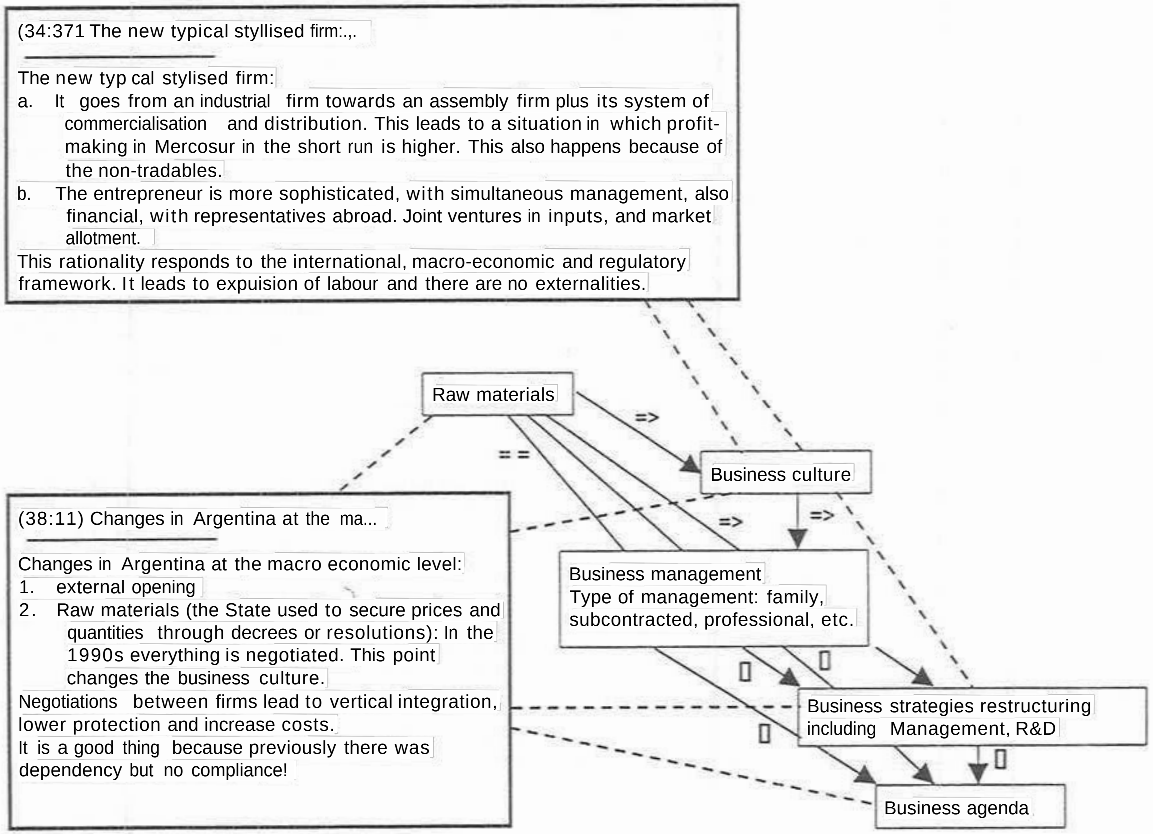
Quotations [text] (6):

<>5:30 In Brazil they must make an in.. (121:122)
<>13:6 There is an important point: t.. (19:21)
> 13:41 The Automobile Accord is being.. (175:188)
> 22:15 Structurally, it is different .. (101:107)
> 28:1 The alliance between Odebrccht.. (58:64)
< 57:6 Intra-zone is the fundamental .. (29:3 I)

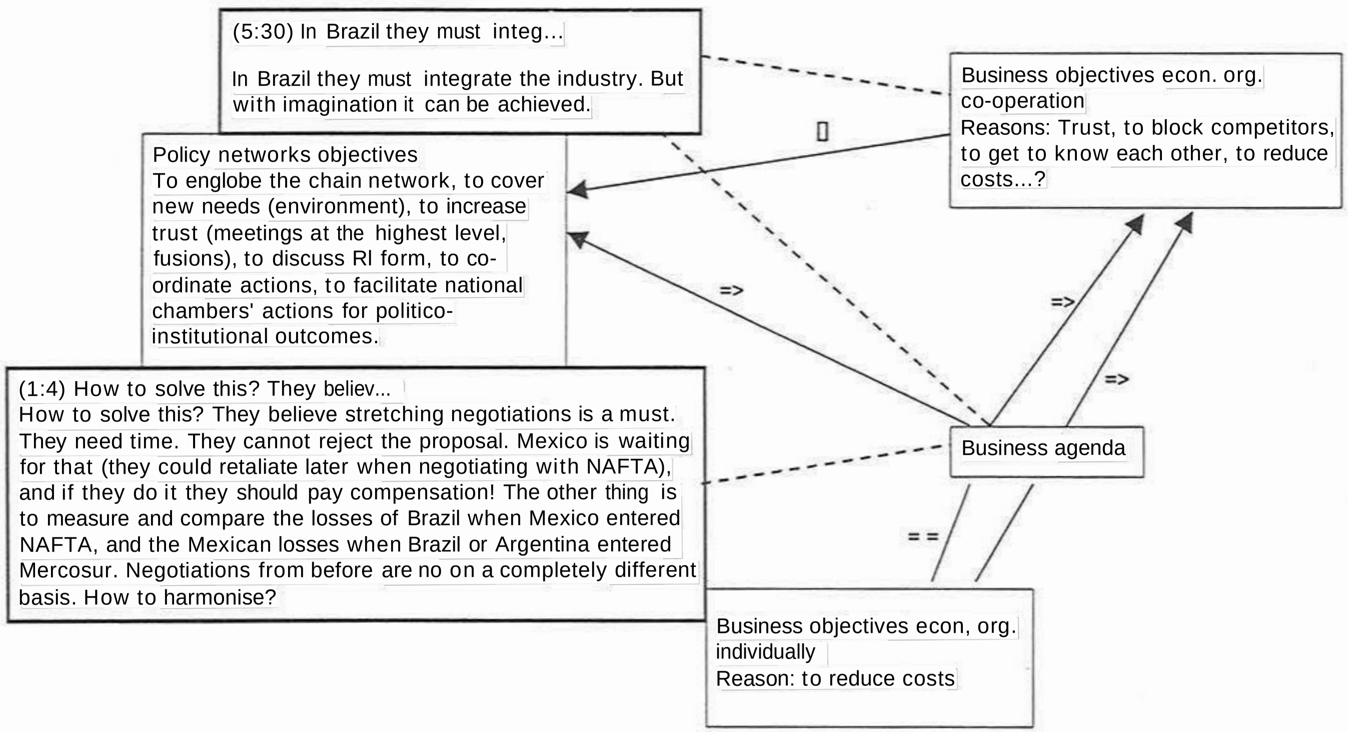
Attraction and integration of capitals 7



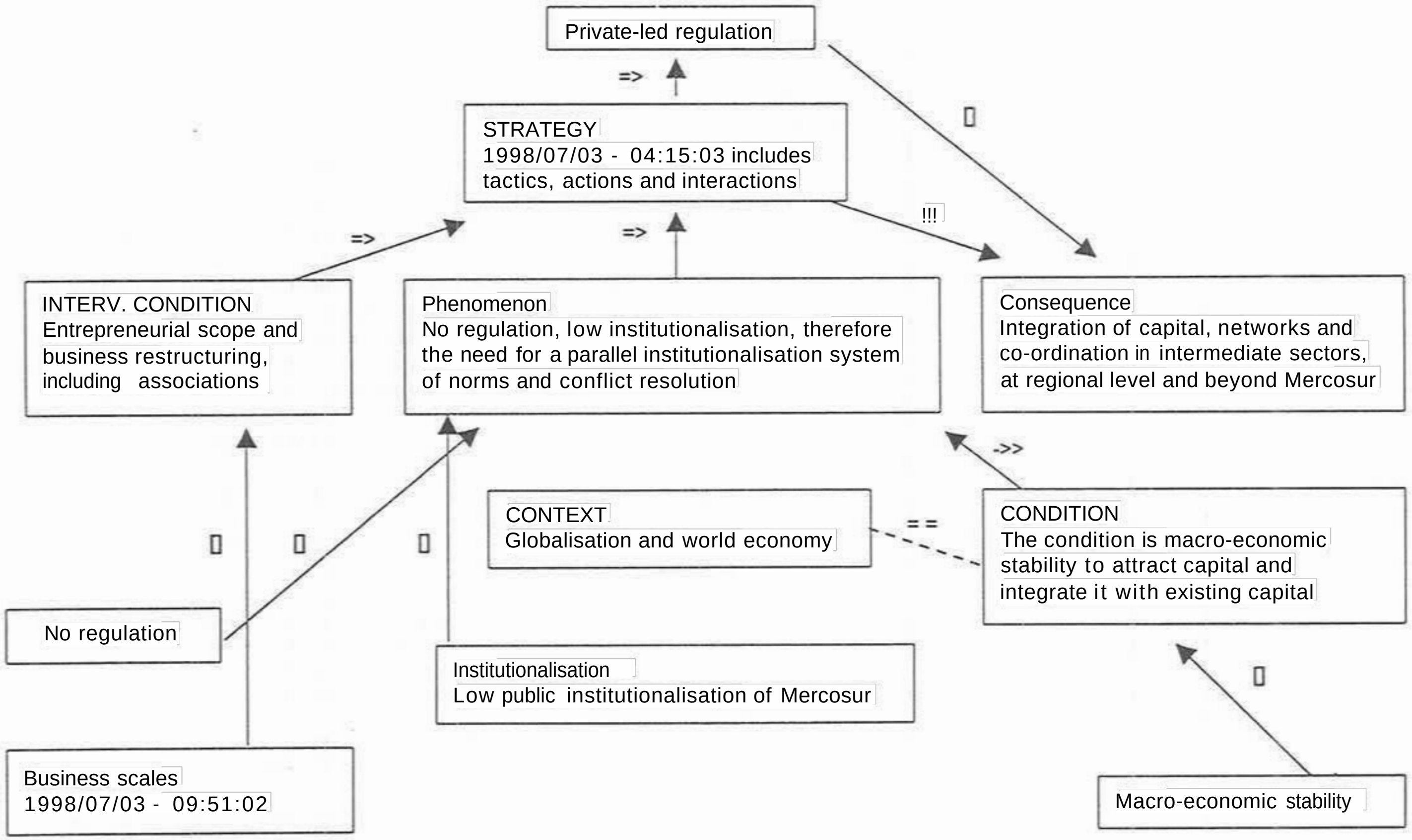
Focused network: Business cu/ture3



Network-view: Business agenda



Network-view: Paradigm 1



A3 Interviews Analysed with Atlasti Qualitative Software

Included in the hermeneutic unit 'Political Economy of Regionalism*

PART I: List of interviews by document number and name of interviewee.
PART II: List of interviews categorised by family category and document number.

PART I: List of interviews by document number and name of interviewee

File: [c:\my documcnts\claudia\claudia's data\atlasti\Political Economy of Regionalism 1]
Note: Each number (e.g. P 1) refers to the complete text of one interview, or interviews made at the same time and site with more than one person. There are also some informal discussions, documents, interviews made by a newspaper on firms' strategies, personal public presentations and post-graduate lectures that remain in the hermeneutic unit.

PDI 1: Renato Endres and Jairo Bergues Duro, ABIQUIM - personal interviews

Abiqiriin.txt

Comment: 'Brazil Chamber of Chemicals and Petrochemicals. ABIQUIM stands for Brazilian Association for the Chemical Industry and its derivatives). Interviewees were:

- 'Renato Endres, Manager of Foreign Trade. Sao Paulo, Brazil. Interviewed together with Jairo Bergues Duro in Rio de Janeiro, at the CNI (Brazil National Confederation of Industry) in 1995.
- 'Jairo Bergues Duro. SINPROQUIM (Syndicate of Industries of chemical products for industrial and petrochemical use in the Sao Paulo state). Director of Foreign Trade. Interview in Rio de Janeiro, 1995, at

CNI (Brazil National Confederation of Industry) together with Renato Endres.'

PDI 2: Jose Adolfo Siqueira, Confab and ABITAM - personal interview interview

Abitainnt2.txt

Comment: 'Jose Adolfo Siqueira, representative of Confab, a steel firm, and ABITAM, the Chamber for tubes in Brazil. Executive Secretary of ABITAM (Brazilian Association for the Metal Industry of Tubes and Accesories). Rio de Janeiro, Brazil. Interview in 1995.'

PDI 3: Ing. Acevedo, ex-manager of Acindar- personal interview

AceventI.txt

Comment: 'Ex-manager of Acindar. Interview at the Argentine Association of Mechanical and Electrical Engineers of Buenos Aires, 1995. I was invited to one of their meetings on Mercosur by Eduardo Florio, Lecturer in the Masters in Environmental Protection programme of the Engineering Faculty, Buenos Aires University.'

PDI 4: Heriberto D. Ameri - personal interview

Ameriml.txt

Comment: 'Lie, Heriberto D. Ameri. Main Co-ordinator of Working Group no. 7 on Industry from the Argentinian side. In 1995, he was the Director of Implementation of Industrial Policy, at the Secretariat for Industry and Trade, Argentina. Interview in 1995.' In 1997, he was working for Eduardo Duhalde, Governor of the Province of Buenos Aires and candidate for the 1999 presidential elections.

PDI 5: Amilcar Pereira da Silva Figlio -personal interview

AmUcml.txt

Comment: 'Industrial Expert on Petrochemicals. His history is in the interview.' Technological manager of Petrobras. Amilcar was interviewed in Rio de Janeiro and worked for 30 years in Petrobras. In 1995, he was consultant for Ciquine and Polialden, Rio de Janeiro. Former commercial director of Petroflex.

PDI 6: Alejandro A. Lamarcjue - personal interview

Arembrml.txt

Comment: 'Argentinian Embassy in Brasilia. Interview 1995.Alejandro A. Lamarque. Councillor at the Embassy.'

PDI 7: Jose Arruda - personal interview

Arrudanil.txt

Comment: 'Industrial expert who worked in the government before.' Jose Arruda was working in 1995 in his own private consultancy, where at that time he was preparing a special report on industrial policy on the automobile sector.

PDI 8: BBC commentator - note

BBCml.txt.

Comment: Not included in any family. 'BBC. British account of Menem by the BBC representative in Argentina, just before Menem assumed the presidency for the first time.'

PDI 9: Si via Bergovoy - personal interview

Bergoml.txt

Comment: 'Ing. Sivia Bcrgovoy. Co-ordinator of Mercosur Working Group no. 3 for the Argentinian side. WG3 worked on harmonisation of technical norms. Also Lecturer in the Masters in Environmental Protection programme of the Engineering Faculty, Buenos Aires University (with Eduardo Florio), at least in 1995. Her main position was at the Secretariat for Industry, Quality and Normalisation. Interview in 1995.'

PDI 10: Laura Beron - personal interview

Beronml.txt

Comment: 'CIPA. Chamber of Food Industry. Interview on 16-05-1995. Lie. Laura Beron is Advisor on Environment to the Chamber of Industrialists of Food Products, Buenos Aires.'

PDI 11: Jose Bosco Machado - presentation

Boscoml.txt

Comment: 'Joao Bosco Machado. FUNCEX Researcher on regional economic integration and industrial sectors. Rio de Janeiro, Brazil. Machado and Markwald guided me throughout my fieldwork in Brazil, and FUNCEX was the counterpart to ISS in providing me with a fieldwork office.'

PDI 12: Nestor Braidot - personal interview

Braidom l.txt

Comment: 'Dr. Nestor Braidot. Director of Nestor Braidot & Asociados, Marketing. Firms' Consultant, and after Arturo O'Connell's departure from (he CEI in 1995, Director of CEI (Foreign Relations Ministry).'

PDI 13: Ms. Brun, \VG7 - personal interview

Briunnil.txt

Comment: 'Alternate (that is, second in the hierarchy) Co-ordinator of Working Group no. 7 (on industry) from the Brazilian side.' Iler main post is at the Ministry of Industry in Brazil.

PDI 14: Jaime Campos - note

Camposbl.txt

Comment: Not included in any family. 'Quotation from a book from Intal' on sectoral studies, Buenos Aires

PDI 15: Oscar E. Sanchez - personal interview

Caip.txt

Comment: 'Cont. Oscar E. Sanchez. Manager of the Argentine Chamber for the Plastics Industry. Buenos Aires. Interview in 1995.CAIP stands for Camara Argentina de la Industria del Plastico.'

PDI 16: Odebrecht SA - document

Odebrecl.txt

Comment: Document on Odebrecht, Brazilian group. The group's internal document on firms, profits, history and values from 1990 to 1995.

PDI 17: Brazilian Association of Private Steel Mills document

Bprstml.txt

Document published by the Association on the origins, and development of, and principles and beliefs related to, investments, markets, export strategies and corporate guidelines.

PDI 18: Heloisa Camargo - personal interview

Camargml.txt

Comment: 'Heloisa Camargo. Interview in Brasilia. Policy adviser on the automobile sector, she was working with Minister Serra in 1995.'

PDI 19: Jorge Cambell - speech

Campbeml.txt

Speech on 11 June 1995 on negotiations on Mercosur's automobiles crisis.
Comment: Argentinian. Jorge Campbell had held several important posts representing the Argentinian State. From Secretary for Industry in the Ministry of the Economy, he had gone to the Ministry of Foreign Affairs, to be in charge of Mercosur and regional integration issues.

PDI 20: Jorge Ruben Beltini and Carlos R. Rodriguez - personal interviews interviews

Bettinil.txt

Comment: 'Ing. Jorge Ruben Bettini. Petroquimica Bahia Blanca Saic. Head of the Projects Division. Interview in Bahia Blanca, Argentina, 1995. Also interviewed: Ing. Carlos R. Rodriguez, Production Superintendent of Petroquimica Bahia Blanca in 1995.'

PDI 21: Arthur P.R. Candal - personal interview

Candabnl.txt

Comment: 'Arthur P.R. Candal. Main Advisor to the Petrochemical ABIQUIM - Brazilian Association for the Chemical Industry. Director of Arthur Candal Associated Consultants. Interview at ABIQUIM, Sao Paulo, Brazil, in 1995.'

PDI 22: Agustin Castagno - personal interview

Castml.txt

Comment: 'Castagno. Consultant from Booz, Allen & Hamilton. He was in MIT. and is member of Mercosur Commission of HIA and IDEA. Interview in 1995.'

PDI 23: Clemente de Oliveira - personal interview

Clemml.txt

Comment: 'Clemente is a main consultant for the petrochemical industry in Brazil, and his Ph.D. dissertation, presented in 1994, is recognised as being of great value to the sector.'

PDI 24: Jose Adolfo - personal interview

Confab.txt

Comment: 'Adolfo, Confab Tubes; from the steel sector.'

PDI 25: Mariana Diaz - personal interview

Diazml.txt

Comment: 'Mariana Diaz, worked at (he Bilateral Trade Chamber Argentina-Brazil, in Buenos Aires. Interview in 1995.'

PDI 26: Fabio Erber - personal interview

Erberml.txt

Comment: Brazilian expert on petrochemistry and consultant on industry. Fabio Erber is Professor at the Federal University of Rio de Janeiro and one of the most renowned experts within the petrochemical sector. He is also well known to the most important experts in this industry in Argentina. Interview in 1995.

PDI 27: Luisa Fainberg — informal discussion

Fainbml.txt

Comment: Luisa Fainberg is Argentinian and now retired. She was an Executive Secretary with Shell in Argentina. Later, she worked for some time at PASA. 1995.

PDI 28: John M. Albuquerque Forman - personal interview

Formanml.txt

Comment: Forman is of Scottish descent. Brazilian, he is a Manager with Odebrecht. Former president of Unipar and Nuclebras. Professor at Rio de Janeiro University. Interview in 1995 in Sao Paulo.

PDI 29: John M. Albuquerque Forman - note

Fornijohn.txt

Only personal details.

PDI 30: Winston Fritsch - personal interview

Fritsml.txt

Comment: 'Winston Fritsch. President of Kleinwort Benson Brazil. Former Secretary of Economic Policy of the Brazilian Finance Ministry, when Cardoso was Minister of Finance. Main Brazil state negotiator on Mercosur, 1994. Interview in Rio de Janeiro, 1995.'

PDI 31: Cont. Guz -personal interview

Guzml.txt

Commercial manager for PBB, in Buenos Aires. This PDI contains only the description of the interview and details of the work environment and office.
Families: Argentinians, firms, petrochemicals.

PDI 32: Monica Hirst - lecture

IIirstiiil.txt

Comment: Monica Hirst, Brazilian expert on Mercosur. She works as researcher and Lecturer at FLACSO, Buenos Aires, and has done most of the work on Mercosur within the field of international relations.

PDI 33: Daniel Roberto Sanguinetti - personal interview

Jpcml.txt

Comment: 'Lie. Daniel Roberto Sanguinetti. Co-ordinator of the Mercosur Joint Parliamentary Commission, at the Argentine National Chamber of Deputies. Buenos Aires. Interview in 1995.'

PDI 34: Bernardo Kosacoff- lecture and personal interview

Kosacml.txt

Lecture at IDES, 7-06-95.
Comment: Bernardo Kosacoff is Senior Economist at the ECLAC, or Cepal, Buenos Aires office. Argentinian and expert on industrial policy. I also had a brief interview with him in 1995.

PDI 35: Roberto Lavagna - personal interview

Lavagnml.txt

Comment: 'Dr. Roberto Lavagna. Ex-Secretary of Industry under Alfonsin. In 1995, worked at Ecolatina - Latin Eco S.A. Consultancy. Buenos Aires, interview in 1995.'

PDI 36: Andres Lopez - personal interview

Lopezml.txt

Comment: Researcher at CENIT. Expert on petrochemical industry.
Families: Argentinians; experts/ consultants on industry; petrochemicals.

PDI 37: Jorge Lucangeli -personal interview

Lucanml.txt

Lecture at IDES 1995 and interview at Foreign Ministry.
Comment: Expert on RI. 'Lie. Jorge Lucangeli. Argentina's Foreign Relations Ministry, Co-ordinator of the UNDP Project 'Integration of Argentina into Mercosur', project Arg/92/025.'

PDI 38: Dr. Maltese - personal interview

Maltesml.txt

Comment: Director of APLA - Latin American Association of the Petrochemical industry.
Families: Argentinians, petrochemicals, sectoral institutions.

PDI 39: Carlos Mariani - personal interview

Mariani, txt

Comment: President of ABIQUIM - Brazilian Association of the Chemical Sector, and owner of petrochemical firms.
Families: Brazilians, firms, petrochemicals, sectoral institutions.

PDI 40: Luis Alberto Moniz Bandeira -personal interview

Moniband.txt

Comment: Political scientist, Professor at Brazilia State Universtity. Researcher on RI at the Ministry of Foreign Relations, Brazilia. Interview at Itamaraty (Ministry of Foreign Relations).
Families: Brazilians, nation-state institutions.

PDI 41: Pedro Motta Veiga - presentation

Mottanil.txt

Comment: Expert on RI. Formerly at FUNCEX. Now at BNDES, Rio de Janeiro. Presentation at Consejo Argentine de Relaciones Intemacionalcs (CARI), 1995, at the meeting of the Mercosur's Analysis Group.
Families: Brazilians, nation-state institutions.

PDI 42: Monica de Rivera Otero -personal interview

Riveranil.txt

Comment: 'Monica Rivera Otero. Manager of the Argentine-Brazilian Bilateral Trade Chamber. Buenos Aires. Interview in 1995.'

PDI 43: Otto Vicente Perrone - personal interview

Perronml.txt

Comment: Director of Norquisa. Has worked for more than 30 years in the petrochemical sector.
Families: Brazilians, firms, petrochemicals.

PDI 44: Jose Eduardo Pessoa de Andrade -personal interview

Pessoaml.txt

Comment: 'Jose Eduardo Pessoa de Andrade. BNDES (Brazil's National Bank for Economic and Social Development). Sectoral Manager for the Chemical Complex. Area of Industrial Operations 1. Rio de Janeiro, Brazil. Interview in 1995.'

PDI 45: Alberto Arcodaci, Numa Capriati and Esteban Brignole - personal interviews

Pidcopml.txt

Comment: 'Research and development for processing industry. Ing. Alberto Arcodaci, Director, Main Research Centre for the Petrochemical Complex of Bahia Blanca. Interview in 1995, Bahia Blanca.'

PDI 46: Daniel Roberto Sanguinetti - personal interview

Sanguhnl.txt

Comment: 'Lie. Sanguinetti. Joint Parliamentary Commission on Mercosur of the Argentine Parliament. Interview 08-05-1995. sec under JPC document from PDI 33.'

PDI 47: Marcelo Ramal - personal interview

Ramalml.txt

Comment: 'Ramal. Interview 21-06-1995.' Argentinian consultant on the petrochemical industry. At the beginning of the 1990s, he worked at the Ministry of the Economy, preparing reports on the sector. In 1995, he was a private consultant working for the sector itself.

PDI 48: Alvaro Schocair de Souza - personal interview

Schocml.txt

Comment: 'Alvaro Schocair de Souza. RHODIA, of the group Rhone-Poulenc. Business Development Manager. Petrochemical sector. Sao Paulo, Brazil. Interview in 1995.'

PDI 49: Jorge Schvarzer - personal interview

Schvarnil.txt

Comment: 'Jorge Schvarzer. Specialised Researcher. Economist. Interview 1995 in his own house. Previously he was at the CISEA. Also Professor of Economics, Buenos Aires University. 1 saw him in 1995 and 1998.'

PDI 50: Geraldo Machado and others - presentations, informal discussions discussions

Sembahml.txt

Comment: Notes from speeches and discussions at a government-sponsored seminar on Mercosur on 1-11-1995 in Salvador, Bahia state, Brazil, which I personally attended. Speeches by Geraldo Machado. Executive Director of Promoexport, Bahia's State Trade Promotion Agency, and Simas Magalhaes, Alternate Delegate to the Mercosur Trade Commission. Alieto Guadagni, Argentine Ambassador to Brazil, was also there, together with representatives from the Province of Buenos Aires (deputies and SME business people) to open an Argentine consulate in Salvador, Bahia.

PDI 51: Diana Tussie - informal discussion

Tnssieml.txt

Comment: Personal discussion. 'Dr. Diana Tussie. Main Researcher in the area of international relations, FLACSO (Latin American Faculty of Social Sciences, Argentina).'

PDI 52: Jorge Gaibisso -personal interview

Uiaml.txt

Comment: 'Jorge Gaibisso (now deceased). Engineer. GIA (Argentine Industrial Union). President of the Department of Mercosur. Buenos Aires, Argentina. Interview in 1995.'

PDI 53: Mauricio Van Den Broeck - personal interview

Vanderml.txt

Comment: 'Ing. Mauricio Van Den Broeck. Director of the Argentine Chamber of the Chemical and Petrochemical Industry. Interview in 1995.'

PDI 54: Jorge E. Donoso - personal interview

Donosoml.txt

Comment: 'Jorge E. Donoso. SIDERAR Argentine steel firm, Techint Group. Manager of Financial Economic Planning. Interview in 1995, Buenos Aires.'

PDI 55: Architect Ernaez - informal discussion

Eniaezml.txt

<u>Comment:</u> Works at the Consejo Argentine de Engenieros (Argentine Engineers' Council), ex-Dcputy Secretary for Environment in the Buenos Aires municipality.

PDI 56: Daniel Casaburi - personal interview

Exparml.txt

<u>Comment:</u> Works in the SME section of the Ministry of the Economy. Interview on 18-5-1995.
<u>Families:</u> Nation-state institutions.

PDI 57: AIdo Ferrer - presentation

Ferrerm I.txt

<u>Comment:</u> Presentation at Consejo Argentine de Rclacioncs Intcrnacionalcs (CARI), meeting of Mercosur's Analysis Group.
<u>Families:</u> Argentinians, experts/ consultants on industry.

PDI 58: Edgardo Lipschitz - informal discussion

Lipschml.txt

<u>Comment:</u> Economic researcher at FLACSO. Personal informal discussion.
<u>Families:</u> Argentinians.

PDI 59: Emilio Llorens - personal interview

Llorenml.txt

<u>Comment:</u> 'Emilio Llorens. Engineer. ILAFA (Latin American Institute for Steel) Regional Secretary. Buenos Aires, Argentina. Interview in 1995.'

PDI 60: Jovelino de Gomes Pires - personal interview

JovelimLtxt

<u>Comment:</u> Emila Workshop of Chemical and Pharmaceutical Products Industry and Commerce. Rio de Janeiro. Also lectures at Rio de Janeiro University.

PDI 61: Jorge Jersonsky - personal interview

Jersinl.txt

Comment: Manager, Techint.
Families: Argentinians, firms, steel.

PDI 62: Eugenia Crespo and Adrian Makuc - personal interviews

Meconml.txt

Comment: Two interviews at the Ministry of the Economy, Works and Public Services, Sub-secretariat for Economic Policy, Buenos Aires, 1995. Adrian Makuc was later National Director for Foreign Trade Policy until the end of Menem's government. The latter included the Directorate for Mercosur and Integration, and the Directorate for Regional Agreements, and was under the authority of Felix Pena, Deputy Secretary for Foreign Trade.
Families: Argentinians, nation-state institutions.

PDI 63: Silvia Naishtat - personal interview

Naishtin I.txt

Comment: Silvia Naishlat is journalist, specialised in economic and industrial issues. In 1995, I saw her at her job, at the Clarin offices in Buenos Aires.

PDI 64: Hugo Nochteff - informal discussion

Nochteml.txt

Comment: Economist and researcher at FLACSO.
Families: Argentinians.

PDI 65: Maria Beatriz Nofal — presentation

Nofalml.txt

Comment: Maria Beatriz Nofal. Economist, with a previous post as Secretary for Industry under Alfonsin's government in Argentina. She was the head of a private consultancy in 1995, and in 1994 had prepared the report on the steel sector within Mercosur for the World Bank. I attended her presentation at the at the British Council Library (Lincoln Centre) during the seminar 'Cuales son los temas principales de un tratado de libre comercio en el hemisferio occidental?' The presentation was given in 1995 in Buenos Aires.

PDI 66: Jose Nun - presentation

Nunml.txt

Comment: Jose Nun is a lecturer in political science and philosophy in Buenos Aires. Presentation at CAR], meeting of Mercosur's analysis group.

PDI 67: Suzana Szapiro - personal interview

Szapinnl.txt

Comment: 'Szapiro, Susana. Interview at Techint. Economist of the group, also in charge of the Tcchint Review. In the afternoons, she works at the Ministry of the Economy writing reports for the World Bank, among others.'

PDI 68: Javier Tizado - newspaper interview

Tizado.txt

Comment: Secondary interview in Mercado, July 1995. 'Javier Tizado is an engineer who graduated from the Buenos Aires State University and also has a degree from Harvard University (paid by Techint). He has worked in Techint since 1970 and has held important posts in Propulsora and Siderca. Until 31 August he was General Manager of Siderca. Since September 1990 he has been responsible for the areas of flat products and oil. He also advises the Executive Vice-president and the General Manager of Siderca.' Since mid-2000 he has been the Argentine State Secretary for Industry.

PDI 69: Luis Alberto Trama - personal interview

Trainaml.txt

Comment: 'Luis Alberto Trama. Engineer. Argentine Institute for Steel. Head of Energy Sector and Environmental Issues. Buenos Aires, Argentina. Interview in 1995.'

PDI 70: Milton Breno Julio de Melo - personal interview

Brenno.txt

Comment: 'Breno Julio de Melo Milton. USIMINAS Manager of Relations with Capital Markets. Belo Horizonte, Brazil. Interview in 1995.'

PDI 71: Brazil Exports and Companies in the Steel Sector, 1990-1991 - document

Brexpn91.txt

Document.
Families: None

PDI 72: Dow Chemical Firm - newspaper article

DownJ.txt

Comment: Dow Chemical Finn, *Gazeta Mercantile* 17-7-1991.

PDI 73: Odebrecht SA - document

Odebrec2,txt

Comment: Odebrecht document with data on personnel, sectoral industry and technology.
Families: Brazilians, firms, petrochemicals, steel.

PDI 74: Ralfe Wilson de Matos Nogeira - personal interview

Ralfeml.txt

Comment: *Ralfe Wilson de Matos Nogueira. USIMINAS Manager of Technical Assistance. Belo Horizonte, Brazil. Interview in 1995/

PD/ *75: Samuel Pinheyro Guimaraes - personal interview*

Saniuelml.txt

Comment: 'Ambassador Samuel Pineyro Guimaraes. Brazil's Foreign Relations Ministry Itamaraty. Main negotiator of ABEIP under Alfonsin and Sarney's governments.'

PjDZ 76: *Ambassador Botafogo Goncalves - document*

Botafoml.txt

Comment: Under-secretary for general affairs on integration, economy and foregin trade at the Ministry of Foreign Relations. National co-ordinator of Brazilian section to the Mercosur Common Market Group (CMG). Document 'The Tribunal of Mercosur', 1996.
Families: Brazilians.

PDI 77: Mercosur Industrial Council - document

Cim6ml.txt

Comment: Minutes of II, IV and VI meetings in 1994.
Families: Mercosur institutions.

PDI 78: Mercosur Industrial Council - document

Cim 7ml.txt

Comment: Minutes of VII meetings in 1994.
Families: Mercosur institutions.

PDI 79: COSIP A - document

Cosipaml.txt

Comment: Companhia Siderurgica Pauiista. Document in Sao Paulo slate's official journal, 16-4-1992, on COSIPA's data and privatisation process.
Families: Firms, steel.

PDI 80: Itamar Franco - document

Franconil.txt

Comment: Itamar Franco's presidential discourse at Ouro Prcto on 17-12-1994.
Families: Brazilians.

PDI 81 : UIA - newspaper article

Her3695.txt t

Comment: 'UIA pressures Government, Brazil's oil strike', *Herald Tribune,* Buenos Aires, 3-6-1995.
Families: Argentinians.

PDI 82: Mercosur Joint Parliamentary Commission - document

Parliainl.txt

Comment: Textual copy of an official report of the Mercosur Joint Parliamentary Commission, with names of advisers and members, and the Commission's report on its first two years of work, National Argentine Parliament Press, June 1994.
Families: Mercosur institutions, nation-state institutions.

PDI 83: 'Patent Law' - newspaper article

Patentml.txt

Comment: Not included in any family. This information is related to the issue of property rights and the article on patent law in Argentina. *Ambito Financiero,* 12-4-1995:6.

PDI 84: Paine Webber - document

Sideraml.txt

Comment: Document. 'Source: *World Steel Dynamics,* August 28, 1994. Paine Webber Report based on the trip to Siderar (ex-State steel firm Somisa, sold to the Techint Group) made on June 6th, 1994. (Report made by Peter F. Marcus).'

PDI 85: USIMINAS - document

Usi92ml.txt

Usi92ml.txt

Comment: Document 'Usiminas 1992 Memory Report'.

PDI 86: USIMINAS - document

Usi93ml.txt

Comment: Document 'Usiminas 1993 Memory Report'.

PDI 87: Council of the Common Market - document

Viicnicml.txt

Comment: Document 'VII Meeting of the Council of the Common Market Ouro Preto, 16-17/12/1994. Menem and Franco, as well as the Paraguayan and Uruguayan presidents were present.'

PDI 88: Felix Pena - personal interview

Penaml.txt

Comment: Expert on Rl, member of CARI, later Deputy Secretary for Foreign Trade at the Argentinian Ministry of the Economy, Works and Public Services. Interview at CARI, Buenos Aires, 10-8-1995.
Families: Argentinians, nation-state institutions.

PDI 89: Note on high bureaucracy - newspaper article

Highburl.txt '

Comment: Sucesos Sumario 11-7-1997. Note on successive posts of Brazil's ambassador to Argentina, who was posted in Paris to focus on EU-Mercosur relations, and Jorge Hugo Herrera Vegas, technical 'artisan' of Mercosur at the Argentine Ministry of Foreign Relations, posted as ambassador to Brazil.
Families: None.

PDI 90: Cont. Guz - personal interview

Guznil.txt

Comercial manager for PBB in Buenos Aires.
Families: Argentinians, firms, petrochemicals.

PDI 91: Document disconnected from hermeneutic unit

PDI 92: Felipe Sanchez - newspaper interview, written transcript

3nunl.txt

Comment: Petrochemical 'I NC in Argentina, in *El Cronista* interviews, 21-11-1995.

PDI 93: Arturo Acevedo - newspaper interview, written transcript

Acindml.txt

Comment: 'Acidar Steel Company. Monopoly of non-flat steel in Argentina.' *El Cronista* interviews, 21-11-1995.

PDI 94: Firms ' Assets - newspaper article

Assetsaf.txt

Comment: Not included in any family. Transcribed from '*El Cronista* interviews. Number of firms in ranking, date of balance, assets in U$, sector to which firms belong. Only steel and petrochemicals firms.'

PDI 95: Ricardo A. Guineisen - newspaper interview, written transcript

Astrapml.txt

Comment: Astra is a TNC in the petrochemical sector. Transcribed from *El Cronista* interviews, EM 21-11-1995.

PDI 96: Salvador Carbo - newspaper interview, written transcript

Atanpml.txt

Comment: Atanor, belonging to the Bunge&Born economic group. Firm in the petrochemical sector. *El Cronista* interviews, 21-11-1995.

PDI 97: Ethienne Vidaurre Poubel - personal interview

Poubelnil.txt

Comment: 'Ethienne Vidaurre Poubel. GERDAU steel group. Assistant to the Steel 'Superintendencia' (Administration). Rio de Janeiro, Brazil. Interview on 29-9-1995.' Swiss descendant.

PDI 98: Wagner Dieter - newspaper interview, written transcript

Basfarml.txt

Comment: Basfarm, Argentina. Transcribed from *El Cronista* interviews, 21-11-1995.
Families: *El Cronista* interviews, petrochemicals.

PDI 99: Alejandro Bulgheroni - newspaper interview, written transcript

Bridapinl.txt

Comment: President of Bridas. National economic group with oil, gas and petrochemical business. Transcribed from *El Cronista* interviews, 21-11-1995.

PDI 100: Luis Ponferrada - newspaper interview, written transcript

Dupontinl.txt

Comment: Dupont. Transcribed from *El Cronista* interviews, 21-11-1995.
Families: *El Cronista* interviews, petrochemicals.

PDI 101: Carlos de Jesus - newspaper interview, written transcript

Essopml.txt

Comment: ESSO. Firm included in «E1Cronista interviews», 21.11.1995.

PDI 102: David Ian Martin - newspaper interview, written transcript transcript

Iciannl.txt

Comment: ICI, operating in Argentina. Transcribed from *El Cronista* interviews, 21-11-1995.

PDI 103: Oscar Saggese - newspaper interview, written transcript

Indupaml.txt

Comment'. Petrochemical firm in the Bahia Blanca complex. Transcribed from *El Cronista* interviews, EM 21-11-1995.

PDI 104: Paolo Rocca - newspaper interview, written transcript

Sidercml.txt

Comment: ‘Paolo Rocca of Sidcrca. Argentina’s steel tubes firm, belonging to the core group Techint.’ Transcribed from *El Cronista* interviews, 21-11-1995

PI05: Dagoberto Lima Godoy - document

Limagoml.txt

Comment: ‘Dagoberto Lima Godoy, Co-ordinator of the Brazilian section of the Mercosur Industrial Council.’ Document: ‘The Common Market of the South in the Industrial View’, 1994.

PDI 106: Heraldo E. Dahn - newspaper interview, written transcript transcript

Pasaml.txt

Comment: PASA is a TNC in petrochemicals. Transcribed from *El Cronista* interviews, 21-11-1995.

PDI 107: Jorge Brea - newspaper interview, written transcript

Shelhnl.txt

Comment: 'Jorge A. Brea. Executive of Shell in Argentina. Transcribed from El Cronista interviews, 21-11-1995.

PDI 108: Norberto Schorr - newspaper interview, written tran-script script

Pbbml.txt

Comment: *El Cronista* interview on PBB, that is Petroquimica Bahia Blanca. This firm belongs to the petrochemical sector and is the core of the ethylene complex, and the most important one so far in Argentina. Privatised to YPF and Dow Chemical. Transcribed from *El Cronista* interviews, 21-11-1995.

PDI 109: Walter Federico Schmale - newspaper interview, written transcript transcript

Pecoinl.txt

Comment: Transcribed from *El Cronista* interviews, 21-11-1995. Executive from Perez Companc.

PDI 110: Jorge Feriolo - newspaper interview, written transcript

Sanjornil.txt

Comment: 'Jorge Ferioli. Petrolcra San Jorge. Oil firm in Argentina. Transcribed from *El Cronista* interviews, 21-11-1995.

PDI 111: Agostino Rocca - newspaper interview, written transcript

Siderpml.txt

Comment: 'Agostino Rocca of Siderar. Argentina's flat steel firm, belonging to the core group Techint. Transcribed from *El Cronista* interviews, 21-11-1995

PDI 112: Mario L. Tonelli - personal interview

Tonellml.txt

Comment: 'Ing. Mario L Tonelli. IPAKO petrochemical firm. Commercial Manager. Manager of Business Development. Buenos Aires. Interview in 1995.'

PDI 113: Leon Nells - newspaper interview, written transcript

Ypfleoml.txt

Comment: 'Nells Leon. YPF Manager.' *El Cronista* interviews, 21-11-1995. YPF is the most important firm within the Argentine petrochemical sector.

PDI 114: Fernando Freytes - newspaper interview, written transcript transcript

Zaplaml.txt

Comment: 'Fernando Freytes of Accros Zapla, Argentine Steel firm.' *El Cronista* interviews, 21-11-1995.

PDI 115: Federico L.J. Zorraquin - newspaper interview, written transcript transcript

Zorraqml.txt

Comment: 'Federico L.J. Zorraquin of 1PAKO Argentine Petrochemical firm.' *El Cronista* interviews, 21-11-1995.

PDI 116: Jovelino de Gomes Pires - personal interview

Jovelini2.txt

Comment: New interview in 1998. Sec Joveliml.txt.

PDI 117: Monica Romero -personal interview

Romeroml.txt

Comment: 'Monica Romero M. Marinho. Works at Ministry of Industry, Commerce and Tourism, Secretary for Foreign Trade, Department of Foreign Trade Operations, Trade Development Sector. Interview done in Rio de Janeiro, April 1998. Monica Romero had worked for a long time on steel and steel groups.'

PDI 118: Document disconnected from hermeneutic unit

PDI 119: Document disconnected from hermeneutic unit

PDI 120: Document disconnected from hermeneutic unit

PDI 121: Venancio U. Pereira - personal interview

Venanml.txt

Comment: 'Venancio U. Pereira da Costa Miranda. COPENE (Petrochemical of the Northeast S.A., Brazil). Assistant to the Director Superintendent. Camacari, Bahia, Brazil. Interview in 1995.'

PDI 122: Document disconnected from hermeneutic unit

PDI 123: Document disconnected from hermeneutic unit

PDI 124: Peter Whitney - presentation

Usembml.txt

UseniíwiJ ,íxt

Comment: 'Peter Whitney, USA Trade Representative in Argentina. Previously, he had been posted in Brazil. He did not agree to a personal interview because he was going to travel 'for a while throughout the hinterland' with less than one month to go before the national presidential elections in 1995. But I talked with him after his presentation at the British Council Library (Lincoln Centre) in Buenos Aires in 1995. His presentation was on NAFTA and the Americas Integration, within the seminar 'Cuales son los temas principals de un tratado de libre comercio en el hemisferio occidental?' (What are the main issues for a free trade treaty in the Western hemisphere?)

PDI 125: Document disconnected from hermeneutic unit

PDI 126: Document disconnected from hermeneutic unit

PART II: List of interviews categorised by family category and document number

The interviews arc organised according to the families to which they belong. Families of interviews were named according to nationality (Brazilian and Argentinian), industrial sector (petrochemical and steel), type of institution (nation-state, Mercosur and sectoral institutions), and the firms that the interviewees represented. Only one document belongs to a USA representative, and is thus under the USA family, and one other family accommodated al! experts and consultants on industrial issues.

Subsequently, all interviews are listed under the family name to which they correspond. These lists, hereby attached, arc not exclusive since interviewees may simultaneously fall in more than one category (or family) (e.g. Argentinian, steel, sectoral institution). The total number of personal structured interviews within Atlasti is 67. There are also six texts from personal informal discussions, as well as notes from nine public presentations and lectures attended during the fieldwork period. Informal discussions were personal and non-structured, and it must be noted that other informal discussions have not been included in Atlasti. Other documents such as reports and newspapers interviews, etc., have been inserted as well, being treated as raw material for analysis, as explained in Chapter 2.

Furthermore, there are 9 interviews not included in the Atlasti hermeneutic unit for various reasons (different time period and environment), which are listed at the end of the Bibliography section: all interviews done in Washington in 1997, one from 1995 of an Argentinian person with strong influence on the Argentine Menem's government but without any specific explicit role as regards Mercosur institutions or the two sectors under study, as well as a 1999 interview of a manager of a firm producing fertilisers (earlier manager in PBB, Argentina) .

Categories of families, and corresponding number of personal structured interviews

Nationality:
Brazilians (31)
Argentinians (36)

Sector:
Petrochemicals (25)
Steel (12)

Institutions:
State (17)
Mercosur (7)
Sectoral (12)

Firms: (21)

USA: (1)

Experts/ consultants on industry: (20)

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Edited by: Super
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PD-Filter: Primary Doc Family Brazilians
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P 7: Arrudaml.txt- [D:\DATA\ATLASTI\Arrudaml.txt]
Pll: Boscoml.txt- [D:\DATA\ATLASTI\Boscoml.txt]
P13: Brumml.txt- [D:\DATA\ATLASTI\Brumml.txt]
P16: Odebrecl.txt [D:\DATA\ATLASTI\news\Odebrecl.txt]
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P33: Jpcml.txt- [D:\DATA\ATLASTI\Jpcml.txt]
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P48: Schocml.txt- [D:\DATA\ATLASTI\Schocml.txt]
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P60: Joveliml.txt [D:\DATA\ATLASTI\Joveliml.txt]
P70: Brenno.txt- [D:\DATA\ATLASTI\Brenno.txt]
P73: 0debrec2.txt [D:\DATA\ATLASTI\news\0debrec2.txt]
P74: Ralfeml.txt- [D:\DATA\ATLASTl\Ralfeml.txt]
P75: Samuelml.txt- [D:\DATA\ATLASTI\Samuelml.txt]
P76: Botafoml.txt
[D:\DATA\WP51\FIELDNOT\DOCS\Botafornl.txt]
P80: Francoml.txt
[D:\DATA\WP51\FIELDNOT\DOCS\Francoml .txt]
P97: Poubelml.txt- [D:\DATA\ATLASTI\Poubelml.txt]
P105: Limagoml.txt-
[D:\DATA\WP51\FIELDN0T\D0CS\Limagoml.txt]
P116: Jovelim2.txt [D:\DATA\ATLASTI\Jovelim2.txt]
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P117: Romeroml.txt- [D:\DATA\ATLASTI\Romeroml.txt]
P121: Venanml.txt- [D:\DATA\ATLASTI\Venanml.txt]

TOTAL: 31 interviews. In addition, there are 5 documents (two documents from President Franco and Minister Botafogo, representing Brazil as a nation-state, two documents from Odebrecht, a petrochemical group in Brazil, and one document from the Co-ordinator of the Brazilian section of the Mercosur Industrial Council).

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Edited by: Super

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P 9: Bergoml.txt- [D:\DATA\ATLASTI\Bergoml.txt]
PIO: Beronml.txt- [D:\DATA\ATLASTI\Beronml.txt]
P12: Braidoml.txt- [D:\DATA\ATLASTl\Braidoml.txt]
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Pl9: Campbeml.txt [D:\DATA\ATLASTI\Campbeml.txt]
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P90: Guz2.txt [D:\DATA\ATLASTl\Guz2.txt]
P112: Tonellml.txt- (D:\DATA\ATLASTI\Tonellml.txt)
TOTAL: 36 Argentinians personally interviewed. Other documents are public presentations on Mercosur, personal informal discussions and documents.

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PD-Filter: Primary Doc Family Petrochemicals
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TOTAL: 25 personal interviews, plus 17 documents concerning individual petrochemical firms in 1995, one personal informal discussion, and one document containing personal observations of an interviewee.

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TOTAL: 10 personal structured interviews, plus 13 documents and newspaper interviews of individual steel firms.

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Edited by: Super

PD-Filter: Primary Doc Family Nation-State institutions
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P117: Romeroml.txt- (D:\DATA\ATLASTI\Romeroml.txt]
P124: Usembml.txt- [D:\DATA\ATLASTI\Usembml.txt]

TOTAL: 17 personal interviews, plus one report from the Joint Parliamentary Commission of Mercosur, one public presentation, and one document.

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TOTAL: 7 personal  interviews, plus 5 documents.
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Edited by: Super
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P21: Candalml.txt- [D:\DATA\ATLASTI\Candalml.txt]
P24: Confab.txt-  [D:\DATA\ATLASTI\Confab.txt]
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P38: Maltesml.txt [D:\DATA\ATLASTI\Maltesml.txt]
P39: Mariani.txt [D:\DATA\ATLASTI\Mariani.txt]
P42: Riveraml.txt- [D:\DATA\ATLASTI\Riveraml.txt]
P53: Vanderml.txt- [D:\DATA\ATLASTI\Vanderml.txt]
P69: Tramaml.txt- [D:\DATA\ATLASTI\Tramaml.txt]

TOTAL: 12 personal interviews, plus one document.
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Edited by: Super
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P24: Confab.txt- [D:\DATA\ATLASTI\Confab.txt]
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P121: Venanml.txt- [D:\DATA\ATLASTI\Venanml.txt]

TOTAL: 21 personal interviews, plus 5 documents. Two others have only personal observations of the interviewee.

|HU: Political Economy of Regionalism 1
File: [c:\mes documents\claudia\claudia's data\atlasti\Political Economy of Regionalism 1]
Edited by: Super

PD-Filter: Primary Doc Family USA
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P124: Usembml.txt- [D:\DATA\ATLASTI\Usembml.txt]

|HU: Political Economy of Regionalism 1
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Edited by: Super

PD-Filter: Primary Doc Family Experts/ Consultants on Industry
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P 5: Amilcml.txt- [D:\DATA\ATLASTI\Amilcml.txt]
P 7: Arrudaml.txt- [D:\DATA\ATLASTI\Arrudaml.txt]
Pll: Boscoml.txt- [D:\DATA\ATLASTI\Boscoml .txt]
P12: Braidoml.txt- [D:\DATA\ATLASTI\Braidoml .txt]
P13: Brumml.txt- [D:\DATA\ATLASTI\Brumml .txt]
P21: Candalml.txt- [D:\DATA\ATLASTl\Candalml .txt]
P22: Castml.txt- [D:\DATA\ATLASTI\Castml .txt]
P23: Clemml.txt- [D:\DATA\ATLASTl\Clemml .txt]
P26: Erberml.txt [D:\DATA\ATLASTI\Erberml .txt]
P32: Hirstml.txt [D:\DATA\ATLASTI\Hirstml .txt]
P34: Kosacml.txt [D:\DATA\ATLASTI\Kosacml .txt]
P35: Lavagnml.txt- [D:\DATA\ATLASTI\Lavagnml .txt]
P36: Lopezml.txt [D:\DATA\ATLASTl\Lopezml.txt]
P45: Pidcopml.txt- (D:\DATA\ATLASTI\Pidcopml .txt]

P47: Ramalml.txt- [D:\DATA\ATLASTI\Rama1ml.txt)
P51: Tussieml .txt- [D:\DATA\ATLASTI\Tussieml .txt]
P57: Ferrerml .txt [D:\DATA\ATLASTl\Ferrerml .txt)
P117: Romeroml .txt- [D:\DATA\ATLASTI\Romeroml ,txt]

Total: 20 personal interviews.

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