

**Debt, Democracy, and Post-Neoliberalism: 30 Years of Regional Integration in Latin
America**

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The Southern Common Market, known as the Mercosur, is faltering. For a little over a decade, the largest regional integration scheme of Latin America made up of Argentina, Brazil, Paraguay, Uruguay, and Venezuela has been seen as losing its way and exhibiting symptoms more consistent of a process of “disintegration” than of regional integration (Sáenz 2008).¹ Since the 2000s, the Mercosur has stagnated and continues to struggle to find a clear mandate and a unified voice as a(n imperfect) customs union and common market. Even as a shared *political* platform for the subregion to deal with the new trading giants of the Global South (i.e., China, India, and Russia), the Mercosur fails to offer a common strategy. Under the weight of a founding member’s foreign debt crises, the rise of new commercial partners in the global economy, and protracted intra-regional conflicts, South American leaders seem less invested in the Mercosur in the 21st Century than ever. Even the president of Uruguay, in his last days in office, recently declared that “Argentina forgets about integration...as does Brazil.”²

Paradoxically, the conditions hindering the deepening of the Mercosur also existed at the time of its creation. In the second half of 1980s, akin to the 2000s, Latin American economies were shattered by foreign debt crises; country leaders were reeling from political turmoil (albeit, triggered by democratic regime change); early globalization was quickly raising the costs of trade isolation; and the two largest economies of South America –Argentina and Brazil– appeared engulfed in a dangerous competition for nuclear supremacy. The new democracies of the Southern Cone sought refuge from these conditions by embarking on a regional process as a strategy to deal with competing domestic and international demands (Oelsner 2013; Von Bulow

¹ Bolivia, Chile, Colombia, Ecuador, and Peru are Mercosur Associated States.

² See “Mujica, sin filtro: ‘Argentina no acompaña un carajo la integración con el Mercosur’” in Perfil, February 22, 2015 accessed at <http://www.perfil.com/elobservador/Si-uno-esta-lloriqueando-por-lo-que-le-paso-vive-en-el-pasado-20150222-0055.html>.

2010; Carranza 2006; Malamud 2005). Surprisingly, regionalization in the Southern Cone began in the security field, after Argentina and Brazil signed a series of agreements institutionalizing technical, commercial, and even political cooperation in nuclear energy, science and technology (NEST). The decision to tackle integration first in a military-dominated field with a major international perception problem stemmed from the new civilian leadership's need –under severe debt negotiations– to send a positive signal to the international community while simultaneously attempting to reduce its dependence on the industrial North. The nuclear treaties between Argentina and Brazil constitute the direct antecedent to the trade agreements that culminated in the 1991 signature of the Asunción Treaty creating the Mercosur. Thus, this paper examines two periods of regionalization in South America experiencing similar debt crises, the mid-1980s immediately after democratization and the 2000s, characterized by post-neoliberalism responses. In the paper, I explore how debt and crises create incentives for country executives to invest in regional integration but not necessarily in the same institution. Why similar politico-economic conditions led to the Mercosur in the 1980s but away from it the 2000s?

There is no simple answer to the question of why the South American leadership does not continue to invest in the Mercosur to further regional integration. After the market-friendly policies of the 1990s, when its founding membership endowed the Mercosur with functional institutional capabilities, South Americans have embraced regionalization, just not within the institutional structure of the Mercosur (Malamud 2005). In fact, the first years of the 21st Century in Latin America are characterized by a number of new regional institutions created with the explicit mission of minimizing dependency from the financial North and strongly dominated by a statist model (Oelsner 2013). This new wave of regionalization harks back to the first attempts of integration in Latin America. In other words, the new Union of South American Nations

(UNASUR) created in 2008 has a lot in common with the old Latin American Free Trade Association (ALALC) of the 1960s. As I discuss below, the ALALC was founded on the principles of economic structuralism made popular in the Region by the Economic Commission for Latin America (ECLA or CEPAL). Structural economics conceives of global trade as a result of the division of labor between the peripheral economies in the South and the industrial core in the North. The terms of trade that result from this division of labor tend to be detrimental to the periphery, and consequently, the CEPAL advocated a central (and centralized) role for political institutions in economic development (Stallings and Peres 2010).

After a decade of substantial structural reforms adopted by the countries of the Southern Cone, with a Mercosur reflecting the prominence of market actors in the 1990s, the 2000s brought back a renewed commitment to statism in the subregion. Once again the policies advocated by the CEPAL are shaping regional integration (Christensen 2007). Recent (re)nationalization and (re)regulation policies adopted in South America (especially in Bolivia and Venezuela) do not help the Mercosur function smoothly. But the return of the state-centered paradigm is not the only challenge the Mercosur is facing at present.³ Over the past decade, the Mercosur has received less attention from its main stakeholders. This disinvestment is revealed in the lack of development and deepening of common institutions and minimal enforcement mechanisms of regional norms at the domestic level (Christensen 2007; Levi Coral 2013). Furthermore, Mercosur's political principals are investing efforts in regional cooperation elsewhere, such as the new UNASUR, Bank of the South (Banco del Sur in Spanish), the Bolivarian Alliance for the Peoples of Our America (ALBA), and the cross-regional New

³ Others have pointed out numerous problems, such as too much presidential discretion and lack of a clear identity (Malamud 2005; Oeslner 2013).

Development Bank (also known as the development bank of the BRICS countries: Brazil, Russia, India, China, and South Africa).

Dual themes traverse the two periods of regional institution-building analyzed in this paper. First, as the description of the integration endeavors in the 1980s and the 2000s will show, there is a connection between debt and regionalization, whereby South Americans seek to reduce dependency on OECD-dominated finance by creating common institutions.⁴ Second, these new institutions tend to be endowed with scarce resources and often their act of creation is the low cost signal the founders were after. This in turn relates to what many scholars have observed: that the external agenda of the Mercosur –that through which its membership jointly deals with third parties– receives more attention from its stakeholders than the internal agenda –which requires country members to make policy and trade concessions in order to deepen integration (Carranza 2006; Oelsner 2013). The internal agenda of the Mercosur requires much costlier investments to function properly than the external agenda. Similarly, the creation of a new regional institution can send a clear albeit low cost signal to the intended audience (e.g., international financial institutions) without significant investment of resources. Indeed, using regional institutions as signaling devices to the international (financial) community is less costly than moving towards a perfect custom union and a real common market. On the other hand, prioritizing external objectives over internal ones seems to doom the Mercosur to chronic stagnation.

There is no unifying theory to explain the genesis and evolution of a regional integration scheme. If there is any consensus at all among students of regionalization is that –outside of the study of the European Union— there is no real agreement on which theoretical approaches are

⁴ OECD is the Organization of for Economic Co-operation and Development formed by the advanced industrial countries of the North.

useful. But even the dominant theories of Europe, neo-functionalism and inter-governmentalism, are no longer seen as viable roadmaps of research in regional integration (Sbragia 2008).

“Most scholars do, however, reject a definition of regionalism modelled on the legalism, institutions, and acceptance of supranationality à la European integration. The study of European integration clearly falls into the ‘old regionalism’ category... In fact, the study of post-cold war regionalism does not rely on either neo-functionalism or intergovernmentalism, historically the dominant theoretical paradigms in the study of European integration. Much of the current political science literature on regionalism is informed by the general theoretical debates within that discipline or by debates within the relevant area studies community, rather than by the literature on the contemporary EU” (Sbragia 2008: 30-31).

Thus, rather than a theoretical exercise, this paper explores the relationship between debt and regionalization in Latin America’s post-democratic and post-neoliberal periods by examining some of the causes behind the creation of new regional institutions in the Southern Cone. I begin with the premise that regionalization is now a standard policy option available to executives caught between domestic and international conflicting demands (De Lombaerde, Flores et al. 2012).

“There is a growing understanding that the regional level, between the national and global ones, provides an adequate and sometimes optimal level of governance to address a variety of problems of cross-border nature. Monetary stability, trade, conflicts and security policies, environmental issues, migration flows, infectious diseases and energy generation and distribution are just a few of the relevant examples” (De Lombaerde 2012: xv).

In this sense, I would argue, we do not require “grand theorizing” in order to elucidate regional integration. Here, I focus on the policy goals and preferences of the executives, who are the ones who negotiate and sign regionalization treaties. In particular, I pay attention to what new regional treaties signal the international community (Simmons and Hopkins 2005). Treaties

are “designed, by long-standing convention, to raise the credibility of promises by staking national reputation on adherence to them” (Simmons 2000: 821).⁵ I find that the first regional project of the democratic era as well as the more recent regionalization of the post-neoliberal era send similar (low cost) signals of a need to reduce financial dependence and mitigate exposure to international markets.

Debt, Democracy, and Regional Integration in the South

In the mid-1980s the majority of South American states were coming out of the military rule that for years had driven their countries to increasing international isolation and indebted economics. Democratization of the region was in part triggered by the inability of the military to weather the foreign debt crisis. The new civil leadership of South America faced the harsh prospect of restoring trust-worthy relations with the rest of the world, sustaining domestic democratic transitions and refinancing the debt accrued by the departing military. Economic growth was the only way to respond to these needs. The first president of Argentina in the democratic era, Raul Alfonsín, stated:

“Today, we are all convinced that growth is the solution. High interest rates and the fall in international commodity prices make it clear that austerity cannot solve the debt crisis. Only strong and growing economies can meet their obligations. But growth requires a coordinated effort by all: creditor nations, financial institutions and debtor nations.”⁶

One way the South American governments coordinated their efforts to repeal the disastrous economic situation and defend their fragile democracies was the 1984 Consensus of Cartagena, a

⁵ Evidently, the credibility of the signal is ultimately derived from states’ *compliance* to international commitments, but verifying compliance takes time. With the cases at hand, the first debt-induced regional scheme offers compliance data but the new wave of regional institutions coming out of South America is too recent to test for compliance.

⁶ President Raul R. Alfonsín quoted in 1987 in *New Perspectives Quarterly* 4: 3. Accessed at http://www.digitalnpq.org/archive/1987_fall/saving_argentina.html.

Latin American intergovernmental forum led by Mexico, to pressure international creditors on the foreign debt issue (Roett 1985). The main goal of *Cartagena* was to approve the rejection of payment to international creditors by regional consensus. This goal was not reached, but what was achieved was the politicization of the issue, which to certain extent questioned the legitimacy of the foreign debt. Increasingly, South Americans were realizing that the negotiation was as much political as it was economic. Again, President Alfonsín:

“Joint action with other debtor nations, such as Brazil and Mexico is both possible and desirable. Together we can explain how the debt crisis, and more specifically the transference of domestic savings to foreign countries, is at the root of problems that transcend economics and become political.”⁷

The new regional order hoped for by South Americans was thus one where the solutions to shared problems were tackled together. In a sense, it remitted to the situation in Europe after 1945, as President Alfonsín stated:

“After WWII, the exhausted European countries faced the task of reconstructing their democracies. Today, Latin America and Argentina, devastated by years of authoritarianism, are faced with the same task. In 1948 the European countries benefited from the Marshall Plan, an imaginative and generous response from the rest of the world which helped consolidate democracy and secure liberty in Europe. Today, in Argentina and Latin America, democracy is again flourishing. But unlike postwar Europe we have not benefited from a Marshall Plan.”⁸

Argentina and Brazil, the two largest economies of the Southern Cone, found themselves on the same side of the negotiating table regarding the debt issue. But in their recent past there was a troubling history of rivalry in nuclear development. For Argentines and Brazilians the nuclear issue was as much an international problem as it was a bilateral concern. The quest for

⁷ President Raul R. Alfonsín quoted in 1987 in *New Perspectives Quarterly* 4: 3. Accessed at http://www.digitalnpq.org/archive/1987_fall/saving_argentina.html.

⁸ President Raul R. Alfonsín quoted in 1987 in *New Perspectives Quarterly* 4: 3. Accessed at http://www.digitalnpq.org/archive/1987_fall/saving_argentina.html.

advanced nuclear technology had increased distrust between the neighbors and moreover, had raised suspicions from the international community regarding their motives in pursuing nuclear energy. Argentina and Brazil rejected the attempts made by the United States and its nuclear power allies to regulate and condition technology transfers to non-nuclear countries through the nonproliferation regime, made up of a number of multilateral security treaties designed to stop the proliferation of nuclear weapons (Alcañiz 2012). Specifically, the two countries refused to sign the 1968 Nonproliferation Treaty (NPT), claiming its backers used it as an excuse to curb their right to explore and develop new technologies, while countries with nuclear weapons, such as the United States, were not affected. Anti-NPT feelings ran deep in the Southern Cone. As a Brazilian diplomat explained it: “We saw the NPT not only as a way of avoiding the proliferation of nuclear weapons, but also as preventing knowledge.”⁹

Even though Argentina and Brazil had most of their nuclear facilities under international safeguards established by the International Atomic Energy Agency (IAEA), they refused to sign the NPT and the 1967 Latin American Tlatelolco Treaty on principle.¹⁰ The two countries expressed concerns with on-site inspections that could be justified solely on *suspicion* of diversion of nuclear material, contemplated in both the NPT and Tlatelolco, which they argued had the potential to reveal industrial secrets (Carasales 1997). This anti-NPT sentiment became official nuclear policy in both countries. A policy statement from the Brazilian Foreign ministry (*Itamaraty*) declares:

“The NPT is not a strategic or military issue for Brazil. It is, rather, a matter of principle. Were Brazil to accede to the NPT, it would have no substantial effect in terms of non-proliferation. It would amount to formal acknowledgement of the status of the five nuclear-armed powers and acceptance of an international order founded on the imbalance of rights and duties among States. Brazil recognizes the status of the five nuclear

⁹ Interview with the Brazilian ambassador to Argentina, Dr. Rego Barros, Buenos Aires, July 2000.

¹⁰ The 1967 Tlatelolco Treaty declared Latin America a Nuclear Weapons Free Zone.

powers as a temporary fact of international life, not as a right to which these powers are entitled for all time”¹¹

Argentina shared Brazil’s position, and also refused to sign the NPT. The international community interpreted this refusal as evidence that Argentina and Brazil were leaving the weapons option open and could become involved in a nuclear arms race.¹² Argentina and Brazil were deemed countries to be monitored for their nuclear activities and were often compared to India and Pakistan as potential nuclear enemies (Carasales 1997; Alcañiz 2000; Kassenova 2014). When the countries democratized in the mid-1980s, their refusal to comply with all international non-proliferation norms turned into a major liability. US warnings that economic aid would be partly conditioned to the review of the two countries nuclear foreign policy exacerbated even more their nuclear problem (Carasales 1997; Alcañiz 2000).¹³

Regionalization and Economic Structuralism in Latin America

The search for economic development in Latin America through regional strategies began with the creation of the UN Economic Commission for Latin America (CEPAL) in 1949. CEPAL embodied structural theories of economic development advanced by the Argentine economist Raúl Prebisch. These ideas shaped domestic models of growth as well as regional models of integration, such as the 1960 Latin American Association for Integration (ALADI), the 1969 Andean Community, and the 1980 Latin American Association for Free Trade (ALALC) to name a few (Axline 1994 and Van Klaveren 2001). The CEPAL formula centered on import substituting industrialization (ISI) and inward-oriented models of development that

¹¹ *Itamaraty* statement – Brazilian Foreign Policy, January 26, 1997.

¹² For a discussion on international perception on this topic see Levethal and Tanzer 1992.

¹³ Interviews with CNEA’s former president Dr. Ema Perez Ferreira, March 2001; Dr. Jorge Coll from CNEA, July 1997 and December 1998; and the director of International Cooperation of CNEN, Dr. Laercio Vinhas, 2000 and 2006.

relied on protectionism, because as developing economies, Latin American countries suffered increasingly unfavorable terms of exchange in their trade with industrial states (Axline 1994; Van Klaveren 2001). Commodities, the chief export of Latin America, were increasingly losing their relative value in relation to manufactures, imported from the central economies. Prebisch's solution, what came to be known as the *Cepalian* paradigm, was a model of inward-looking development that had as its main principle the import substituting industrialization strategy (ISI) (Iglesias 2006). As described by the CEPAL economist, Osvaldo Sunkel (Sunkel 1993):

“Inward-looking development places the emphasis on demand, on the expansion of the domestic market, and on replacing previously imported goods with locally produced goods, instead of placing the emphasis on accumulation, technical progress, and productivity” (Sunkel 1993: 46).

The first major agreement on regional integration was signed in 1960 by the majority of Latin American countries, including Argentina and Brazil. The Montevideo Treaty established the Latin American Association for Free Trade (ALALC), which sought to integrate local economies and liberalize intra-regional trade by applying ISI strategies under the development models of the CEPAL and the CECLA.¹⁴ Participating countries, however, failed to eliminate existing protectionist measures and could not agree on common external tariffs. Not surprisingly, the ALALC did not produce the expected economic boom for the region. Twenty years later, ALALC was transformed into the ALADI, the Latin American Association for Integration. In contrast to its predecessor, the much more flexible ALADI allowed for sub-regional preferential treatment, and did not establish an integration schedule (Pecequillo and Carmo 2013). Yet despite its flexibility, ALADI also failed to have a lasting effect on regional integration in Latin America (Albuquerque 2000).

¹⁴ The CECLA (*Comisión Especial de Coordinación Latinoamericana*) was the Special Commission for Latin American Coordination, which had the mission to help implement CEPAL's objectives across the region. See <http://repositorio.cepal.org/handle/11362/35044> .

“The Latin American “*desarrollista*” integration process was supposed to create interdependence as a stepping-stone to economic development and to political cooperation, and not the other way around. It didn’t aim at reinforcing a previously existing interdependence through controlling its negative effects by increasing political cooperation” (Albuquerque 2000:3).

Two years after the signing of ALADI, Mexico defaulted on its foreign debt, setting off one of the greatest economic crisis the region had ever seen, hitting Argentina and Brazil especially hard (Roett 1983; Frieden 1991). The first coordinated response to this crisis by the countries of the region was the Cartagena Consensus, discussed earlier in this article. But given Latin Americans debt and political vulnerabilities, it was not surprising that the initiative lost steam before achieving their objectives (Roett 1985). Latin Americans were caught in a delicate dilemma; they had to pay for the massive debt acquired by the exiting military while at the same time managing the difficult democratic transitions at home. Funds were scarce and desperately needed, and the viable policy options were few and politically costly.

Nuclear integration in South America: Atoms for dollars

Given the demands of the regime transition and the economic crisis, Argentina and Brazil worked on improving diplomatic ties with the international community. One common problem the two countries inherited from the military governments was the nuclear problem, which became exacerbated by the debt crisis as it forced even greater budget reductions on the sector (Madero and Takacs 1991; Solingen 1996; Carasales 1997). Thus, Presidents Alfonsín of Argentina and Sarney of Brazil were pressured from abroad to open up to the international community and from the sector’s scientists and military, to stop the downsizing and budget cuts.

In other words, the civilian leaders faced conflicting demands from above to internationalize the and from below, to nationalize (even more) their nuclear programs (Alcañiz 2000). Facing a common nuclear problem, the leaders of Argentina and Brazil, backed by diplomats and nuclear bureaucrats, worked towards a regional solution.

Nuclear regional integration would help deflect accusations of a hidden weapon agenda from the international community and keep the now severely-impooverished nuclear programs running. As the head of the Argentine National Commission of Atomic Energy (CNEA) stated:

“We reached the conclusion that a government can show that it has a program without strategic diversions by opening it, but on equal standing. That’s why the agreements with Brazil were made. Nobody can say you haven’t opened up, but you disclose to whom discloses in turn. On equal standing. That is the reason for the agreements.”¹⁵

Regional integration also provided a strategy to delay domestic reactions against the impending restructuring of the nuclear sector, given that the two countries were near bankruptcy and had changed dramatically their interest in nuclear development. Indeed, regionalization has been recognized as one way to avoid internal conflict (Mansfield and Milner 1999): “Although governments may choose to join regional agreements to promote domestic reforms, they may also do so if they resist reforms but are anxious to reap the benefits stemming from preferential access to other members’ markets” (Manfield and Milner 1999: 605).

Argentine and Brazilian nuclear industrialists and state experts believed in the economic potential of a partnership and hoped at the time that integration could revive the sector sufficiently in order to ward off reforms.¹⁶ In 1985, regionalization in nuclear energy, science, and technology between Argentina and Brazil began with a *Joint Declaration on Nuclear Policy*

¹⁵ Interview with Dr. Ema Perez Ferreira. Buenos Aires, March 2001.

¹⁶ Interviews with Dr. L. Vinhas, 2000; E. Palacios 1997 and 2000; Captain R. Ornstein 1999, 2001, 2006; A.C. Raffo 1997 and 2000; Dr. E. Perez Ferreira, 2001; Ambassador Rego Barros 2000.

signed by presidents Alfonsín and Sarney. This was the first regional agreement of the democratic era between the two countries and in its brief text, the joint declaration asserted (twice) the wish to extend “this cooperation to all of the other Latin American countries that share the same objectives” (Carasales 1997: 144). The Declaration also created a working group (*grupo de trabajo*) chaired by both foreign ministries and formed by nuclear experts from the two national commissions. Three years later the group was renamed the Permanent Committee and bore the responsibility of “setting and coordinating all initiatives in the political, technical and business areas of the nuclear sector.”¹⁷ Another key institutional actor involved in the negotiations was the Coordinating Committee of Argentine-Brazilian Business in the Nuclear Field (CEABAN) created in 1986. CEABAN, formed by Argentine and Brazilian industrialists, functioned as a cross-national lobby, advocating for greater commercial integration in NEST.

Also in 1986 and even more critically, the two countries signed the Treaty for Integration, Cooperation and Development, seen as the immediate predecessor of the Treaty of Asunción. In this comprehensive agreement, Argentina and Brazil committed to consolidating “the process of integration and economic cooperation” initiated with the “historical landmark represented by the Declaration of Iguazu, dated November 30, 1985” and greatly based on the 1986 “Act for Brazilian-Argentine Integration” which established a number of protocols for trade and nuclear cooperation between the two countries.¹⁸

Presidents Alfonsín and Sarney and their top diplomats favored *political* coordination and an *international* agenda that would signal the nonproliferation community that Argentina and Brazil were not diverting nuclear material for strategic uses. The political leadership wanted to improve political relations with the United States and its western allies and refinance the foreign

¹⁷ President Alfonsín and Sarney 1988 Declaration of Iperó. See <http://www.abacc.org.br/?p=597&lang=es>

¹⁸ See <http://www.abacc.org.br/?p=3419&lang=en>.

debt (Alcañiz 2000).¹⁹ To accomplish this, they set about establishing trust mechanisms between the two states that would unequivocally indicate transparency and openness in their nuclear dealings. Thus, the presidents scheduled a number of high profile meetings at previously covert nuclear facilities, such as the Argentine Pilcaniyeu uranium enrichment plant and the Brazilian Aramar Experimental Center.²⁰ This carried great political weight for the invitations were to facilities that were not under IAEA full-scope safeguards.

The technical staff of the two nuclear programs, on the other hand, were more concerned with economic cooperation and the domestic agenda of regional integration (Carasales 1997; Ornstein and Carasales 1998). Their preferences were clearly oriented towards finding common solutions to the financial crisis that was hindering further development of the sector (Wrobel and Redick 1998). One top priority shared by the CNEA, the Brazilian National Commission of Nuclear Energy (CNEN), and industrialists was to finish the nuclear power plants under-construction, Atucha II (Argentina) and Angra II (Brazil) (Ornstein and Carasales 1998).²¹ For them, integration was a viable local alternative to seeking out international sources of technology, know-how, and above all financing from the not always receptive industrial North. State experts on both sides of the border believed in complementing their industries in order to reap economic rather than political benefits.²² Yet they understood that in order to advance on industrial cooperation they needed their governments to first crystallize a political agreement that

¹⁹ Interviews with CNEA's former president Dr. Ema Perez Ferreira, March 2001; Dr. Jorge Coll from CNEA, July 1997 and December 1998; and the director of International Cooperation of CNEN, Dr. Laercio Vinhas, 2000 and 2006.

²⁰ See http://www.abacc.org.br/?page_id=99&lang=en

²¹ See minutes of CEABAN meetings in 1987 at <http://www.iaea.org/inis/collection/NCLCollectionStore/Public/22/017/22017076.pdf>.

²² Interviews with CNEA's former president Dr. Ema Perez Ferreira, March 2001; Dr. Jorge Coll from CNEA, July 1997 and December 1998; the director of International Cooperation of CNEN, Dr. Laercio Vinhas, 2000 and 2006, and the director of International Cooperation of CNEA, Roberto Ornstein, 2006.

would serve as an institutional framework for future commercial exchanges, in addition to improving general international conditions of nuclear transfers from the North to the South.

The CEABAN was very active in pushing the domestic agenda of Argentine-Brazilian nuclear integration and in the Permanent Committee they found support with the expert bureaucrats of CNEA and CNEN, as they too preferred technical and industrial cooperation to political coordination (Ornstein and Carasales 1998). CEPAL principles found their way into the domestic agenda of CEABAN as ISI was the key strategy proposed by them, but their economic proposals went mainly unanswered:²³ “The CEABAN has still not received a clear answer. If this does not occur in the near future, the initiatives of industrialists in both countries, oriented towards integrating the existing capabilities and supplying goods and services, will frustrate beyond repair and will only have served to feed empty political declamation without any real base.”²⁴

While the domestic agenda of nuclear integration stalled, the international agenda advanced swiftly. In 1990 the presidents of Argentina and Brazil (Carlos S. Menem and Fernando Collor de Mello) met in the city of Foz de Iguazú to sign a new joint declaration more ground breaking than its predecessor of 1985. This agreement established the Common System of Accounting and Control of Nuclear Materials (SCCC), which had been negotiated by the Permanent Committee and sought to keep tabs on all NEST facilities on both sides of the border. The SCCC instituted cross-national inspections and comprehensive sharing of inventories of nuclear materials.²⁵ In addition, Presidents Menem and Collor de Mello approved the start of negotiations with IAEA to reach a safeguard agreement between the two countries and the

²³ See minutes of CEABAN meetings in 1987 at <http://www.iaea.org/inis/collection/NCLCollectionStore/Public/22/017/22017076.pdf>.

²⁴ Declaración de Comité de Empresarios Argentinos y Brasileños del Área Nuclear (CEABAN) a la 6ta Reunión del Grupo de Trabajo sobre Política Nuclear. March 1, 1988.

²⁵ See http://www.abacc.org.br/?page_id=153&lang=en.

international organization, and committing to ratifying together the Tlatelolco Treaty once the safeguard agreement with the IAEA was concluded (Carasales 1997).

In 1991, Argentina and Brazil signed the Bilateral Agreement in Mexico which institutionalized the resolutions of the joint declaration and created the Brazilian-Argentine Agency for Accounting and Control of Nuclear Materials (ABACC) in order to administer and implement the SCCC.²⁶ The agency has the power to implement inspections of all nuclear facilities in the two countries; to represent Argentina and Brazil before third parties with regards to the SCCC; and to sign international agreements with the approval of the Argentine and Brazilian governments (Carasales 1997). Only a few months after its creation, the ABACC became party to the Quadripartite Agreement, a comprehensive safeguard agreement signed with Argentina, Brazil and the IAEA that regulates the overlapping functions of the ABACC and IAEA (Ornstein and Carasales 1998).²⁷ After ratifying the Quadripartite Agreement, Argentina and Brazil together ratified the Tlatelolco Treaty in 1994. In 1995, Argentina finally adhered to the Nonproliferation Treaty and Brazil, in 1998.

In conclusion, in only six years Argentina and Brazil integrated their system of control, verification, and accountability of nuclear material and activities. During that short period of time, the two countries established a regional system of safeguards and opened up their programs to the international community and the IAEA. The domestic agenda of nuclear integration lagged behind political integration, though. Lack of funding remained the key obstacle to furthering commercial integration. The nuclear experts of Argentina and Brazil and the CEABAN considered alternatives to external funding –which were unavailable due to the debt crisis– such as a “compensated exchange” regime by which services rendered by one country would be paid

²⁶ See http://www.abacc.org.br/?page_id=146&lang=en.

²⁷ Also, see http://www.abacc.org.br/?page_id=150&lang=en.

in kind by the other. Still, this system of bartering was completely ineffective in helping with the construction of Atucha II and Angra II/III due to the massive financing required for such projects.

Debt and Regionalization in the Post Neoliberal Era

Thus, the origins of the Mercosur were shaped by the incentives of the new civilian leadership to reduce dependence on international financial markets while sending a clear signal to the international community that the countries of the region were committed to putting an end to the isolation brought on by the military *Juntas* in the 1970s. These political goals shaped the creation and evolution of the Mercosur more so perhaps than the trade objectives of the South American states. As Oelsner has argued:

“The project of Mercosur was born out of political as much as—if not more than—economic motivations. The weight of its political dimension explains at least in part why its initial design was based on gradualism (sectoral agreements), and why cooperation included most sensitive areas, such as nuclear technology and biotechnology” (Oelsner 2013: 119).

Concerns with foreign debt, economic development, and democracy informed regionalization in the 1980s. Political executives adopting the early nuclear and trade protocols of 1986 drew from the conflictive experience of dealing with international financial institutions dominated by stakeholders from OECD countries. The fiscal crises of the 1980s (as well as the ones in the late-1990s/early 2000s) led Latin American executives to approach integration as a safeguard against too much exposure to the international market. South American decision-makers also drew from historically dominant anti-market beliefs (Christensen 2007; Stallings and Peres 2010). As discussed above, Latin Americans suspicion of unfettered markets,

stemming from successive economic crises, was reinforced in part by the United Nations Economic Commission for Latin America (ECLA or CEPAL in Spanish).

In the 1990s, the countries of Latin America embraced significant market-friendly policies, adopting programs that privatized and deregulated the state. Regionalization also followed the paradigm of “open regionalism,” regional integration that furthered domestic economic liberalization. Mercosur and the proposed Free Trade Association of the Americas (FTAA) reproduced at the regional level some of the key tenets of neo-liberalism implemented domestically: less state, less protectionism, and more multilateralism (Van Klaveren 2001). Oelsner explains it best when she states:

“In contrast to the economic and foreign policies implemented during the 1990s, in the late 1980s both Brazil and Argentina still followed heterodox economic recipes and sought to keep aside the strategic and ideological components of the East–West confrontation. However, rather quickly the actual content of the bloc identity adapted to post-Cold War and Washington consensus circumstances, replacing the defensive and protectionist model of integration with the concept of open regionalism” (Oelsner 2013: 123).

The neoliberal paradigm in South American regionalization, namely the Mercosur, was radically disrupted by the fiscal crisis of Brazil in 1999, with the devaluation of the real, and in particular by the latest foreign debt crisis affecting Argentina.

Argentina’s Sovereign Debt Crisis, the Rise of Brazil, and the Stagnation of the Mercosur

As stated in the introduction of this article, disinterest in the Mercosur has not entailed an abandonment of active regional institution-building in the Southern Cone. Over the past few years, the presidents of Mercosur –both jointly and unilaterally— have founded major regional and inter-regional schemes. The Union of South American Nations (UNASUR), created in 2008, unites the Mercosur with the customs union of the Andean Community of Nations (Bolivia,

Colombia, Ecuador, and Peru) in addition to Chile, Guyana, and Suriname and seeks to expand regional integration to all of South America.²⁸ The Bank of the South (BancoSur), founded by the center-left governments of Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay, and Venezuela in 2009, has a similar mission to the World Bank –to serve as a lender for social and infrastructure programs – but without conditionality clauses requiring market reforms.²⁹ Outside of Mercosur, Brazil and its BRICS partners (Russia, India, China, and South Africa) signed the founding treaty of the BRICS Development Bank in 2014.³⁰ This financial institution, which shares the development objectives of the BancoSur, clearly seeks to challenge the dominance of OECD countries in multilateral lending and signal the rise of a new order, dominated by the so-called emerging markets. Finally, less institutionalized but politically relevant to Brasilia is the IBSA Dialogue Forum, created in 2003 by Brazil, India, and South Africa to promote south to south cooperation and policy coordination in such key areas as pharmaceuticals and patent disputes and science and technology.³¹

What explains the flurry of new regional and cross-regional institutions? Argentina's sovereign default, at the beginning of the new millennium, brought the problem of foreign debt and the relationship between developing countries and multilateral financial institutions –such as the International Monetary Fund (IMF)- to the heart of the Mercosur. Argentina's financial collapse, which led to the most important political crisis of its post-democratic history, resulted from years of an overvalued currency, the economy's loss of competitiveness, lack of domestic investment, and a recession that dragged on from the late 1990s (Weyland 2002; Huber and Solt 2004; Walton 2004; Alcañiz and Hellwig 2011). The December 2001 crisis caused the

²⁸ See <http://www.unasursg.org/>.

²⁹ See <http://news.bbc.co.uk/2/hi/americas/7068124.stm>.

³⁰ See <http://www.washingtonpost.com/blogs/monkey-cage/wp/2014/07/17/what-the-new-bank-of-brics-is-all-about/>.

³¹ See <http://www.ibsa-trilateral.org/>.

government of President De la Rúa (1999-2001) to fall and a series of short-lived interim governments to follow. One of the provisional governments, lasting only one week in power, declared a unilateral moratorium on all of Argentina's US\$ 155 billion public debt, earning the infamous distinction of presiding over the largest sovereign default in history.³² The financial meltdown of the Argentine economy was directly triggered by the decision of the then minister of economy, Domingo Cavallo, to limit significantly all cash withdrawals in order to curb the rampant capital flight. The restrictions placed extreme stress on an already recessive economy, bringing it to a screeching halt. Unemployment shot up, income contracted, and the devaluated peso lost well over half of its value (Weyland 2002).³³

Argentineans blamed not just its political leadership and Domingo Cavallo for the debacle, but almost as much, international multilateral financial institutions –especially the IMF (Alcañiz and Hellwig 2011).³⁴ This resulted from political scape-goating as national politicians sought to transfer blame to outsiders as well as from the entanglement of the IMF in the country in the months preceding the crisis (Alcañiz and Hellwig 2011). In effect, the final desperate measures taken by the De la Rúa Administration had appeared to count with the blessing of the international financial community as they came at the heels of a record-breaking billion dollar loan package granted by the IMF to Argentina. The perception of responsibility was strong in the country: in the 2002 and 2003 Latinobarómetro surveys, 30% of Argentine respondents blamed the IMF for the economic problems of their country, and 16% of those surveyed found the general category of “banks” responsible (Alcañiz and Hellwig 2011: 398). This perception of

³² See “Argentina's collapse: A decline without parallel” in *The Economist*, February 28, 2002.

³³ See “Argentina's collapse: A decline without parallel” in *The Economist*, February 28, 2002

³⁴ Domingo Cavallo was a very high profile politician and economist, as he was widely credited with having “saved” the Argentine economy a decade earlier from hyper-inflation when he became President Carlos Menem's minister of economy (Weyland 2002).

responsibility was shared by Argentina's Mercosur partners, with almost 20% of Brazilians and a quarter of surveyed Uruguayans blaming the IMF, besides 12% of respondents in Brazil and 18% of Uruguayans finding banks responsible for the bad economy (Alcañiz and Hellwig 2011: 398).

The rest of the region watched in horror as the Argentine crisis unfolded. As the country's 2001 collapse came after a decade of neoliberal reforms in all of Latin America, characterized by a deep involvement of the IMF and the World Bank and the use of conditionality loans, Argentina's downfall was seen as a cautionary tale to its neighbors. Analysts expected the crisis to damage irreparably the Mercosur (Feldstein 2002): "The current crisis will weaken the prospects for the Mercosur trading arrangement among Argentina and its neighbors (Brazil, Paraguay, and Uruguay) and may kill any chance of a general Free Trade Area of the Americas" (Feldstein 2002: 8). Indeed, the following years were particularly stagnant for the Mercosur, which was already reeling from Brazil's 1999 devaluation of the real (Malamud 2005; Mera 2005).

Scholars coincide that the external agenda of the Mercosur –that through which members coordinate negotiations with third parties such as international organizations or other countries– is its *raison d'être* and in all likelihood explains its survival over the past decade and a half (Gomez Mera 2005; Carranza 2003; Oeslner 2013). Increasingly, Mercosur serves as a defensive platform, sheltering member states from markets and foreign institutions. Gomez Mera argues that this common external focus:

“can be understood by examining the persisting convergent foreign policy or 'strategic' incentives faced by Argentina and Brazil, given shared perceptions of external (and to some extent also internal) vulnerability. Defensive strategic considerations, ultimately reflecting the partners' awareness of their relative weakness within a highly asymmetrical international system, have constituted a major force motivating their

willingness to overcome crises and further the integration process” (Gomez Mera 2005: 110).

The goal to minimize vulnerable exposure to international actors and to signal collectively that when possible, South Americans will choose regional alternatives to international resource, is at work in the creation of the region’s new institutions. In the 2000s, the political leadership of Mercosur states became urgently concerned with the question of how to reduce dependence on foreign finance and minimize the chances of another financial catastrophe happening ever again. Negotiations against the (now failed) Free Trade Association of the Americas (FTAA), headed by Brazil, served as a strong focal point against full integration with the markets of the North and brought closer the center-left leadership of South America (Von Bülow 2010).³⁵ It also highlighted some of the political obsolescence of the Mercosur, given the growth of Brazil as a world trade power and the lack of achievements within the common market. The Mercosur, in this sense, can be said to be at:

“a real danger of becoming irrelevant if it remains suspended in its present ‘transition’ phase, without taking significant steps to implement its internal agenda by completing the custom union and moving towards a common market” (Carranza 2006: 805).

The new regional institutions of Latin America reveal the limitations of the ‘external agenda’ as a survival strategy and throw into sharp relief the unwillingness of the South American leadership to invest and move forward the Mercosur. Tellingly, the 2008 UNASUR seeks to supersede the Mercosur, an effort that the Banco Sur would help fund, and the many cross-regional integration initiatives in which Brazil is involved –such as the BRICS New

³⁵ A 2005 Summit of the Americas in Argentina saw a parallel anti-FTAA “people’s summit” protesting the attendance of US president George W. Bush, where President Nestor Kirchner of Argentina, President Hugo Chavez of Venezuela, soon-to-be-elected President of Bolivia Evo Morales, and the historic leader of Cuba, Fidel Castro, stated their concern and outright opposition to the FTAA. See <http://www.csmonitor.com/2005/1107/p03s01-woam.html>.

Development Bank or the IBSA Dialogue Forum— could kill. Evidently, formal regional integration in the Southern Cone has benefitted little from the leading challenges of the current post-neoliberal period: namely, increased (re)nationalization of some of the region’s economies, especially the Bolivian and Venezuelan one; the rise of China as a major commercial stakeholder; the Argentine-Uruguayan conflict over the shared Uruguay River; and Brazil’s new position as a world economic power. At present, it is too early to know if regionalization in the 2000s will accomplish the goal of decreased dependence on international finance and markets or even if some of these endeavors –in their initial phases of development—will survive the eventual ideological shift of the subregion’s political leadership. Still, they provide a clear indication of what the priorities are for these South American countries regarding access to trade and above all international finance.

Conclusion

The relationship between debt and the stagnation of regional integration is not surprising. What is more unusual, I would argue, is the relationship between debt and the *creation* of new regional institutions. Yet, as this paper shows, again and again Latin Americans have responded to common debt crises by investing in regionalization. Interestingly, these investments tend to be low cost, and thus focus more on “external agendas” of *new* institutions than on the “internal agendas” of *old* institutions. Low cost investments translate into low cost signals to international market actors. This rationale, I claim, explains in part why the Mercosur appears to have been abandoned by its larger members. It should be said, however, that the incentives to deepen regional integration vary cross-nationally and differ greatly for the smaller economies of the Mercosur, like Uruguay and Paraguay.

Latin Americans have a strong tradition in embarking on regionalization projects since the first attempts to create a united Latin America in the nineteenth century. Simon Bolívar's ideals of a Pan-American union, based on his call for continental solidarity and strength in number, shaped the meetings to negotiate the (failed) integration of the region in 1826. More often than not, unfortunately, these efforts have failed. Perhaps, the reason is that frequently these regional projects are born out of crises and deficits and not surplus. This paper has examined some of the *conditions* that have led to Latin American regionalization in the early-democratic and post-neoliberal eras. A next step would be to examine the *agency*—that is, the main groups— driving regional integration in Latin America. Scholars and practitioners seem to agree that business tends to be underrepresented in most of these endeavors, which are top-down and state-centered. But bureaucrats, especially those with the technical skills needed to advance inter-state cooperation, offer a promising line of inquiry. Indeed, Latin American bureaucrats in NEST, environmental, and water policy sectors are increasingly active at the regional level in order to access resources that are unavailable at home. These state experts create dense regional networks, through which many shared problems (such as budgetary cuts triggered by their indebted governments) are tackled by pooling scarce resources (Alcañiz 2010).

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