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Argentina's Neo-developmental Turn: A New Approach towards Integration with Mercosur

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Argentina's Neo-developmental Turn: A New Approach towards Integration with Mercosur

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ABSTRACT

This article explores the nature of the political economy of Argentina's trade policies towards *Mercado Común del Sur* (Mercosur – the Southern Common Market) after the financial crisis of 2001/2002 and analyses to what extent they constitute a robust potential for development. In the past decade, scholars of Latin America have argued that the reactivation of national and regional developmental goals in this region have resulted in the development of a new political, economic and social agenda for regional integration because open regionalism had failed to respond to the challenges of stable growth. Although the existing literature on regionalism has explored the internal and political dynamics of the recent efforts to cooperate in the region, there has not yet been adequate attention given to the link between regionalist projects and processes of globalisation. By using the analytical tools of the literature on new regionalism, this article argues that there is a need to go beyond stark distinctions between domestic and external dynamics of regionalist projects. The main argument of this article suggests that Argentina's developmental efforts were restricted by divergent understandings of Mercosur and development priorities; and asymmetries of production that prevailed among the bloc's members in the context of a more globalised and liberalised world economy.

Keywords: Neo-developmentalism, Mercosur, Argentina, New Regionalism, Latin America.

Arjantin'in Yeni Kalkınmacı Dönüşü: Mercosur ile Bütünleşmede Yeni bir Yaklaşım

ÖZET

Bu makale, 2001/2002 ekonomik krizinden sonraki dönemde, Arjantin'in Güney Amerika Ortak Pazarı'na (Mercosur) yönelik ticaret politikalarını incelemekte ve bu politikaların kalkınma açısından sahip olduğu potansiyeli analiz etmektedir. Geçtiğimiz on yılda, Latin Amerika uzmanları ulusal ve bölgesel kalkınmacı hedeflerin bölgede yeniden ortaya çıkmasıyla, bölgesel bütünleşme için yeni bir siyasi, ekonomik ve sosyal gündemin oluştuğuna işaret ettiler. Araştırmalar büyük ölçüde iç ve siyasi etkenlerin üzerinde yoğunlaşırken, bölgesel bütünleşme projeleri ve küreselleşme arasındaki ilişkiye yeterli ilgi gösterilmemiştir. Yeni bölgeselleşme literatüründen yola çıkarak, bu makale bölgesel bütünleşme projelerinin iç ve dış etkenler arasında katı bir ayrım yapılmadan ele alınmasını savunmaktadır. Bu makalenin temel savı, Arjantin'in bölgesel bütünleşmeye yönelik çabalarının dünya ekonomisindeki küreselleşme ve liberalleşme süreçleri bağlamında Mercosur üyelerinin farklılaşan kalkınma öncelikleri ve Mercosur'a ilişkin yaklaşımları ve var olan farklı kalkınma düzeyleri nedeniyle güçlü bir kalkınmacı potansiyel ile sonuçlanmadığını göstermektedir.

Anahtar Kelimeler: Yeni Kalkınmacılık, Mercosur, Arjantin, Yeni Bölgeselleşme, Latin Amerika.

Introduction

The formation of *Mercado Común del Sur* (Mercosur–the Southern Common Market) was driven by economic goals, with an excessive focus on tariff reduction in the 1990s. The financial crisis of 2001/2002 in Argentina and devaluation of the Brazilian real *vis-à-vis* the Argentine peso led to the stagnation of intraregional trade and an increase in trade disputes in Mercosur. This crisis revealed a marked inability of Mercosur to set a coherent agenda, promote intraregional trade flows, and tackle external shocks. It led to attempts to revive collective action, moving towards greater harmonisation of macro-economic policy, trade policies, and productive integration to enhance the export competitiveness of Mercosur countries.[1] In line with an emphasis on neo-developmentalism after the financial crisis of 2001-2002, Néstor Kirchner (2003-2007) and Cristina Fernández de Kirchner (2007-2015), governing from the leftist division of Peronism, prioritised deepening cooperation with Mercosur. Scholars have argued that this increased cooperation represented a revival of national and regional developmental goals, bringing a new political and economic agenda to regional integration.[2] By employing the concept of "developmental regionalism", this article evaluates the nature of Argentina's trade policies towards Mercosur after the financial crisis of 2001/2002 and analyses whether they have produced a potential for development. Mercosur constituted an important platform for Argentina to articulate its national and regional developmental goals; its efforts have not yet resulted in a robust space for development to deepen integration. The regional cooperation was constrained by a lack of adequate policy harmonisation, divergent understandings of Mercosur, and differences in development strategies and economic profiles. The article will be divided into three parts. The first part examines the debates on regionalism in the region and introduces the conceptualisation of regionalism, which is borrowed from the literature on new regionalism. The second part evaluates the neoliberal experiment of Mercosur, followed by an analysis of Argentina's strategies towards regional cooperation between 1991 and 2001. The third part examines the Kirchner governments' efforts to deepen cooperation with Mercosur after the Argentine financial crisis of 2001/2002.

From Open Regionalism to Developmental Regionalism

In the past decade, scholars have argued that the emergence of the New Left governments in the Latin American region marked an effort to bring a new political, economic and social agenda to Latin American regionalism because open regionalism failed to respond to the challenges of stable growth. Riggirozzi and Tussie labelled this new pattern of regional integration as "post-hegemonic regionalism", which cannot be solely understood as a response to overcoming pressures from globalisation or the United States' (US) attempt to assert political hegemony in the region. The post-hegemonic regionalism can be best defined as "the visible manifestation of a repoliticisation of the region giving birth to new polities or regional projects in which states, social movements and

1 UNCTAD, *Trade and Development Report 2007: Regional Cooperation for Development,* New York, 2007, p.44.

2 Pia Riggirozzi, "Region, Regionness and Regionalism in Latin America: Towards a New Synthesis", *New Political Economy*, Vol.17, No.4, 2012, p.421-443. For similar arguments, see Pia Riggirozzi and Diana Tussie, "The Rise of Post-hegemonic Regionalism in Latin America", P. Riggirozzi and D. Tussie (eds.), *The Rise of Post-hegemonic Regionalism: The Case of Latin America,* Springer Science and Business Media, 2012, p.1-16; Emir Sader, "Post-neoliberalism in Latin America", *Development Dialogue*, Vol.51, No.1, 2009, p.171-179.

leaders interact and construct new understandings of the regional space."[3] According to Riggirozzi, this refers to a distinctive form of political and social integration beyond neoliberalism and that the repoliticisation of regionalism represents a deeper attempt to re-embed developmental goals, rebuilding the identity of the region in the political, social and economic arenas.[4] Although the rebirth of the Left has led to optimism about the developmental potential of regional integration in the Latin American region, some scholars have expressed more pessimistic views about the regionalist projects in this region. Looking at the Mercosur case, Malamud and Schmitter have highlighted the importance of supranational institutions that possess some features of statehood to achieve policy harmonisation, as seen in European regionalism. Regional integration should seek positive integration with shared goals, taking a functional area as a starting point that would lead to spillover effects in other areas of cooperation. In effect, European countries initially cooperated in the coal and steel sectors, which was later followed by trade liberalisation, Common Agricultural Policy and monetary integration. Furthermore, a successful regional integration requires shared interests as well as leadership by a regional actor to guide the regionalist project. However, Mercosur's experience does not comply with the European model of regional integration; instead Mercosur has deep-rooted issues characterised by a lack of coherent leadership, weak institutions, intergovernmentalism and persistence of national preferences at the level of negotiation, policy making and implementation.[5]

This article analyses the nature of the political economy of Argentina's trade policies towards Mercosur after the financial crisis of 2001/2002 and examines to what extent they constitute a robust potential for development. In doing so, it explores the underlying factors that may lead to the crystallisation of developmental regionalism, considering the challenges of managing national and regional developmental goals under globalisation. While internal dynamics and political aspects of regionalism play an important role in shaping regionalist strategies, this article argues that a better understanding of the nature of post-crisis Argentina's focus on regionalism could be achieved by assessing ideological and material shifts associated with economic globalisation. This article employs a conceptualisation of regionalism which is borrowed from the literature on new regionalism. Studies on new regionalism began to gain scholarly predominance in the late 1980s and early 1990s, focusing on the link between regionalism and globalisation. Regionalism of the 1950s and 1960s, particularly the European model of regionalism, was understood to be a state-led project to enhance regional interdependence and cooperation based on the creation of formal institutions and the protection of domestic industry. Instead, this new regionalism was the result of the end of the Cold War and bipolar world order, the relative decline of American hegemony, the globalisation of finance and production, and the rise of the neoliberalism[6] as a dominant ideology.[7] Recent changes in the traditional power relationships in the global economy, propelled by the rise

3 Riggirozzi and Tussie, "The Rise of Post-hegemonic Regionalism in Latin America", p.3.

4 Riggirozzi, "Region, Regionness and Regionalism in Latin America", p.19

5 Andrés Malamud and Philippe C. Schmitter, "The Experience of European Integration and the Potential for Integration in South America", A. Warleigh-Lack N. Robinson and B. Rosamund (eds.), *New Regionalism and the European Union: Dialogues, Comparisons and New Research Directions*, Abingdon, Routledge, 2011, p.170-196.

6 The term neoliberalism has been used in a variety of different ways. In this article, it refers to "a theory of political economic practices proposing that human well-being can best be advanced by the maximisation of entrepreneurial freedoms within an institutional framework characterised by private property rights, individual liberty, unencumbered markets, and free trade". See David Harvey, "Neoliberalism as Creative Destruction", *The Annals of the American Academy of Political and Social Science,* No.610, 2007, p.22.

7 Björn Hettne and Fredrik Söderbaum, "The New Regionalism Approach", *Politeia*, Vol.13, No.3, 1998, p.2.

of Brazil, Russia, India, China and South Africa (BRICS) and developmental experiments in the Global South, also brought about the need to learn from diverse regionalist projects, rather than a mere focus on European integration.[8]

New regionalism then refers to a more complex and fluid process that has become associated with economic globalisation and the rise of non-state actors such as business and civil society.[9] According to Hettne, new regionalism can be understood in the context of the interaction between endogenous factors (levels of regionness)[10] and external factors (the challenges of globalisation).[11] Hettne and Söderbaum address three levels of "regionnes" that can be perceived through an analysis of the processes of regionalisation. As the level of confluence of different processes of regionalisation deepens, regionnes increases. At the "pre-regional" stage, a region is composed of a geographical and social unit that is characterised by low levels of regionnes led by primarily strategies that aim to maintain a balance of power. The second level refers to the level where the regionalisation process actually occurs. This regionalisation process may comprise both formal and informal methods. The former denotes the formal regional cooperation among governments, while the latter means an informal process that is driven by market and society.[12] At the third level of regionnes, as a result of these formal and informal processes of regionalisation, "the region as acting subject with a distinct identity, institutionalised actor capability, legitimacy, and structure of decision making, in relation with a more or less responsive regional civil society, transcending the old state borders" emerges.[13]

New regionalism cannot be seen then as purely a market-driven process of regional cooperation, "but there exists also regional mechanisms that can ensure social security and regional balance, with similar functions as in the old states."[14] Hence, although new regionalism was affiliated with open regionalism that depended on developing competitive economies integrated into a more liberalised global economy, it did not simply mean adoption of neoliberal strategies. In effect, new regionalism can be compatible with development, which was seen as an alternative path for developing countries to act collectively and gain a grip on policy while managing globalisation.[15]

8 Timothy M. Shaw *et.al.*, "Introduction and Overview: The Study of New Regionalism(s) at the Start of the Second Decade of the Twenty-First Century", T. M. Shaw, J. A. Grant and S. Cornelissen (eds.), *The Ashgate Research Companion to Regionalisms*, Surrey, Ashgate Publishing Limited, 2011, p.6.

9 Andrew Gamble and Anthony Payne, *Regionalism and World Order*, London, Macmillan, 1996; Hettne and Söderbaum, "The New Regionalism Approach"; Björn Hettne, "Beyond the New Regionalism", *New Political Economy*, Vol.10, No.4, 2005, p.549.

10 Regionnes implies "the position of a particular region in terms of regional cohesion, which can be seen as a long-term process, changing over time from coercion, the building of empires and nations, to voluntary cooperation." See Hettne, "Beyond the New Regionalism", p.548.

11 Hettne uses the term "actorness", implying the ability of a regional bloc to manage external relations. Consequently, actorness is not only an expression of regionness but also results from the interplay between endogenous and external dynamics. See Hettne, "Beyond the New Regionalism", p.555-556.

12 Hettne and Söderbaum, "The New Regionalism Approach", p.6.

13 Ibid, p.7.

14 Ibid.

15 Björn Hettne, "Regionalism, Security and Development: A Comparative Perspective", B. Hettne, A. Inotai and O. Sunkel (eds.), *Comparing Regionalisms: Implications for Global Development*, New York, Palgrave MacMillan, 2001, p.16-17. For similar arguments, see Nicola Phillips and German C. Prieto, "The Demise of New Regionalism: Reframing the Study of Contemporary Regional Integration in Latin America", A. Warleigh-Lack N. Robinson and B. Rosamund (eds.), *New Regionalism and the European Union: Dialogues, Comparisons and New Research Directions,* Abingdon, Routledge, 2011, p.156; Philippe de Lombaerde, "Comparing Regionalisms: Methodological Aspects and Considerations", T. M. Shaw, J. A. Grant and S. Cornelissen (eds.), *The Ashgate Research Companion to Regionalisms,* Surrey, Ashgate Publishing Limited, 2011, p.33-34; Shaw *et. al.*, "Introduction and Overview, p.5-10.

Hettne refers to this phenomenon as "developmental regionalism", which comprises the essential part of the European regional integration strategies. Developmental regionalism also influenced different models of regional integration in the rest of the world, including the Mercosur, the Association of Southeast Asian Nations (ASEAN) and the Andean Community. As Hettne states, "by developmental regionalism is meant concerted efforts from a group of countries within a geographical region to enhance the economic complementarity of the constituent political units and capacity of the total regional economy."[16] In this context, developmental regionalism requires strenghtening the export competitiveness of member countries, acting collectively to increase negotiation capacity in multilateral and preferential agreements, achieving harmonisation of national policies, e.g., monetary integration, as well as managing trade liberalisation that is also sensitive to the interests of import-facing industries.[17]

Open Regionalism: What Went Wrong?

In Latin America, emerging regional agreements focused on reducing trade barriers, accompanied by preferential and multilateral agreements to obtain access to new trade markets and attract foreign direct investment.[18] The US government played an important role in expanding the neoliberal agenda in the region, which materialised through a proposal for a free trade agreement across the Americas to liberalise trade and investment. The agreement marked the greater influence of the US over regional trade as the new regionalism required conformity to the US policy preferences for free markets in order to access US trade markets and investment.[19] This strategy to create a common trade area in the Americas was not only part of the new global restructuring of trade and investment ties but also represented a new dimension to the expansion of US hegemonic power. The agreement sought to allow the US to take political leadership in the Americas, along with the expansion of multinational companies and neoliberal reforms. However, as the expected gains from free trade agenda did not deliver on its promises, the early optimism faded away. For instance, the establishment of the North American Free Trade Agreement (NAFTA) created discontent among the countries that were not included in the agreement. While countries in the region enjoyed to some extent the flow of investment and market access, their lack of representation in multilateral agreements overshadowed any optimism.[20] As Heidrich and Tussie have noted, "the previous policy just opening unilaterally and promoting 'open regionalism' with neighbours was insufficient to generate balanced trade accounts."[21]

16 Hettne, "Beyond the New Regionalism", p.552.

17 Hettne, "Regionalism, Security and Development", p.16-17; Phillips and Prieto, "The Demise of New Regionalism", p.156; Pablo Heidrich and Diana Tussie, "Post-neoliberalism and the New Left in the Americas: The Pathways of Economic and Trade Policies", L. Macdonald and A. Ruckert (eds.), *Post-Neoliberalism in the Americas,* Basingstoke, Palgrave Macmillan, 2009, p.41-42.

18 *Latin America and the Caribbean in the World Economy 1999-2000,* Santiago de Chile, ECLAC, 2001, p.197-201.

19 Jean Grugel and Pia Riggirozzi, "The End of the Embrace? Neoliberalism and Alternatives to Neoliberalism in Latin America", J. Grugel and P. Riggirozzi (eds.), *Governance after Neoliberalism in Latin America,* New York, Palgrave Macmillan, 2009, p.12-13.

20 Diana Tussie, "Hemispheric Relations: Budding Contests in the Dawn of a New Era", G.Mace, A. F. Cooper and T. M. Shaw (eds.), *Inter-American Cooperation at a Crossroads,* Basingstoke, Palgrave MacMillan, 2010, p.23-42.

21 Heidrich and Tussie, "Post-neoliberalism and the New Left in the Americas", p.41.

Argentina-Mercosur Relations under Open Regionalism (1991-2001)

Mercosur became an important agreement in the search for new markets and foreign investment. Integration into Mercosur, which was created in 1991, constituted a complementary pillar of Argentina's trade liberalisation process. After the *Acta de Buenos Aires* between Argentina and Brazil, the Treaty of Asunción was signed between Argentina, Brazil, Paraguay and Uruguay on 26 March 1991.[22] The agreement aimed at the removal of trade barriers, the establishment of a common external tariff (CET), and the harmonisation of macro-economic and sectorial policies. Initially, the agreement was concerned with trade liberalisation matters and provided unilateral tariff reductions between 1991 and 1994. This resulted in zero *per cent* tariff rates by 1995, with the exception of sugar and the automobile regime. In 1995, an imperfect customs union was established and a CET was adopted, preserving national tariff lines in 300 products. A capital goods tariff, which was at the zero *per cent* (0%) rate in Argentina, was among these exempt goods that would be adapted to the CET in 2001 and 2006. Some products, such as chemicals, steel, paper and footwear, would be added to intraregional trade in 1999. Meanwhile, a special regime to promote economic integration in the automotive sector with Brazil was established in 1990. In July 2000, a common automotive regime was adopted using a CET of 35 per cent, import quotas, minimum local content requirements, and preferential import tariffs.[23]

Despite succeeding in trade liberalisation, Mercosur did not accomplish the harmonisation of macro-economic and sectorial policies or the creation of a customs union, due to national differences in trade policy. Although Mercosur achieved the establishment of a common policy agenda in particular areas such as automobiles, national preferences shaped the regional bloc. While Argentina employed a currency board based on the dollar-pegged peso, Brazil pursued a more flexible exchange rate, often resorting to currency devaluations. Argentina supported macro-economic convergence in Mercosur as it depended on the Brazilian market for its export expansion. Brazilian stability then constituted an important priority for Argentina, leading to complaints about Brazilian devaluations and their divergence from regional principles. However, despite emphasizing macro-economic convergence, Argentina did not fully support a customs union. This reflected Argentina's prioritisation of free trade and market access for agricultural products while Argentina focused on closer relations with East Asian countries, NAFTA, and the US. Argentina thus prioritised trade access in line with open regionalism, seeking to reduce tariff barriers and establish regional and extra-regional preferential agreements.[24] Accordingly, Argentina distanced itself from the idea of a customs union and sought to gain relative policy autonomy so that regionalism would not distort its extra-regional market access. Accompanied by its dependence on Brazilian stability, Argentina rather resorted to protectionist measures to mediate trade asymmetries.[25] At times, Argentina and Brazil maintained some degree of cooperation to address policy asymmetries through informal agreements. For instance, to address

22 In July 2012, Venezuela joined Mercosur as a full member.

23 Daniel Chudnovsky and Andrés López, *The Elusive Quest for Growth in Argentina*. New York, Palgrave Macmillan, 2007, p.70-76.

24 Daniel Chudnovsky *et.al.*, "Has MERCOSUR fostered Argentine Economic Development?", *Integration and Trade*, Vol.10, No.4, 2000, p.40-41.

25 Eduardo R. Ablin and Roberto Bouzas, "Argentina's Foreign Trade Strategy: The Curse of Asymmetric Integration in the World Economy", V. K. Aggarwal, R. H. Espach and J. S. Tulchin (eds.), *The Strategic Dynamics of Latin American Trade,* Chicago, Stanford University Press, 2004, p.169; Nicola Phillips, *Southern Cone Model: The Political Economy of Regional Capitalist Development in Latin America,* London, Taylor & Francis, 2004, p.102-103.

trade imbalances in Argentina deriving from the peso's overvaluation, Brazil agreed to Argentina's statistical tax surcharge in 1992.[26]

Financial crises in the late 1990s heightened distortions in intraregional trade and suppressed trade flows. External shocks proved to be particularly destabilising for Argentina's volatile growth, with stagnant exports, a surge in imports and current account deficits.[27] While Argentina's orthodox path rendered it volatile to external shocks, there was no adequate regional mechanism to address the impact of external shocks.[28] Divergent macro-economic responses and a lack of coordination played an important role in heightening tensions within the bloc. Argentina's macro-economic problems and devaluation of the Brazilian real created tensions in intraregional trade and led to unilateral policy decisions by both sides.[29]

Argentina's Neo-developmental Turn: Deepening Cooperation with Mercosur

Productive Integration

In line with its neo-developmental strategy in the post-crisis era, Argentina emphasized the need for collective mechanisms to reduce regional trade and production asymmetries and to enhance competitiveness of manufacturing industries of member countries. In accordance with this policy reorientation, Argentina often criticised the Mercosur agenda for solely focusing on trade liberalisation instead of productive priorities.[30] One form of cooperation was voluntary export restriction agreements between Argentina and Brazil that sought to reduce trade and production asymmetries. Following demands from local exporters, Argentina promoted bilateral trade monitoring through negotiations between the Argentinian and Brazilian private sectors. Furthermore, Argentina defended the establishment of automatic mechanisms to respond to changes in exchange rates to tackle macro-economic asymmetries. While the automatic mechanism was not initially accepted by Brazil, the creation of bilateral monitoring groups was agreed, involving specific sectors, such as domestic appliances, footwear and textiles. In February 2006, the Competition Adaptation Mechanism (CAM) was also agreed upon following Argentina's request to address trade and production asymmetries. Accordingly, each country would be able to impose safeguards to protect its national industry when 35 *per cent* of producers were harmed by imports. CAM was important as a collective defensive measure to protect sensitive sectors such as textiles, television sets, and other household equipment through institutionalised intra-Mercosur safeguards.[31]

Another important arena for cooperation was reactivation of negotiations towards a common automotive policy in 2006. In the 1990s, the most successful aspect of regional cooperation was seen

26 Roberto Bouzas, "El MERCOSUR Diez Años Después. ¿ Proceso de Aprendizaje o Deja Vu? ", *Desarrollo Económico*, Vol.41, No.162, 2001, p.182.

27 Manuel Pastor and Carol Wise, "Stabilization and its Discontents: Argentina's Economic Restructuring in the 1990s", *World Development*, Vol.27, No.3, 1999, p.487.

28 Author interview with Cintia Quiliconi, former Advisor to Secretariat de Industria and researcher in FLACSO, Buenos Aires, 21 November 2011.

29 Bouzas, "El MERCOSUR Diez Años Después", p.184-187.

30 *Mercosur Report 2007 [second semester] – 2008 [first semester]*, Buenos Aires, IDB-INTAL, 2009, p.67.

31 *Mercosur Report 2006 [second semester] -2007 [first semester]*, Buenos Aires, IDB-INTAL, 2008, p.70-71; *Mercosur Report 2005 [second semester] – 2006 [first semester*], Buenos Aires, IDB-INTAL, 2007, p.52-53.

in this sector, as driven by transnational corporations (TNCs) strategies. While Mercosur primarily focused on enhancement of trade flows, the common automobile regime rested on promotion of productive integration of consumer and intermediate goods.[32] However, the late 1990s witnessed a stagnation of trade relations and a war of incentives to attract foreign investors, eventually causing auto parts factories to move to Brazil.[33] The agreement in 2001 was implemented following these tensions, alongside a balanced regime with a flex ratio (imports per dollar) of 2.1 in 2002, 2.4 in 2003 and 2.6 in 2005, which was more consistent with Brazil's preference for more liberal trade, foreseeing the implementation of free trade in 2006.[34] Negotiations were held again between 2002 and 2006 regarding the definition of the CET. Argentina, in line with its emphasis on industrial policy, sought to achieve a more balanced regime with a flex ratio of 2.1 to protect its auto parts industry, in particular, which was heavily affected from the flow of imports in the 1990s.[35] In 2005, Argentina and Brazil agreed to import from each other using an export/import coefficiency of 2.6 times the free on board (FOB) value of car exports. In mid-2006, the agreement was extended but sought to reduce the ratio to 1.95 for the period between July 2006 and June 2008, which reflected Argentina's demand for more balanced trade. A special regime was also designed to protect against extra-regional exports. The agreement provided for the application of a 35% extra-zone tariff on cars, trucks; and 14% on tractors and machinery. This agreement represented an important source of cooperation that goes beyond solely economic interests to reduce tariff barriers in Mercosur, thereby being more sensitive to the demands of productive sectors.[36]

Thanks to bilateral agreements, Brazil's investment in the region and a favourable peso-real parity, trade disputes between Argentina and Brazil decreased, with trade flows recovering to reach the 1999 levels in 2006. The stability of the Brazilian economy stimulated Argentina's exports, while Argentina started to use more capital goods and intermediate goods from Brazil. Bilateral trade, particularly in the manufacturing of vehicles, improved between Argentina and Brazil.[37] Although there was greater collaboration beyond just commercial integration, regional cooperation is still being carried out through temporary informal agreements between the two countries. Furthermore, voluntary export restriction agreements were subject to tensions between Argentina and Brazil because they resorted to unilateral trade measures.[38] This situation was partially embedded in the regional bloc's well-addressed problems, such as weak institutions and the persistence of conflicting national preferences.[39] Differences in economic profiles and development priorities also played a crucial role in hampering

32 Nicola Phillips, "The Rise and Fall of Open Regionalism? Comparative Reflections on Regional Governance in the Southern Cone of Latin America", *Third World Quarterly*, Vol.24, No.2, 2003, p.224.

33 *Latin America and the Caribbean in the World Economy 2000-2001*, Santiago de Chile, ECLAC, 2002, p.98-99.

34 *Latin America and the Caribbean in the World Economy 2001-2002*, Santiago de Chile, ECLAC, 2003, p.158.

35 "Argentina y Brasil buscan cerrar un acuerdo para las automotrices", *Página/12,* 21 June 2006, http://www.pagina12.com.ar/diario/economia/2-68752-2006-06-21.html, (Accessed on 19 November 2013).

36 *Mercosur Report 2005 [second semester] – 2006 [first semester*], IDB-INTAL, p.48-51; *Mercosur Report 2006 [second semester] – 2007 [first semester]*, IDB-INTAL, p.78-104. The Agreement was extended on several occasions and the flex ratio reached 1.50 after signing the additional Protocol to the Economic Complementation Agreement (ECA) on June 11, 2014. See "Argentina and Brazil extend auto industry accord until July 2015*", Mercopress*, 12 June 2014, http://en.mercopress.com/2014/06/12/argentina-and-brazil-extend-auto-industry-accord-until-july-2015, (Accessed on 12 January 2016).

37 *Mercosur Report 2007 [second semester] – 2008 [first semester],* IDB-INTAL, p.103.

38 *Mercosur Report 2006 [second semester] – 2007 [first semester*], IDB-INTAL, p.78-82; Marc Schelhase, "The Changing Context of Regionalism and Regionalisation in the Americas: Mercosur and Beyond", T. M. Shaw, J. A. Grant and S. Cornelissen (eds.), *The Ashgate Research Companion to Regionalisms*, Surrey, Ashgate Publishing Limited, 2011, p.183.

39 Malamud and Schmitter, "The Experience of European Integration".

further integration. The largest economy of Mercosur, Brazil, has a comparatively diversified export profile and strong industrial base.[40] Despite a moderate degree of diversification in medium-to-high technology, Argentina primarily depends on the exports of low value-added commodity goods and commodity-related industries.[41] In the post-crisis era, Argentina's export composition for Brazil did not change significantly, comprising raw materials and industrial commodities, with the exception of automobiles. Argentina mainly imported capital goods, machinery and equipment from Brazil. Hence, Argentina continued to have trade deficits with Brazil, particularly in higher value-added goods (See Tables 1 and 2).[42] Trade and production asymmetries continued between Argentina and Brazil, as the latter historically had more extensive industrial and export policies.[43]

Table 1. Argentina's main exports to Brazil (%)

	2003	2009	2011
Cereal	19	8	9
Chemical goods	11	7	6
Transport vehicle	12	39	43
Fuels, fats and mineral oils	10	7	6

Table 2. Argentina's main imports from Brazil (%)

	1998	2003	2011
Automobile	9	9	17
Intermediate goods	37	47	33
Parts and accessories of capital goods	18	13	24
Capital goods	21	18	17

Source: Ministerio de Industria Argentina (2011)

On top of the differences in economic profiles, divergent development priorities created tensions within the regional bloc.[44] In response to the financial crisis of 2001/2002, the Kirchner

40 Mahrukh Doctor, "Prospects for Deepening Mercosur Integration: Economic Asymmetry and Institutional Deficits", *Review of International Political Economy,* Vol.20, No.3, 2013, p.524*;* Phillips and Prieto*,* "The Demise of New Regionalism", p.160.

41 Paloma Anós-Casero and Valentina Rollo, "Argentina: Trade Patterns and Challenges Ahead", *World Bank Policy Research Working Paper Series*, No.5221, 2010, p.1-20.

42 *Mercosur Report 2007 [second semester] – 2008 [first semester],* IDB-INTAL, p.103-118; *Mercosur Report 2005 [second semester] – 2006 [first semester]*, IDB-INTAL, p.37-38.

43 Author interview with former Minister of Economy of Argentina, Felisa Miceli, Buenos Aires, 15 November 2011.

44 The New Left governments shared an agenda that aims to expand classical principles of the Left to reduce social inequalities, manage growth and industrialisation and regulate markets. However, the New Left governments are not homogenous and they have diverse characteristics dependent on their political agenda and levels of party organisation and social mobilisation. For a detailed account of the New Leftist projects in the Latin American region, see Jean Grugel and Pia Riggirozzi (eds.), *Governance After Neoliberalism in Latin America,* New York, Palgrave Macmillan, 2009; Francisco Panizza, *Contemporary Latin America: Development and Democracy beyond the Washington Consensus*, London, Zed Books, 2009; Kurt Weyland *et.al*., (eds.), *Leftist Governments in Latin America*: *Successes and Shortcomings,* New York, Cambridge University Press, 2010; Steven Levitsky and Kenneth M. Roberts (eds.), *The Resurgence of the Latin American Left*, Baltimore, Maryland, Johns Hopkins University Press, 2011.

governments appealed to the economic nationalism of the classical Peronism and allied with labour unions and *piqueteros* (unemployed movements) that had vocalised their opposition to neoliberalism. They hence took a more interventionist and protectionist stance in economic management in order to expand local industry and employment.[45] Contrarily, in Brazil, the Lula government (2003-2010) combined liberal principles with a degree of intervention in the economy.[46] The Lula government was committed to macro-orthodoxy, deepened the participation of the private sector in production and did not radically alter foreign investment and trade liberalisation.[47] Argentina was then the partner that resorted most to unilateral mechanisms, arguing that its protectionist measures derived from its need to reach the same level of production as Brazil. Regarding the common automotive policy, not setting a free trade agreement deadline was in line with Argentina's defensive concern for its own industrialists. In 2006, Argentina implemented a system of new non-automatic import licences that provoked a reaction from Brazil.[48] These tensions became more pronounced as the Cristina Fernández Kirchner government expanded its restrictions on imports as a response to the negative impacts of the global crisis.[49]

Finally, divergent understandings of Mercosur hindered further cooperation and destabilised the coherence of the regionalist project. The Lula government in Brazil was more willing to assume leadership in Mercosur than the previous administrations were, in order to strengthen the regionalist project and to reduce the American influence in the region.[50] However, Brazil's regional leadership was rather incoherent; due to its globally competitive industry, Brazil's strategies remained more global than regional in the search for access to extra-regional trade markets. In contrast, Mercosur constituted an important platform of cooperation for Argentina because, as a smaller economy, it depends on the regional market for exports of its manufacturing industry, thereby seeking to maintain Brazil's interest in the region.[51] Brazil's global outlook confused strategies towards integration, leading to a persistence of trade and production asymmetries. In this context, Argentina's manufacturing share in the Brazilian market declined, particularly given an increasing Chinese manufacturing share in the Brazilian market since 2006.[52] However, it was not only Brazil that caused trade divergence. In effect, divergent strategies often played out in the context of bilateral preferences of Mercosur members within the larger region and outside the region. For instance, Argentina, Brazil and Paraguay increased their exports to China, whereas Uruguay started to shift its exports towards the US.[53]

45 Panizza, *Contemporary Latin America,* p.242-245.

46 Raúl Madrid *et.al*., "The Policies and Performance of the Contestatory and Moderate Left", K. Weyland, R. Madrid and W. Hunter (eds.), *Leftist Governments in Latin America: Successes and Shortcomings,* New York, Cambridge University Press, 2010, p.140.

47 Steven Levitsky and Kenneth M. Roberts, "Introduction: Latin America's 'Left Turn': A Framework for Analysis", S. Levitsky and K. M. Roberts (eds.), *The Resurgence of the Latin American Left*, Baltimore, Maryland, Johns Hopkins University Press, 2011, p.17-21.

48 *Latin America and the Caribbean in the World Economy 2006-2007*, Santiago de Chile, ECLAC, 2007, p.123; *Mercosur Report 2005 [second semester] – 2006 [first semester],* IDB-INTAL, p.51.

49 Marc Schelhase, "The Changing Context of Regionalism and Regionalisation in the Americas", p.182-183; *Mercosur Report 2009 [second semester] – 2010 [first semester],* Buenos Aires, IDB-INTAL, 2011, p.113.

50 Malamud and Schmitter, "The Experience of European Integration", p.188-189.

51 Andrés Malamud, "Overlapping Regionalism, No Integration: Conceptual Issues and the Latin American Experiences", *EUI Working Paper*, RSCAS 2013/20, 2013, p.8; Doctor, "Prospects for Deepening Mercosur Integration", p.524*;* Phillips and Prieto*,* "The Demise of New Regionalism", p.160.

52 Doctor, "Prospects for Deepening Mercosur Integration", p.524-525; Carol Wise and Cintia Quiliconi, "China's Surge in Latin American Markets: Policy Challenges and Responses", *Politics & Policy,* Vol.35, No.3, 2007, p.426.

53 *Mercosur Report 2005 [second semester] – 2006 [first semester],* IDB-INTAL, p.82.

China's rise in international trade and its increased demand for commodities have had important implications for Argentina's development as well as for its counterparts in the region. In the 2000s, thanks to China's increasing demand for commodities and favourable prices for commodities, the New Left governments were able to increase fiscal revenues, pay their debt to the International Monetary Fund (IMF) and correct trade and financial imbalances.[54] However, the asymmetrical nature of bilateral trade between Latin American countries and China raised questions about the region's capacity to promote industrial competitiveness, which had been a historical weakness for the region. In this context, an important developmental challenge has been this asymmetrical trade relationship in which the region exports a few commodities while its imports are dominated by higher value-added manufacturing goods from China. This creates pressures on local producers who increasingly face competition from the flow of higher technology goods and poses challenges in terms of the diversification of exports.[55] Although the regional bloc lacked adequate cohesion to manage collectively trade relations with China[56], recent pressures on the region's industrial competitiveness have led to some sort of convergence to reduce vulnerabilities related to the strong presence of Chinese manufacturing goods in Mercosur markets.[57] In 2011, Argentina and Brazil agreed to authorise Mercosur members to raise import tariffs up to 35 *per cent* for 100 products against the flow of Chinese manufactured goods.[58]

Policy Harmonisation

Contrary to the expectation that Mercosur would be a forum for harmonisation of policies towards CET and customs union, Mercosur has not yet accomplished this type of economic integration.[59] An important agenda item in Mercosur was the harmonisation of the CET policy, which was crucial for its customs union and for enhanced negotiating capacity in extra-Mercosur trade agreements. In order to achieve coordination in this policy area, members gathered to eliminate double levying of the CET. One improvement in this area was the decision by the Common Market Council (CMC) in 2004, which allowed imported extrazonal goods that complied with the common tariff policy to enjoy the same treatment. In line with this decision, in December 2005, it was decided to establish a list of goods at 0 *per cent* tariff, a list of goods with 100 *per cent* tariff preference, and a list of goods from these

54 Levitsky and Roberts, "Introduction: Latin America`s Left Turn", p.10; Carlos M. Vilas, "Turning to the Left-Understanding Some Unexpected Events in Latin America", *Whitehead Journal of Diplomacy and International Relations,* Vol.9, 2008, p.115-122.

55 Nicola Phillips, "Consequences of an Emerging China: Is Development Space Disappearing for Latin America and the Caribbean?", *The Centre for International Governance Innovation (CIGI),* Working Paper No.14, 2007, p.11; Wise and Quiliconi, "China's Surge in Latin American Markets", p.425; Rhys Jenkins, "Latin America and China—a new dependency?", *Third World Quarterly*, Vol. 33, No. 7, 2012, pp. 1349-1350; *Latin America and the Caribbean in the World Economy 2007-2008*, Santiago de Chile, ECLAC, 2008, p.48-49. Between 2004 and 2006, primary resources comprised 82.9 *per cent* of Argentina`s exports to China. Soybean accounted for 46.2 *per cent*, soy oil accounted for 23.4 *per cent* and petroleum accounted for 13.3 *per cent* of total primary exports. See *Economic and Trade Relations between Latin America and Asia-Pacific: The link with China,* Santiago de Chile, ECLAC, 2008, p.61.

56 Phillips and Prieto, "The Demise of New Regionalism", p.162.

57 M*ercosur Report 2007 [second semester] – 2008 [first semester],* IDB-INTAL, p.103-104.

58 "Argentina/Brazil propose higher external tariffs for Mercosur", *MercoPress*, 20 December 2011, http://en.mercopress.com/2011/12/20/argentina-brazil-propose-higher-external-tariffs-for-mercosur, (Accessed on 17 October 2013).

59 Malamud and Schmitter, "The Experience of European Integration", p.177-178; Roberto Bouzas, "Algunos Comentarios sobre el Comercio Exterior Argentino en una Perspectiva de Largo Plazo", *Revista del CEI Comercio Exterior e Integración*, Vol.8, No.3, 2007, p.69-70.

two lists protected by safeguards and anti-dumping measures. Despite this, the list of exemptions to the CET prevailed and the elimination of double CET levying was postponed.[60] Member countries maintained their specific lists for capital goods from third parties and promoted lower levels of tariffs in this line to attract foreign investment.[61] Argentina's emphasis on policy harmonisation remained ambiguous; it was interested in reducing asymmetries in line with its neo-developmental orientation rather than supporting policy convergence, particularly regarding the establishment of a customs union.[62]

Multilateral and Preferential Trade Negotiations

Another visible change in policy making in Argentina was the rejection of unilateral trade opening and the emphasis on collective regional action to address asymmetries in preferential and multilateral agreements for both agricultural and manufactured goods. An important policy shift in Mercosur was to resist US influence in the region, which resulted in the suspension of the Free Trade Area of the Americas (FTAA) negotiations as Mercosur countries rejected further talks.[63] This policy shift was consistent with Mercosur's attempt to create a common agenda to negotiate better terms in multilateral and preferential areas. During the Puebla negotiations, Argentina and Brazil asked the US to provide better terms for tariffs and mitigate the impact of large farm subsidies in agriculture in the US. Mercosur authorities insisted that the FTAA negotiations would not be completed without dealing with the farm subsidies. However, negotiations with the US were more complex than a heuristic rejection of the FTAA. The American lack of interest in the FTAA with Mercosur also played a crucial role in suspension of the agreement. The US was willing to offer a 50 *per cent* tariff reduction for Mercosur members, which was less than the tariff reductions offered by the US to the rest of the region. Furthermore, the US favoured an agreement regarding the farm subsidies within the context of the World Trade Organisation (WTO) process.[64]

Regarding the WTO negotiations, the Doha Round, which started in November 2001, had an ambitious agenda: market access, elimination of export subsidies, reduction of domestic trade distortions in agricultural goods, and non-agricultural market access (NAMA). Its agenda for agricultural liberalisation meant that the Doha Round was seen as an important developmental step in multilateral negotiations. Multilateral negotiations during the Uruguay Round (1986-1994) were subject to asymmetries of power in which developed countries had a better position from which to influence negotiations on market access. They had advantages in opening up trade in manufactured goods as they had a greater share of technologically intensive goods and had enjoyed a gradual opening in sectors such as textiles and clothing. In agricultural liberalisation, which was crucial for developing countries, the expected benefits were not realised as developed countries used hidden mechanisms such as subsidies and anti-dumping measures to counter.

60 In 2010, during the San Juan Summit, Mercosur members decided to gradually eliminate double levying of the CET in three phases between 2012 and 2019. See *Mercosur Report 2009 [second semester] – 2010 [first semester],* IDB-INTAL, p.70-74.

61 *Mercosur Report 2007 [second semester] – 2008 [first semester],* IDB-INTAL, p.80.

62 Bouzas, "Algunos Comentarios sobre el Comercio Exterior Argentino", p.67-68; *Mercosur Report 2009 [second semester] – 2010 [first semester],* IDB-INTAL, p.70-74.

63 Riggirozzi, "Region, Regionness and Regionalism in Latin America", p.430.

64 "Critican la propuesta de los EE.UU. en el ALCA", *La Nación*, 18 February 2003, http://www.lanacion.com.ar/474590-critican-la-propuesta-de-los-eeuu-en-el-alca%20de, (Accessed on 5 November 2013); "Fracasó otra reunión para llegar al ALCA", *La Nación*, 11 March 2004, http://www.lanacion.com.ar/580390-fracaso-otra-reunion-para-llegar-al-alca, (Accessed on 1 May 2014).

Furthermore, agreements on agricultural subsidies and countervailing measures favoured the interests of developed countries. For instance, agricultural subsidies were exempted from the elimination of export subsidies.[65]

Unlike in the 1990s, Mercosur members emphasized harmonisation of interests in Mercosur to achieve better terms in negotiations on agricultural and non-agricultural products.[66] Mercosur members acted collectively in the WTO negotiations, and an ad hoc committee for Consultation and Coordination for Negotiations in the area of the WTO was established to synchronize policy goals externally. Argentina and Brazil participated in the NAMA-11 group to negotiate industrial products[67]. Argentina resisted further trade liberalisation in manufacturing goods while it continued to promote market access in the agricultural sector.[68] In agricultural negotiations, developing countries sought to secure better conditions for access to agricultural markets by seeking removal of export subsidies in the US and the European Union (EU).[69] The regional bloc has not yet achieved significant results in multilateral negotiations due to incoherent policy design as well as the stagnation of the WTO negotiations,[70] although developing countries were able to secure some benefits that improved access to agricultural markets in the US and the EU countries. In August 2004, negotiations succeeded in setting a date for the removal of subsidies in agriculture. It was agreed that agricultural subsidies would be removed by 2013, while subsidies in cotton would be eliminated in 2006. Despite success in setting an agenda for the removal of agricultural subsidies, progress was not made in terms of tariff liberalisation and treatment of special safeguards.[71]

In negotiations on manufactured goods, there was less consensus among Mercosur members, despite some degree of coordination. Divergent interests prevailed during the negotiations due to differences in development strategies and economic profiles. Argentina was not willing to liberalise tariffs in manufactured goods, while with a more globally competitive industry, Brazil pursued a more open agenda to have access to new markets.[72] With its global outlook, Brazil's interests converged with China, India and South Africa rather than with regional neighbours.[73] At the WTO, Argentina often lobbied unilaterally to raise its concerns about trade liberalisation in industrial goods.[74] In addition to divergent policy priorities, the absence of adequate harmonisation, especially in the area of CET, and the persistence of different tariff preferences in specific products represented an important barrier to a more coherent regional agenda in multilateral negotiations.[75] There was also little progress in negotiations with the EU, and these negotations were halted in 2004 and finally re-instated in 2010. While the EU's loss of interest partially affected the progress in negotiations, divergent development priorities among Mercosur countries and an absence of policy harmonisation over the CET played a

65 *Latin America and the Caribbean in the World Economy 1999-2000,* ECLAC, p.205-218.

66 *Mercosur Report 2005 [second semester] – 2006 [first semester],* IDB-INTAL, p.98.

67 *Mercosur Report 2006 [second semester] – 2007 [first semester],* IDB-INTAL, p.85-86.

68 Bouzas, "Algunos Comentarios sobre el Comercio Exterior Argentino", p.68.

69 *Latin America and the Caribbean in the World Economy 2007-2008*, ECLAC, p.60-61.

70 *Mercosur Report 2008 [second semester] – 2009 [first semester],* Buenos Aires, IDB-INTAL, 2010, p.108.

71 *Mercosur Report 2005 [second semester] – 2006 [first semester],* IDB-INTAL, p.95.

72 *Mercosur Report 2006 [second semester] – 2007 [first semester],* IDB-INTAL, p.85; M*ercosur Report 2007[second semester] – 2008 [first semester],* IDB-INTAL, p.129.

73 Phillips and Prieto, "The Demise of New Regionalism", p.159-160.

74 "Mercosur partners divided over protectionism", *Mercopress,* 29 November 2008, http://en.mercopress.com/2008/11/29/mercosur-partners-divided-over-protectionism, (Accessed on 14 September 2013).

75 *Mercosur Report 2006 [second semester] – 2007 [first semester],* IDB-INTAL, p.85.

role too.[76] Mercosur members did not succeed in producing a common agenda in the manufacturing sector to negotiate tariffs in textiles and automobiles.[77] Brazil and Uruguay were eager to make concessions; Argentina pursued a more defensive approach to protect its manufacturing industry.[78] Brazil and Uruguay often perceived Argentina's stance as a barrier to progress towards an agreement with the EU.[79]

Conclusions

In the past decade, the emergence of the New Left governments and their neo-developmental experiments led to profound impacts on the study and practice of regional integration in Latin America. The New Left governments, with their anti-neoliberal and anti-US campaigns, focused on national and regional spheres as a means to promote economic development. Reorientation of Argentina's political economy after the financial crisis of 2001/2002 particularly saw the revival of state activism to pursue national and regional developmental goals. Using the analytical tools of new regionalism, this article argued that an analysis of Argentina's trade policy towards Mercosur should consider the processes of economic globalisation. Domestic dynamics inherent to a regionalist project matter, but they should be contained within notions of competitiveness and integration into a more globalised economy that today shape and constrain national and regional development strategies. In this context, developmental regionalism requires garnering the benefits of globalisation as well as mediating its negative externalities. This entails building policy harmonisation and coordination within a regional bloc, to strengthen the export competitiveness of its members, and to act collectively in multilateral and preferential trade agreements. In the Mercosur case, regional cooperation was hampered by divergent economic profiles, development strategies and interests in a more globalised economy that diluted the coherence of the regionalist project. Argentina's lesser degree of export diversification and its resort to a more nationalist course of development weakened its efforts to develop a coherent approach towards strengthening regional integration. Argentina's policy priority was to reduce short-term volatilities through protectionist measures at unilateral and bilateral levels rather than promoting policy harmonisation, e.g., CET. The regional bloc has not yet achieved significant results in multilateral and preferential negotiations due to a lack of policy convergence, particularly in the area of CET as well as divergent development priorities. Bilateral trade relations with China raised doubts about the region's capacity to negotiate trade agreements in a collective manner and promote the export competitiveness of the region's manufacturing goods. This situation brought about debate regarding the historical weakness of the region's industrial competitiveness as the region primarily relies on the exports of low value-added commodity goods while higher value-added Chinese manufacturing goods began to dominate the region's imports. This has strong implications for Argentina as it both faces import competition from Chinese goods and loses its manufacturing share in Brazil's market.

76 *Latin America and the Caribbean in the World Economy 2009-2010*, Santiago de Chile, ECLAC, 2010, p.108; *Mercosur Report 2007[second semester] – 2008 [first semester],* IDB-INTAL, p.141.

77 *Mercosur Report 2005 [second semester] – 2006 [first semester], IDB*-INTAL, p.86.

78 *Mercosur Report 2007[second semester] – 2008 [first semester],* IDB-INTAL, p.141

79 "Brazil can't be hostage of Argentina or Venezuela in Mercosur/EU trade negotiations", *Mercopress*, 29 January 2014, http://en.mercopress.com/2014/01/29/brazil-can-t-be-hostage-of-argentina-or-venezuela-in-mercosur-eu-trade-negotiations, (Accessed on 5 March 2014); "Argentina the 'main obstacle' in reaching a trade accord with the EU, claims Uruguay", *Mercopress*, 13 November 2015, http://en.mercopress.com/2015/11/13/argentina-the-main-obstacle-in-reaching-a-trade-accord-with-the-eu-claims-uruguay, (Accessed on 8 January 2016).

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Appendix List of Interviewees

Felisa Miceli, former Minister of Economy of Argentina (28 November 2005-16 July 2007), 15 November 2011, Buenos Aires.

Cintia Quiliconi, former Advisor to Secretariat de Industria and researcher in FLACSO, 21 November 2011, Buenos Aires.