PAPER 5

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Sustaining Regional Integration in South America:

The Case of Mercosur

EXECUTIVE SUMMARY

Supported as it is by a wide range of organisations and structures, regional integration has long been a goal in South America but its realisation has proved difficult. The region's largest integration effort is the Southern Common Market (Mercado Común del Sur: Mercosur), a free trade agreement with ambitions to become fully integrated as a common market. The past decade, however, has brought a succession of serious challenges; they include currency crises in the two largest members, a growing number of trade disputes, and disagreements over the suspension of Paraguay and the admission of Venezuela. This paper explores these tensions and examines the sustainability of the integration project, focusing on the future of Mercosur. The first part reviews the history of integration in South America; the second examines some of the challenges facing Mercosur; the third offers a few case studies on how these challenges have played out and the fourth presents some conclusions.

INTRODUCTION

The idea of regional integration is far from new to South America. Arguably, economic and political integration as a policy objective has its roots in the revolutionary visions of the Venezuelan nationalist Simón Bolivar (1783-1830) and the Argentine independence leader

José de San Martín (1788-1850), both of whom envisioned a United States of Latin America. More formally, however, regional economic integration did not appear on the agenda of South American states until World War II ended in 1945; and the 21st century brought with it shifts in the political and economic landscape which in turn influenced the formation and nature of Latin America's regional integration processes. Mercosur, one of several initiatives that represent this changed thinking, had its beginnings in a series of bilateral trade agreements between Brazil and Argentina. It has since grown to include Argentina, Brazil, Paraguay, Uruguay and Venezuela and is South America's largest regional integration project.

Mercosur at present exists only as a customs union and free trade area but has ambitions to become a common market. According to the World Bank the grouping accounts for about 72% of the territory of South America (12.8 million km^2, three times the area of the EU), 70% (275 million) of the South American population and 77% of South America's 2012 GDP ($ 3.18 trillion out of $ 4.13 trillion).[1] Many observers consider Mercosur capable of giving the region much higher global economic status. Politically it can foster greater regional unity, better promote members' interests in multilateral negotiations and ultimately improve the wellbeing of their people.

Although Mercosur has achieved considerable success – between 1990 and 1997 intra-bloc trade grew fivefold from $4 billion to $20 billion[2] – 20 years after its foundation it is still struggling to sustain and deepen its integration. The union began to experience problems in the wake of the 1999 devaluation of the Brazilian real and an Argentine economic meltdown in 2001. The global economic crisis of 2008-2009 was a challenge to the union's stability, in part due to a growing number of trade disputes between member countries over tariff barriers and increased protectionism and unilateral actions. Furthermore, disputes arising from Paraguay's 2012 suspension from membership and the admission of Venezuela to the bloc have raised fresh concerns about its future.

This paper analyses some of the threats to the stability of Mercosur. It starts by briefly discussing the history of regional integration in South America and examines some of the difficulties that faced integration processes prior to the early 1980s, when the foundations were being laid for the initiatives of the 1990s. Many of these problems were to re-emerge later.

The second section will review some present obstacles to the sustainability of Mercosur; the third will discuss examples of how these issues have played out (specifically those that

1 http://www.itamaraty.gov.br/index.php?option=com_content&view=article&id=6252:mercosur&catid=143&lvang=en&Itemid=434

2 Biswaro J, 'The Quest for Regional Integration in Africa, Latin America and Beyond in the Twenty First Century: Experience, Progress and Prospects. Rhetoric versus Reality, a Comparative Study.' Brasilia: Fundacao Alecandre De Gusmao, 2011.

arose in the wake of the 2008-2009 crisis) and look at the institutional hurdles the union must overcome. This section also deals with issues of unilateralism – centring on the increasingly protectionist trade policies of key Mercosur members and their effect on other member-states – and with trade negotiations and the challenges of membership and changes in the Mercosur agenda. The final section offers some conclusions and lays out some possible outcomes.

THE PROCESS OF REGIONAL INTEGRATION

Although it is tempting to relay the entire history of South America's regional integration and its complementary institutions, for this paper it is necessary only to focus on those institutions and events that helped form the foundations of Mercosur. For this purpose the process of regional integration may be divided into two phases: the 'old regionalism' from 1945 to the 1980s and the 'new' or 'open' regionalism that took hold from the 1990s onward.

Old regionalism

South American integration in the period described as old regionalism can be seen as grounded in the structuralist school of thought[4] through which national development processes are largely the function of the state, which supplies and manages all necessary elements of economic development, provision of infrastructure and industrial planning. Essential to this process was the encouragement of industrialisation through import substitution, a policy aimed at breaking away from the legacy of Latin American nations as solely exporters of primary goods.[5]

One of the first formal attempts at economic integration during this period was the Asociación Latinoamericana de Integración (Latin American Free Trade Association: Lafta), founded in February 1960 through the Treaty of Montevideo signed by Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay. Bolivia, Colombia, Ecuador and Venezuela joined later.[6] Signatories to the treaty agreed to the elimination of all tariffs, duties and associated charges on all trade between members while differentiating between 'sensitive' and 'non-sensitive' national goods. Lafta functioned on the Most Favourite Nation principle, which requires that any preferential treatment accorded a non-member be extended to other members.[7]

3 *Ibid.*
4 Birch M. 'Mercosur: the road to economic integration in the southern cone' in *International Journal of Public Administration,* 23, 5-8, 2000, pp 1 387-1 413
5 *Ibid.*
6 *Ibid.*
7 *Ibid.*

Although the agreement met with some success in its early stages, intra-regional trade increasing from 8% in 1960 to 13.6% in 1975, progress had slowed by the end of the 1960s[8] as discord among members increased. By the early 1970s very few states had lowered tariff barriers and as a result the deadline for full integration was extended to 1980. The larger member-states (Brazil, Argentina, Mexico and Chile) were anxious to move more quickly with tariff reductions to enable them to enlarge their markets, hence their industrial base. As trade barriers fell and trade among member countries grew, however, many smaller members felt that most of the benefits of integration were accruing to their more industrialised counterparts.[9] According to Kaltenthaler[10] the failure centered on the commitment by many South American states to a policy of import substitution and the resistance of governments (or powerful private interest groups) to reducing tariffs on products regarded as 'key' or 'strategic'. In response to discontent among many of the smaller states, Colombia, Chile, Peru, Venezuela, Ecuador and Bolivia came together through the 1969 Declaration of Cartagena to form the Andean Pact. Kaltenthaler[11] believes that the economic and political climate of the time was not favourable for regional integration. Moreover the establishment of military dictatorships in the 1970s and early 1980s and an increase in civil unrest in Argentina, Chile, Uruguay, Paraguay, Brazil, Peru and El Salvador, among others, presented a further important barrier to integration and co-operation in general.[12]

In August 1980 members of Lafta, feeling that it needed to be reformed, signed the Montevideo Treaty that replaced the original grouping with the Asociación Latinoamericana de Integración (Latin American Integration Association: LAIA). One reason for this reconstituted vision was the emergence of democratic institutions throughout Latin America in the mid- to late-1980s. A new generation of democratic leaders saw regional integration as a way to stabilising the region at the same time as encouraging more political homogeneity on the continent, in particular the 'southern cone' in which Brazil and Argentina came to re-establish their fractured relationship.

In recognising the historical trade patterns and different levels of economic development of member states, the LAIA arrangement permitted tariff reductions to be negotiated bilaterally or multilaterally among small groups of countries, without requiring that they be extended to all members. Like its predecessor, however, LAIA also failed to achieve significant regional

8 *Ibid*.
9 *Ibid*.
10 Kaltenthaler K & F Mora, 'Explaining Latin American economic integration: the case of Mercosur', in *Review of International Political Economy*, 9, 2002, pp72-97
11 *Ibid*.
12 *Ibid*.

economic integration, in large part due to import substitution. According to Anastasios Valvis:[13]

> The continuous strong antagonism between different states with similar inward-looking development strategies led the old regionalism and the LAIA agreement to failure [sic]. National markets did not open and, as a consequence, the explicit goal of diverting third party imports to intraregional production and export did not actually happen.

By the early 1990s it was clear that old regionalism and import substitution industrialisation policies for the most part had failed. Lafta and LAIA had proved unsuccessful partly due to their structure but also under the pressures arising from the economic and political uncertainty prevailing on the continent. Nevertheless, out of the failure of those institutions was born a new form of regional policies that became known as 'open or 'new' regionalism. This period saw the resurgence of the Andean Community (Comunidad Andina) and the creation of Mercosur, both groupings established to give national economies a better footing in the international economic system while also developing regional trade.

New regionalism

Under the pressure of economic hardship resulting from the 1980s Latin American debt crisis, countries in the region began scrutinising an alternative model of structural economic reform. This came by way of a wave of new preferential trade agreements throughout the region in what would come to be described as the beginning of the period of 'new' regionalism. The rationale for reform (as it was later for Mercosur) was the notion of open regionalism, which was very different from the largely protectionist and inward-orientated model of regional integration followed from the 1960s and 1970s (the old regionalism). The term 'new regionalism' was first articulated by Gert Rosenthal, former president of the Economic Commission for Latin America, who described it as a policy framework which promotes forms of economic liberalisation and deregulation that are aimed at improving regional competitiveness.[14] Economic liberalisation and socio-political democratisation would become the primary objectives of regional integration efforts. During this time many new regional agreements emerged and existing ones took new forms; they varied in nature, some pursuing the idea of a common market while others sought free trade agreements.

13 Valvis A, 'Why is it worth rethinking Latin American integration?' in *Regional Integration in Latin America, Institute of International Economic Relations*, 2008

14 Schirm S, *Globalization and the New Regionalism: Global Markets, Domestic Politics and Regional Co-operation*. Cambridge: Blackwell, 2002, pp136-168

Mercosur, although an outcome of several national policy shifts and attempts at regionalisation, in many ways was driven by the governments of Argentina and Brazil. Those countries believed that it was the formation of strategic alliances rather than rivalries that would promote the economic development and competitiveness of the region while greatly reducing its dependency on the US.[15]

Rivalry between the two major regional powers, Argentina and Brazil, dates back to the era of European colonisation and for this reason has been a key factor in developments in the entire southern American region (in particular the establishment of Uruguay and Paraguay as states). For the past 50 years their disagreements, although falling short of outright warfare, have been far-reaching – particularly as they concern the two countries' influence in buffer states, their respective nuclear capabilities and the considerable hydroelectric resources of the Parana River. From the early 1980s, however, relations between them began to improve, an easing that culminated in the signing of the 1985 Iguaçu Declaration which formally ended their rivalry and formed the basis for future co-operation in energy, arms control, nuclear installations and other areas necessary to advancing economic integration.[16] One result of the Declaration was the establishment of a high level joint committee, leading to the Argentine-Brazilian Integration Act signed in 1986 in Buenos Aires. Under the leadership of presidents Raúl Alfonsín of Argentina and José Sarney of Brazil the act created the Programme for Economic Integration and Co-operation (Programa de Integración y Cooperación Económica Argentina-Brasil: PICE) under which 24 bilateral protocols were signed over three years. PICE was structured around negotiations over sectoral agreements covering specific areas such as capital goods, food, technological co-operation and the iron and steel, nuclear and automobile manufacturing industries. Following on this, in November 1988 Brazil and Argentina signed the Treaty for Integration, Co-operation and Development setting the stage for a common market between them within 10 years.[17] In 1990 Paraguay and Uruguay were invited to participate in the establishment of such a market.

These moves towards increased co-operation coincided with more widespread regional democratisation; indeed it might be said that regionalism and democratisation were mutually reinforcing. In Brazil and Argentina it was the emergence of civilian governments after extended periods of dictatorship that encouraged re-commitment to regional integration and bilateral co-operation as a means of securing the region and consolidating the democratisation process. By 1985 for the first time Argentina, Brazil and Uruguay all had democratic governments, which allowed for improved bi- and multilateral relations in the region.

15 *Ibid.*
16 *Ibid.*
17 *Ibid.*

On 26 March 1991 Brazil, Argentina, Paraguay and Uruguay signed the Treaty of Asunción, providing for the creation of Mercosur.[18] The treaty has been formally amended once, through an additional protocol known as the Protocol of Ouro Preto, signed in December 1994. Among other things, this established the foundation for a customs union with a common external tariff, covering 85% of goods traded by bloc members with third countries.

For the first decade Mercosur was regarded as one of the most successful attempts at regional integration in the developing world and the most durable in South America.[19] Its success was attributed to unprecedented levels of intra-regional trade and to what was considered the effective negotiation of common external tariffs, which in 1995 resulted in the launch of Mercosur as a customs union proper.

There are three distinct phases in the evolution of Mercosur. The first was driven by the groups that were decisive to its creation; the founder members saw a need to encourage trade flows in the region and to integrate into the global market.[20] The second phase extended over the first decade of the 21st century and was marked by the installation of popular governments such as that of President Luíz ('Lula') da Silva in Brazil, which brought with them new ideas and strategies for integration that were more South-South orientated and more mistrustful of global neoliberal policies. Graciela Rodríguez considers that the rejection by its members of the 2003 proposal for a Free Trade Area of the Americas, a US-driven scheme for free trade between all countries in the Americas (excluding Cuba), gave the Mercosur bloc a strong sense of identity and a renewed commitment to the project.[21] This period also saw the creation or conclusion of meetings and agreements on wider non-economic issues such as social development, youth and women's affairs, democratic governance and human rights. Socio-economic institutions established at this time included the Mercosur Structural Convergence Fund, a financing mechanism for infrastructure in the region, and the Mercosur Social Institute, more directly concerned with issues of social development.

The third and current phase began with the 2008 global economic crisis. The main distinguishing feature of this stage has been the effect of the crisis on unilateral and regional trade policies.[22] Many Mercosur members turned to protectionist policies to protect their economies and as a result have become less committed to the pursuit of common solutions and economic policies; institutional processes have stagnated and there has been an increase

18 Gardini G, The Origins of Mercosur: *Democracy and Regionalization in South America. New York:* Palgrave Macmillan, 2010

19 *Ibid.*

20 Rodríguez G, 'Mercosur: What kind of integration is possible?' in Berrón G et al, *Rethinking Regionalisms in Times of Crisis*. Rio de Janeiro: Transnational Institute, 2013. p17

21 *Ibid.*

22 *Ibid.*

in disputes over trade and customs issues. It is this, present phase of its development that will present Mercosur with the challenges reviewed more closely in the following sections.

EMERGING CHALLENGES

One of the most commonly cited reasons for the weakness of Mercosur has been its institutional basis. According to Luigi Manzetti, until now Mercosur has relied heavily on inter-governmental institutions rather than supra-governmental structures.[23] Although many argue differently, Manzetti considers that supranational institutions are essential and that they should be strengthened in order to establish a secure and fair common market, which is the primary aim of Mercosur. They assist in the harmonisation of domestic policies and create the common juridical norms that guide and regulate the integration process. Arguably, Mercosur's institutional weakness is the outcome of failures in other, past integration attempts such as the Andean Pact; the general effectiveness of which and its ability to resolve problems were believed to have been limited by excessive bureaucratisation.[24]

Hence to remedy past mistakes, Mercosur policy-makers opted for a more pragmatic, less bureaucratic approach. It was hoped that giving political leaders and ministers of member countries direct responsibility for Mercosur's development during its initial stages, rather than delegating authority to a supranational bureaucracy, would make for faster decisions and more effective action. In this context it is noteworthy that although members' national parliaments ratified the Treaty of Asunción they have otherwise been passive and indeed at times bypassed altogether. The organisation's only permanent institution is the Administrative Secretariat, which has as its primary task to supply member governments with documents and information regarding new protocols and agreements. The two other main decision-making institutions, the Mercosur Council and the Common Market Group, are staffed by top-ranking representatives of each member government, such as their foreign and finance ministers. This has meant that Mercosur depends on the national agendas of members and the changing priorities of the leadership of the day. At present these countries give precedence to maintaining national sovereignty,[25] which has resulted in a Mercosur shaped by the principles of 'inter-governmentalism' rather than those of a supranational institution akin to the EU that could independently govern the process of integration. Paraguay and Uruguay, the two smallest members of Mercosur, are of a different opinion.[26] A Mercosur with stronger supranational institutions they believe would give them more opportunities

23 Manzetti L, 'The Political Economy of MERCOSUR,' *Journal of Inter-American Studies and World Affairs*, 35 (1993–1994), pp101–41

24 *Ibid*.

25 Gomez-Mera L, 'Explaining Mercosur's Survival : Strategic Sources of Argentine–Brazilian Convergence', *Journal of Latin American Studies,* 37, 2005, pp109–140

26 *Ibid*.

to defend their national interests, which under the current system often have been undermined.

Unilateralism has proved a relatively low-cost policy option for many member states. In fact flexibility and a more case-sensitive approach have emerged at the expense of the establishment and enforcement of the union's rules and procedure. For example between 1991 and 2002 the Mercosur Council approved 149 decisions that required incorporation into the domestic legal system of each member country but of these, 70% remained unenforced in 2002. Of the 604 resolutions approved by the Common Market Group for those same years, 63% remained in abeyance in 2002.[27] In the wake of the 2008 economic crisis member states – especially the biggest, Argentina and Brazil – have become far more prone to making unilateral decisions on trade policy and the application of tariffs; this has led to an increase in disputes between members.

The Mercosur decision-making process tends to have a distinctly top-down flavour with presidential initiatives as its main driving force and mechanism.[28] For example, the 2004 Olivos Protocol provides for resolution of disputes that may arise among its signatories regarding the interpretation and application of, or lack of compliance with, the Treaty of Asuncion and the Ouro Preto Protocol.[29] The Olivos Protocol also created a permanent Mercosur court. Many, however, regard the court as dysfunctional: between 1991 and 1998 almost all trade disputes between members were addressed through bilateral negotiation and the most serious through direct presidential involvement. Furthermore, continuing power imbalances between Argentina and Brazil on the one hand and Uruguay and Paraguay on the other tend to destabilise the union. Argentina and Brazil have the largest economies and most political clout and as a result have the strongest influence on decisions, in particular those regarding any efforts to deepen integration.

Brazil and Argentina

The 2008 global economic crisis brought with it the widespread re-emergence of protectionism as a means of safeguarding domestic interests. Latin America and Mercosur members were no exception. According to the London-based think-tank Global Trade Alert, South America is responsible for one-fifth of all protectionist measures worldwide and Argentina and Brazil together account for 70% of discriminatory measures in the region.

27 Baumann R, *Integration in Latin America–Trends and Challenges.* Brazil Office: Economic Commission for Latin America and the Caribbean, 2008
28 Manzetti L, *op. cit.* pp101–41
29 *Ibid.*

Clearly, the conduct of Argentina and Brazil as Mercosur's two largest members (by population and economic output) is of great consequence to the unity, stability and success of the union. Additionally their actions and their degree of compliance with Mercosur directives set crucial precedents for the bloc as a whole. Unfortunately, in the wake of the 2008 crisis they, along with other developed and developing countries, have resorted to protectionist and restrictive trade measures in order to give priority to their domestic economies. According to Mario Carranza the global crisis has managed to 'unglue' Mercosur by giving impetus to Brazil's tendency to work outside the bloc; it has provoked deeper intra-bloc trade disputes resulting from increased protectionist trade policies; and with the accession of Venezuela has called into question Mercosur's founding principles.[30] Mercosur is an institution created on the principles of free trade and the reduction of duties and preferential trade among its members. Despite this, Brazil and Argentina in particular have adopted protectionist measures to ameliorate the impact of the global downturn on their national industries.[31] Although as full members of Mercosur they are restricted from making unilateral changes to tariffs, many of their actions have run counter to the fundamental principles of the union and led to serious trade disputes.

In 2012 Argentina and Brazil received members' approval to raise import tariffs on more than 200 products on which a maximum rate of 35% can be applied. According to Guido Nejamkisin this has had the effect of diluting the objective of a common tariff.[32] Nevertheless the two countries have taken further unilateral actions against the bloc's rules, resulting in disputes between them. Argentina has used non-automatic licensing and new approval systems to restrict the entry of certain items into the country, the goods most affected being farm machinery and textiles from Brazil and shoes and food products from Uruguay. Sergio Abreu, a former Uruguay government minister, has stated that 'Argentina has a protectionist model, taking tariffs to 35%. It doesn't allow imports and its methodology differs greatly from the original spirit of Mercosur'.[33] Similarly Brazil has raised barriers by restricting Argentine goods such fruit, olive oil and biscuits. These and other protectionist measures have affected trade flows.

Although both countries have pursued similar protectionist methods that extend beyond their region, they have designed them to achieve slightly different aims. Argentinean policy has been more focused on increasing production and consumption of domestic goods, reducing unemployment and increasing international reserves in order to fulfil Argentina's

30 Carranza M, 'Mercosur, The Global Economic Crisis and the new Architecture of Regionalism in the Americas', Working paper 125, Latin American Trade Network, Quito: 2010

31 *Ibid*.

32 Gomez-Mera L (forthcoming). 'Domestic Constraints on Regional Co-operation: Explaining Trade Conflict in MERCOSUR.' *Review of International Political Economy.*

33 Reuters, 30 July 2012, 'Analysis: Venezuela joins trade bloc big on politics, protectionism'. http://www.reuters.com/article/2012/07/30/us-trade-latinamerica-idUSBRE86T16V20120730

international debt repayment obligations. In order to pursue defensive industrial policies Argentina has opted for non-tariff barrier measures. These include quotas (a limitation on the import or export of certain goods over a period of time), import permits (government licences authorising import of certain goods), tax concessions and preferential loans for Argentinean products, and non-automatic import licensing (permitting the import of products only against specific criteria).

Protectionist trade policy has always been a strong feature of Brazilian administrations. Recent changes in policy were intended to protect domestic industries from increasing – and potentially de-industrialising – competition from cheap goods entering Brazil from countries such as China. The ultimate intent of Brazilian restrictions in the automotive industry, for example, has been to ensure increased investment in domestic motor vehicle manufacturing and encourage international motor manufacturers to build plants in Brazil to circumvent stringent import regulations. This policy seems to be working; companies such as BMW, Tata and Jaguar Land Rover have announced plans to build new factories in Brazil.[34]

Both Argentina and Brazil have been under fire not only from other members of Mercosur but also the wider international community (eg WTO). The US, Japan and the EU among others have argued that Argentinean restrictions fundamentally violate WTO principles, as a consequence of which they have brought complaints to the WTO regarding Argentina's trade regulations, in particular its licensing requirements. The EU, which in 2013 was Brazil's biggest trading partner, also laid a case before the WTO, claiming that Brazil was placing unacceptable taxes on imports on various goods, in particular cars, as a result of which EU car exports to Brazil fell by 11% in 2013.[35] Similar disputes are likely to arise from countries such as Japan and the US, which have cited comparable concerns; closer to home, in 2011 Uruguay began negotiations with Brazil over the latter's 30% import tax on automobiles (for which Brazil is Uruguay's biggest market).[36]

There is no agreement among scholars as to the direct impact that the 2008 global crisis had on regionalism in South America but according to Carranza, 'today's different economic climate will reinforce Latin America's growing tendency towards regionalist and socialist agendas, while simultaneously making it difficult for states to advance post-neoliberal political programmes.'[37]

34 *The Economist,* 14 January 2012, 'Seeking protection'. http://www.economist.com/node/21542780

35 Reuters, 19 Dec 2013, 'EU takes Brazil to WTO over 'protectionist care taxes'. http://www.reuters.com/article/2013/12/19/us-eu-brazil-wto-idUSBRE9BI0I320131219

36 *Buenos Aires Herald*, 27 Sep 2011, 'Uruguay to discuss protectionism with Brazil'. http://www.buenosairesherald.com/article/80024/uruguay-to-discuss-protectionism-with-brazil

37 Carranza M, 'Mercosur, The Global Economic Crisis and the new Architecture of Regionalism in the Americas', Working paper 125, Latin American Trade Network, Quito: 2010

Venezuela

In many ways the major changes that Mercosur has seen in the past decade have challenged the sustainability of the organisation and prompted many to question its stability. Key among these changes has been the suspension of Paraguay from the union and the inclusion of Venezuela as a full member.

On 31 July 2012 Venezuela, which had been awaiting approval for its membership in Mercosur for the previous three years, was finally granted full membership. In the same month Paraguay, one of the four founder-members, was suspended from the union on account of what other members considered to be the undemocratic, though parliamentary, ousting of its president Fernando Lugo.

The admission of Venezuela marked the end of a long-drawn-out process that had begun in 2006. According to Mercosur law the admission of a new member must be approved by parliaments of all member states; Paraguay was the only country to reject the accession of Venezuela, on grounds of its concerns about the late Venezuelan president Hugo Chavez's questionable democratic credentials. The issue has caused tension within Mercosur; Paraguay argues that Venezuela's admission breaks the organisation's own rules, which require the decision to be unanimous (Paraguay's suspension was temporary and it is therefore still a full member). For Brazil and Argentina, however, the admission of Venezuela serves some strategic purpose. Not only can Venezuela make significant economic contributions to Mercosur – the oil-rich country's entry adds $378.9 billion to the Mercosur GDP – but it is also heavily dependent on imports, trade from which Brazil and Argentina would expect to benefit.

The inclusion of Venezuela may, however, call into question – or at least dilute – Mercosur's commitment to liberal democratic institutions and trade liberalisation. Chavez envisaged 'a Mercosur that prioritises social concerns,' saying, 'we need a Mercosur that every day moves farther away from the old elitist corporate models of integration that look for financial profits but forget about workers, children, life, and human dignity'.[38] Carried into Mercosur, such an approach would mean an increased politicisation of the union and perhaps a review of its trade policy.

38 Kellogg P, 'Regional Integration in Latin America: Dawn of an Alternative to Neoliberalism' New Political Science 06/2007; 29(2-2):187-209.

CONCLUSION

Mercosur has proved very resilient; although scholars and policy-makers on many occasions have predicted its collapse it continues on. Examining two of the problems at present facing the union shows how many of these present challenges Mercosur has met with in the past. With the inclusion of Venezuela Mercosur has become an even larger bloc with a greater influence on integration and trade on the continent, although the new entrant may bring with it potential for ideological change. The problem for Mercosur is to overcome the flaws that have hindered its development on so many occasions thus far.

The first of these is its institutional weakness. As noted, the development of strong and permanent governance, dispute and negotiation mechanisms is the foundation of successful regional integration, allowing for policy consistency and freedom untrammelled by political agendas. The current global economic environment has also presented new obstacles. A return by Argentina and Brazil to protectionist policies challenges Mercosur principles; the two countries that in the past have so strongly shaped Mercosur still have a direct impact on its future direction. Finally, the accession to membership of Venezuela has challenged Mercosur's founding principles and potentially set it on a new path; Venezuela brings with it a more socialist agenda and therefore the potential for politicising the grouping and moving it beyond its raison d'être, which in essence is still an economic one.