The Political Economy of Integration

The experience of Mercosur

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Acknowledgments

This book is the product of a long-standing interest in Latin American trade, and in particular the ways in which Latin American countries have attempted to use trade to achieve development objectives. Trade has long been a contentious issue in Latin America, and one that looms large in the minds of policy makers and the population alike. Trade is a hot political issue everywhere, but especially so in the Latin American context. This is my attempt to come to grips with that politics in the context of Latin American integration.

As I have carried out the research for this book over the years, many colleagues in the United States, Brazil, Argentina, and Uruguay have helped me understand Latin American integration from their own perspectives. At times, they may not have realized the impact they had on my thinking about the topic, and certainly they were always willing to let me test out my ideas. Among the people who helped me, through conversation and other exchanges, in ways large and small, are: Paulo Roberto de Almeida, Kit Ashby, Jorge Balbis, Nora Balzarotti, Victor Blatt, Atílio Borón, Clovis Brigagão, Jorge Campbell, Zairo Cheibub, Norberto Colominas, Gerónimo de Sierra, Wilson Fernández, Julio Gambina, Fernando González, José Augusto Guilhon Albuquerque, Belela Herrera, Jorge Lavopa, Flávia Campos de Mello, Marcílio Marques Moreira, Reginaldo Mattar Nasser, Gustavo Moreno, Janina Onuki, Jorge Papadopulos, Marcelo Pereira, Eduardo Piazza, Diego Piñeiro, Bruno Podestá, Fernando Porta, Tim Power, Marcelo Rossal, Jorge Schvarzer, Bill Smith, Fernando Sotelino, Malusa Stein, Miguel Teubal, Janice Tirelli, João Paulo Cândia Veiga, and Tullo Vigevani. They may be surprised at some of my interpretations, in the end, but they may also recognize some of our conversations here. And as is always the case with such acknowledgments, any errors are my own.

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Introduction

Ever since Latin American countries achieved their independence in the early nineteenth century, leaders have dreamed of integrating the region into a single nation. Simón Bolívar, for example, wrote in 1815 in his Letter from Jamaica that "more than anyone, I desire to see [Latin] America fashioned into the greatest nation in the world, greatest not so much by virtue of her area and wealth as by her freedom and glory" (1965 [1815]: 67). Over time, of course, nations developed distinct national identities, and these identities are keenly felt and not particularly amenable to easy alteration, despite the homogenizing influences of globalization. An Ecuadorian has little to do with an Argentine, in terms of political culture, racial/ethnic makeup, and cultural outlook, and much the same could be said about most any pair of Latin American countries. A dream of unity is just that, a dream. A United States of Latin America is not on anyone's radar screen.

Despite this obvious fact, Latin American countries attempted to bring their economies closer together for most of the second half of the twentieth century and into the new millennium. These efforts began in earnest in the early 1960s. At their core, the Latin American integration projects were meant to push the development process forward. They emerged after Latin American countries began to industrialize following the shock of the Great Depression. This import-substitution industrialization (ISI) developed gradually in the interwar period, and by the 1950s most nations in the region came to see their future in increasing industrial development, moving away from their traditional dependence on mineral and agricultural exports. ISI involved relatively high tariffs, subsidies for industrialists, and (in some nations) relatively higher wages for workers, since local business generally did not have to worry about keeping prices down to compete with imports (Hirschman 1971; Kaufman 1990). These ISI models had a wide array of problems, including recurrent balance-of-payments crises and a stop-and-go quality of economic growth that unleashed substantial political conflict, but they did survive for many decades. There were also multiple attempts to save ISI, and a reluctance to dump it, largely because political constituencies had grown up to support ISI, and thus had a vested interest in seeing it continue.

Economic integration was seen as one way to continue holding on to the ISI model. After all, one of the problems with ISI in Latin America was the small size of the domestic markets in most countries in the region. Policy makers in the region hoped to use Latin American integration—first embodied in the Latin American Free Trade Association (LAFTA) agreement signed in 1960—to expand the market for their ISI development strategies. There was hope that the Latin American integration process could repeat the success and growth of Europe, whose integration process by then was well underway. It is no accident that calls for Latin American integration emerged after the success of Europe; in many ways, the European process of integration was considered a model.

Alas, Europe was not a model for Latin America. Europe was at the center of the international political economy; Latin America was still mired in poverty and severe inequality. The European nations that embarked on the European Community project were all democracies; the Latin American nations were at times (relatively) democratic, and at times they were ruled by military dictatorships. Europe was largely industrialized; Latin America still mostly exported primary products, and industrialization was at relatively early stages in the region. Europe was at the center of the Cold War struggle; Latin America, while an important battleground in the Cold War, did not receive anything close to a Marshall Plan with its own Alliance for Progress.

Consequently, the hopes for Latin American integration were not realized. For a variety of reasons, including recurrent balance-of-payments crises in many large Latin American countries, the complexity of negotiating free trade among so many nations, and political instability in the region, Latin American integration under the auspices of LAFTA stagnated before it could gain any momentum. There was then an attempt to be more modest, two decades later, when the Latin American Integration Association (Asociación Latinoamericana de Integración—ALADI) was formed. This renewed attempt was both limited and badly timed, since just after Latin America started the ALADI process, the debt crisis struck in 1982. With most countries struggling to meet their debt service obligations, it was rather difficult to think of liberalizing imports, even imports coming from fellow Latin American countries. In addition, most of Latin America was still committed to its old statist, ISI strategy. Openness did not come easily. Indeed, the 1980s are commonly referred to as the "lost decade" of Latin American development.

But this "lost decade" was not so lost when it came to integration, as it turned out. In 1985, Brazil and Argentina embarked on a process of economic integration that eventually culminated in the formation of Mercosur (Mercado Común del Sur—Common Market of the South; Mercosul in Portuguese). Mercosur also includes Uruguay and Paraguay as full members (with Venezuela hoping for full membership), as well as associate members in much of the rest of South America. The integration process was beset by many problems early on, but did lead to the most successful integration process in Latin America. Despite its many problems and limitations that will be explored in this book, Mercosur has created an integration process that would be very difficult and painful to reverse. No other Latin American integration process can boast this sort of (limited) success, either in the growth of trade that has occurred among its members or in its impressive inflow of foreign investment.

When it comes to explaining how Mercosur developed, there have been a number of attempts to compare the Mercosur process to the European Union (EU) (Caetano and Perina 2000; González-Oldekop 1997), but much of the work done on the Mercosur integration project has been piecemeal. Some of the work has focused on small parts of the integration process, analyzing specific decisions, for example. Quite a few economists have become interested in the process, and have focused on issues like trade diversion and trade creation (Yeats 1998; Bonelli and Hahn 2000). Others have focused on legal aspects of the integration process and other "technical" issues (Pimentel 1998; Basso 1997; Porrata-Doria 2005). There are also some who have attempted to understand the politics of Mercosur (Hirst 1996a; Ginesta 1999; Lavagna 1998; Roett 1999). In the end, however, there is to date no overall accounting of how and why Mercosur developed as it did, in English. In addition, because of the stagnation of the process recently, there has been much less scholarly attention paid to Mercosur in the last several years. But the stagnation of this process is part of what needs explaining, as the stagnation has structural causes.

In exploring the Mercosur integration process, I ask several questions in this book: In what ways is the Mercosur process like other integration processes? In what ways is it different? How can we explain these similarities and differences? In refining these questions, I focus on two issues: primarily, I explain the particular institutional choices that the Mercosur nations have made over the course of the integration process. Secondarily, I focus on what Keohane and Hoffmann refer to broadly as "institutional" concerns: "how political processes and practices have changed" over the course of integration (1991: 4). In both areas, there are significant similarities and differences between Mercosur and the EU.

In the book, I focus on two levels of analysis: national-level actors (states, labor, and business primarily) and the international political economy. When it comes to the interests of national actors, I focus on the preferences of these actors in state and society, as well as the interaction between these actors. At the international level, I consider transnational economic linkages such as trade and investment patterns and political factors such as the end of the Cold War and pressures from other countries and blocs toward the Mercosur countries. Based on this analysis, I describe the pattern of Mercosur (and developing country) integration as *vulnerable integration*. This is not to say that Mercosur has always seen integration thwarted because of its vulnerability; indeed, sometimes, the factors that have led to Mercosur's vulnerability have even pushed the integration process forward. More often than not, however, vulnerability has had negative consequences.

At its core, vulnerable integration, as experienced by Mercosur, can be summarized as follows: developing or emerging countries embark on integration projects with a number of disadvantages, including weak political institutions, underdeveloped and clientelistic relationships between state and civil society actors, and heavy dependence on foreign capital for investment and the financing of current account deficits. These disadvantages lead countries to limit their integration projects to commercial liberalization, and they make developing countries especially unwilling to give up sovereignty to or even pool it with supranational institutions. As a consequence, while the integration project may proceed for a time, it is frequently threatened by international economic shocks and the possibility that political leaders in the integrating countries will renege on their commitments to integrate. Since there is a) no supporting supranational institutional structure to protect integration in bad times and b) underdeveloped civil society support for integration, it is much less likely to have staying power or to be able to weather a crisis. In addition, because of the aforementioned unwillingness to give up or pool sovereignty, integration in Mercosur has remained mostly an affair of commercial liberalization. Any efforts to "deepen" the integration process to encompass other issues, such as labor codes or consumer regulations, are usually frustrated.

The limitations of Mercosur are evident when compared to integration in the EU. One of the major differences between the EU and Mercosur integration experiences is the motivation for integration. Those writing about Europe have emphasized either economic interests or political processes when attempting to explain how European integration came about and evolved. While economic interests and political processes also played an important role in South American integration, these processes operated quite differently. As Monica Hirst reports, Mercosur was adopted over the objections of large segments of the business sector, who only eventually came to accept it as an "inevitable evil," something they were powerless to prevent (1996a: 193) Business was not clamoring for more integration on any large scale (some firms excepted); business was still mostly comfortable with continued ISI, even if there were serious questions about the viability and evident exhaustion of the old model. Kingstone (1999), for example, makes the case that business, at least in Brazil, was ripe for a new economic strategy after the ISI model was apparently exhausted, but integration was not high on the list of alternative strategies. Fundamentally, as will become evident in the empirical chapters, South American integration was a political decision, and it came in a top-down fashion.

At first glance, then, the South American decision to integrate might be seen to confirm some European-based arguments about the primacy of political or ideological factors on integration decisions. This is only the case, however, if we disregard the differences between how politics operated in the two regions. First, unlike Europe, Mercosur has no strong federalist impulse, despite the rhetorical homage occasionally paid to Bolívar and other figures who have preached Latin American unity. Second, the South American nations suffer from relatively underdeveloped civil societies and interest groups. It is not that interest groups and civil society do not exist in Latin America, but they are relatively unorganized, and attempts to influence the policy-making process generally have come not from organized interest groups but through clientelistic connections between the state and society that lead to relatively weak civil societies.

The lack of federalist ideology or an interest in pooling sovereignty (especially in Brazil) has meant that South American integration has been particularly uninstitutionalized. There are no supranational bureaucrats with even the slightest power to set the agenda for integration. This lack of institutionalization has had interesting effects on Mercosur's ability to move forward—at times, the lack of institutional constraints has made striking new bargains possible, while at other times it has led to stagnation in the integration process, particularly when there have been disputes between the integrating partners. With few institutional mechanisms in place to resolve conflicts, integration has repeatedly floundered in times of crisis.

In the end, those hypotheses about European integration that are the most general are the most useful, but by their very generality are not particularly satisfying. The most useful of these is what Keohane and Hoffmann refer to as the "preference-convergence hypothesis." In referring to the Single European Act, they argue that its ratification resulted "from a convergence of national interests around a new pattern of economic policymaking . . . [M]embers of a regional organization must regard themselves as having a great deal in common, distinguishing themselves from outsiders" (Keohane and Hoffmann 1991: 23–24). As they go on to note, however, such conclusions are not especially satisfactory unless the analyst can take them further and explain just how and why the interests of the most important actors changed. In the empirical chapters of this book, this will be one of my primary tasks, and what will become evident is that the most important actors in the Mercosur story are quite different from the important actors in Europe.

Organization of the book

Chapter 1 puts the Mercosur integration process in a comparative context. I discuss the relevant literature on European integration, and while I do not enter into the debates on European integration specifically or draw conclusions about them, I focus on the main elements of European integration that are relevant for Mercosur. After all, any integration project will confront issues such as the reduction of national sovereignty over economic policies, the economic costs and benefits of integration, and a broader geopolitical context. It then uses this literature to understand integration in Mercosur, and draws out similarities and differences between them. The chapter fleshes out the "vulnerable integration" model that Mercosur has experienced. In discussing this model of integration, I emphasize in particular the dependence of emerging markets on foreign capital, their weak political institutions, the disorganized nature of civil society, and the ways in which Mercosur has been particularly vulnerable to international political and economic trends.

Chapter 2 lays the groundwork for the specific analysis of Mercosur. Integration in the region needs to be understood in the context of its long historical trajectory of failures and fleeting successes. Integration is never just an economic project; at its core, in Latin America especially, integration has always been a political project, even when economic interests have been prominent. This chapter considers the roots of Latin American integration, which lie in the nineteenth century, and then considers the failed efforts to promote integration when ISI policies started to run into problems in the post-war period. It concludes by focusing on Argentine-Brazilian relations, and the various efforts that were made toward cooperation between these two countries that eventually led to Mercosur.

The next three chapters explore the Mercosur process in detail. Chapter 3 focuses on the decision-making process that surrounded the signing of the Treaty of Asunción, which established Mercosur in 1991. It considers both international factors that influenced this decision as well as the domestic politics that surrounded the decision and made it possible. In this chapter, I emphasize how, on a domestic level, different "visions" of integration were present in the respective states, business, and labor in each country. The focus, in this regard, will be on how these conflicting visions allowed for eventual agreement on the decision to move forward in the integration process. The evidence provides support for the preference-convergence hypothesis mentioned earlier, showing how interests converged enough to make agreement on Mercosur possible.

Chapter 4 focuses on the decision to form a customs union in the region, with the signing of the Protocol of Ouro Preto in 1994. In some ways, the decision to move towards a customs union was astounding; after all, the proposed timeline for achieving this step was extraordinarily rapid, especially when compared to European integration. It was, in fact, rather remarkable that this was achieved, and this accomplishment depended in large part on the political leadership of the Mercosur countries. At the same time, the consolidation of the customs union was assisted by international factors, and in this chapter I make the argument that vulnerability in integration can be an advantage.

Chapter 5 considers the problems associated with consolidation in the Mercosur bloc. There is a widespread sense, recently, that the integration process has lost both steam and focus. Mercosur has faced enormous challenges, both because it quite self-consciously did not establish any supranational institutions along the lines of the European Commission, and because the international economic climate of the late 1990s and early twenty-first century constantly buffeted the region, calling into question the viability of deepening integration. With this adverse international context and the institutional weaknesses of Mercosur, there was a sense that this integration project had hit a wall and was unlikely to progress further.

The final chapter considers the future of integration in Mercosur and the potential for integration in emerging countries. Here I return to the challenges facing a vulnerable integration project like Mercosur. These challenges include the dependence on foreign investment for the success of integration, the institutional shortcomings in countries that are weak or relatively unconsolidated democracies, and an international political and economic environment that discourages state intervention in the economy. The lessons of Mercosur are relevant both for the countries that make up this particular economic bloc and for other developing or emerging countries that are contemplating integration projects in an increasingly globalized world.

1 Understanding integration

The European model and a South American case

Without a doubt, Europe stands as the integration model for the rest of the world. It has moved, in fits and starts, up the ladder of integration, going from a free trade area to a customs union to a common market and now to a monetary union. This was not an easy task, and at numerous points in the process, it appeared that the European integration project would be derailed. Indeed, although there are still plenty of unresolved issues as the EU expands (and there always will be), the EU has remade the European political economy over the last half century. There is obviously a voluminous literature on this European project, some of which will be referred to here, but this book will not analyze that progress in detail.

Instead, it focuses on South American integration. In debates in the region about the direction that Latin American integration should take, Europe is a constant reference. Depending on the analyst, Mercosur is sometimes portrayed as lacking in key institutional areas when it is compared to Europe, while for others it is viewed as somehow superior, both because it has integrated much more rapidly and more "pragmatically" (see, *inter alia*, González-Oldekop 1997; Calvete 2000; Peña 1999; Casella 2000; Duina 2007).

Regardless as to how it is viewed in comparison, Europe is clearly a primary reference point for Mercosur. Some of the literature on the European integration process is in fact a good starting point for understanding Mercosur, even though the two processes are quite different. This chapter will make the case that Mercosur integration is fundamentally different in kind from European integration. In the introduction, I laid out the main arguments that led to these differences, and recapitulate them briefly here: a combination of weak political institutions and structural position in the international political economy has led to particular institutional choices and political practices in Mercosur. These institutional choices and political practices make Mercosur much more vulnerable to a wide variety of shocks that originate both outside the region and within the Mercosur countries themselves.

This argument will not rehash old debates on dependency that were popular in the 1960s and 1970s, particularly in Latin American studies. Indeed, one of the arguments here is that Latin American integration has been surprisingly successful, and the international political economy does not condemn poor nations to eternal poverty. Rather, it attempts to understand how structural position in the international political economy and different political institutions affect integration. Given the very different structural positions of Europe and Latin America—as well as their substantially different institutions—it would be surprising to find that integration would occur in both places with similar dynamics. As Ernst Haas noted in his classic study of European integration more than 50 years ago, "I would have little hesitation in applying the technique of analysis here used to the study of integration under NATO, the Scandinavian setting, the Organisation for European Economic Cooperation, or Canadian–United States relations. I would hesitate to claim validity for it in the study of regional political integration in Latin America, the Middle East, or South-East Asia (Haas 1958: xvi). Not only are Europe and South America in different places in the international political economy, but they have strikingly different political institutions and quite different civil society organizations. These differences make the dynamics of Latin American integration quite distinct. Indeed, I argue that Latin American integration simply cannot be like its European counterpart.

To get better leverage on understanding the case of Mercosur, this chapter considers how some of the debates on European integration inform the Mercosur process. The goal here is to establish a framework for the historical and political detail to follow. I am mostly concerned here with the incentives and disincentives to integrate, the role of international factors in the integration process, the role of civil society in the politics of integration, and finally, the institutions that support or impede integration. I turn to these specific issues after laying out the framework I use to compare integration processes.

A framework for comparing integration experiences

As noted earlier, a good bit of the work on Mercosur uses the EU as a frame of reference. Much of this work, however, does not go beyond noting that a) the experiences are different and/or b) that Mercosur should be more like the EU. While a) is certainly correct, it does not explain much, especially because the focus of analysis is so fuzzy. Here I present a framework that concentrates on what I consider the most important elements of the integration process. On the one hand, I try to explain particular political and institutional choices, and consequently focus on a number of key decision points in the integration process, as Moravcsik (1998a) did in his wide-ranging study of the EU. On the other hand, as noted in the introduction, I am interested in Keohane and Hoffmann's broader "institutional" concerns, the ways in which political processes and practices change over the course of integration.

It is important as well to show how these variables are linked and affect one another. It is useful to illustrate their connections graphically, as in Figure 1.1. In the right section of the graph (labeled "The Array of Integration Outcomes"), I depict what is involved in an initial decision to integrate, as well as what happens when there is a decision to "go forward" in the integration process. Though obviously simplified, I break the integration decision down to the *depth* of the integrating ambition, the *breadth* of the issues covered by the integration decision, and the *institutionalization* that results from the integration decision.

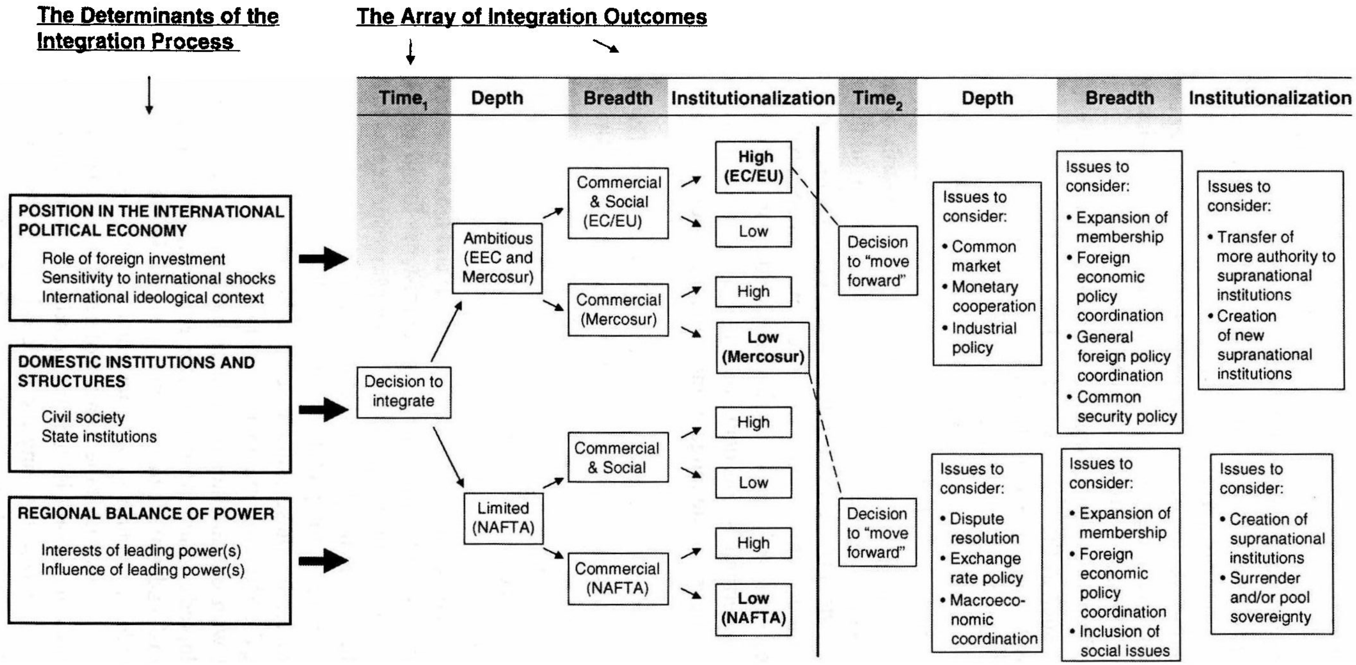

Figure 1.1 A model of the regional integration process

Source: Author.

When I discuss *depth*, I refer to the overall goals of a particular regional integration agreement. In order of increasing depth, these would be 1) a free trade area (which provides for free exchange of goods and services between parties to the agreement); 2) a customs union (which includes the former but also has a common external tariff on goods coming from outside the parties to the agreement); 3) a common market (which has a customs union and also the free flow of factors of production, including labor); 4) an economic union (which, in addition to a common market has harmonization of economic policies among member countries); and 5) complete economic integration (which has complete unification of all economic policies) (Nye 1971a: 27–30; Balassa 1967).

Clearly, different economic integration schemes have different goals from the outset. Some, such as the North American Free Trade Area (NAFTA), as it name indicates, is only interested in the first level of economic integration, and the unrealized Free Trade Area of the Americas (FTAA) had similar goals. On the other hand, the European Community/Union and Mercosur were much more ambitious; Mercosur's name—*Common Market* of the South—reflects this ambition. That said, the ambition of any integration effort does not necessarily match up to reality, as numerous failed attempts at integration indicate. In addition, leaders who sign such accords may be deliberately vague on what they intend and hope to accomplish, either because they disagree among themselves or because their constituencies in their home countries are divided on what integration should accomplish. Nevertheless, this depth dimension is important, as it is important to gauge the intentions (or the range of intentions) of countries that agree to pursue integration.

The *breadth* dimension is related to the depth dimension. By breadth, I do not mean the geographic scope of integration—a frequent use of the term—but rather the scope of policy areas that are subject to negotiation among integration partners. Most commonly, there is a distinction between strictly commercial negotiations and those that concentrate—in addition to commercial matters—on social issues such as labor, environmental standards, or broader economic cooperation. NAFTA, for example, brought in environmental and labor standards, though only in a weak and subsidiary way. The EU, in contrast, has found itself regulating such issues as a matter of course. And it is here that Mercosur begins to diverge significantly from the EU; nothing beyond commercial integration has ever been on the table. It has not been completely ignored in the politics of integration, as will become clear later, but these issues have never been incorporated into formal agreements among the Mercosur member states. In addition, while the EU nations regularly consult with one another on matters of macroeconomic coordination, and most have adopted a common currency, the economic turbulence of South America of the last two decades made this all but impossible in Mercosur.

Finally, the *institutionalization* dimension concerns the degree to which the integration process brings with it the creation of new entities to regulate the integration process. In this dimension I include the creation of supranational institutions that will a) have an interest in seeing the integration process move forward; b) have some power to influence the direction of integration; and c) take on some functions previously performed by sovereign national governments. It is in this dimension that we observe the degree to which sovereignty among integrating nations is pooled and/or given up. To qualify as "high" on the institutionalization dimension, it is not enough to have formed a transnational bureaucracy or to have assigned some national government bureaucrats the task of managing integration; institutions must have substantial power to affect the integration process or be able to speak for the nations making up the organization collectively. Here, again, the EU differs sharply from Mercosur. The former has seen the gradual growth—from the beginning of the integration process—of supranational institutions with influence; Mercosur, in contrast, has had no such institutions.

In analyzing integration, I am not concerned just with the initial choices made by policy makers, or just with their subsequent choices; I am also concerned with how initial and subsequent decisions affect political processes and how political practices change with integration. I attempt to incorporate both of these concerns in the third section (on the right) of Figure 1.1. In this section of the figure, instead of incorporating a decision tree, I present the context of the two alternatives to integration that I have identified. Above, the experience of the EU is represented. Decisions made earlier—to be broad in its integration focus and to institutionalize this integration with supranational institutions—led to a particular set of issues when it comes to "moving forward" in the integration process. When it comes to depth, the new issues included industrial policy and monetary policy, in effect moving toward economic union. Until economic integration advanced substantially, such issues were considered the province of national governments, and integration changed this. On the other hand, Mercosur, with its much less well-institutionalized and narrower integration focus, found itself concentrating on issues that were handled in the early stages of European integration.

When it comes to breadth, at subsequent stages there is a bit more commonality, as any ambitious economic integration project will probably confront two important issues: whether to expand to additional countries and how to coordinate foreign economic policy. Indeed, both the EU and Mercosur confronted these matters. Other matters of breadth, however, differ, since a more institutionalized and broader integration process will already have confronted them; here, most importantly, is the question of whether or not to include social issues on the agenda of integration, still in very early stages in Mercosur. The EU, by contrast, has matters such as security cooperation and common defense policy on the table. In Mercosur, they are not.

Finally, when it comes to the institutionalization dimension, the difference between the two integration patterns is especially stark: since the EU has already developed—and had developed from the beginning—supranational institutions, the question there is how far to take this process of supranationalization and to what extent the member nations will tolerate this process (Banchoff and Smith 1999). In Mercosur, which avoided any semblance of supranational institutions with authority from the beginning, the issue is very different and more vexing. Having succeeded, to a reasonable degree, with integration *without* such institutions, it is difficult to come to terms with the possibility of having them, given the costs for individual governments to giving such institutions greater authority.

On the left side of Figure 1.1, "The determinants of the integration process," I focus on the variables that I identify as most important in influencing the path of integration chosen. Here, specifically, I focus on three independent variables. First, I focus on the position of the region in the international political economy. This encompasses three broad elements: a region's dependence on foreign investment in key sectors of the economy, the region's sensitivity to international shocks, and the international ideological context, which is transmitted through the advice of international financial institutions and its contacts with foreign countries and companies. Generally speaking, the more a region's fortunes are influenced by happenings outside the bloc's borders, the greater the likelihood of the regional integration scheme standing on shaky ground.

The second independent variable in this framework concerns the strength of domestic institutions in countries that are undergoing a process of regional integration. Here the focus is on the strength of state institutions and those in civil society. The general argument here is that stronger institutions in both arenas will lead to a more robust integration project. Conversely, weaker institutions will make it more difficult to come to agreements (since states will not necessarily be able to follow through on commitments that are made at the negotiating table), and will make them less sustainable in the long run, if groups in civil society are unable to provide a strong base of support for integration as it unfolds.

The final independent variable focuses in particular on the relative weight of the principle partners in an integration project. Here, the focus is twofold. First, we need to understand the specific interests of the key governments in any integration scheme, and specifically focus on their preferences when it comes to the depth, breadth, and institutionalization dimensions discussed earlier. We cannot necessarily read directly from those preferences to final outcomes, particularly since preferences may change during the negotiation process, and governments themselves are likely to be divided when it comes to those preferences. But we can get a fairly good understanding for how integration will proceed by considering these preferences. The second major dimension here concerns the relative weight of the major partners in an integration project. To the extent that there are partners with relatively equal economic weight, the greater the likelihood that there will be an integration that requires some devolution of sovereignty to supranational institutions. Conversely, the greater the weight of a single player in an integration scheme, the greater the likelihood that integration will not advance very far along the dimension of institutionalization.

It will help, at this point, to flesh out this more abstract discussion with some specific focus on the Mercosur process, with an eye toward constructing an argument about the inherent vulnerability of Mercosur as a regional bloc. To begin with the international context, there are three principal ways in which the international environment has increased the vulnerability and development of Mercosur. Developing countries continue to depend heavily on foreign investment in the most dynamic sectors of their economies. This is not to say that more developed countries do not depend on this sort of investment; of course they do. But the difference is qualitative. Attracting foreign investment from outside Europe has never been a driving