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ECONOMICS

# **New Regionalism and the European Union**

Dialogues, comparisons and new research directions

**Edited by Alex Warleigh-Lack,  
Nick Robinson and  
Ben Rosamond**

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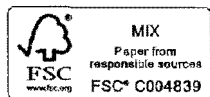
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**AW-L: To Christopher, again and always; and for Elly (but not Jennifer)**

**NR: To my family – Jo, Justin and Ella**

**BR: To the memory of E. A.**



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## 8 The experience of European integration and the potential for integration in South America

*Andrés Malamud and Philippe C. Schmitter*

### **Introduction<sup>1</sup>**

The experience of Europe with efforts at integrating – peacefully and voluntarily – previously sovereign national states into a single transnational organization, the European Union (EU), is by far the most significant and far-reaching among all attempts at regionalism. It is, therefore, the most likely to provide some lessons for those world regions that are just beginning this complex and historically unprecedented process.

The Common Market of the South (MERCOSUR) and the Andean Community (AC) are regional integration projects that have reached the greatest level of formal accomplishment after the EU. MERCOSUR is formally a customs union that aspires to become a common market, while avowing the commitment to advance towards political integration. For its part, AC is a customs union that has already developed supranational institutions such as a Commission, a Parliament and a Court of Justice. In both cases, however, words have progressively tended to wander far from deeds in what has been called a case of ‘cognitive dissonance’ (Malamud 2005a: 422). We contend that one reason underlying this phenomenon is a misunderstanding of the European experience with integration.

This article proceeds as follows. First, we discuss the integration theories that have been developed to account for integration in Europe and may prove useful to understand integration elsewhere. Second, we introduce a theoretically informed account of the experiences of MERCOSUR and AC. In the next two sections we reflect on how the theories and lessons drawn from the EU could be applied to South America, before our conclusions complete the chapter.

### **European integration and theory-building<sup>2</sup>**

There is only one instrument that can help us to transfer knowledge and lessons from one experience with regional integration to the other: theory. Only by capturing the generic concepts, confirmed hypotheses, and observed processes underlying the European experience can we expect to make any contribution to understanding the conditions under which other regional processes might succeed. Even then, given the substantial differences in cultural norms, historical

experiences, social structures, geostrategic location and political regimes, there are abundant reasons to be cautious when transferring such lessons.

Unfortunately, there exists no dominant theory of why and how European regional integration works. It is surprising that a process that has been studied in such concrete detail continues to generate such abstract controversy. There is relatively little disagreement over the facts, but there is still no single theory that can adequately explain the dynamics (or even the statics) of such a complex process of change in the relationship between previously sovereign national states and persistently more interdependent national economies, societies and politics.

The theory or, better, approach that we shall primarily draw upon for formulating lessons concerning South America is called 'neofunctionalism'. It places major emphasis on the role of non-state actors – especially, regional institutions and those interest associations and social movements that form at the regional level – in providing the dynamic for further integration. Member states, however, remain important actors. They set the terms of the initial agreement, but they do not exclusively determine the direction and extent of subsequent change. Rather, regional bureaucrats in league with a shifting set of self-organized interests and passions seek to exploit the inevitable 'spillovers' and 'unintended consequences' that occur when states agree to assign some degree of supranational responsibility for accomplishing a limited task and then discover that satisfying that function has external effects upon others of their interdependent activities. According to this theory, regional integration is an intrinsically sporadic and conflictual process, but one in which, under conditions of democracy and pluralistic representation, national governments will find themselves increasingly entangled in regional pressures and end up resolving their conflicts by conceding a wider scope and devolving more authority to the regional organizations they have created. Eventually, their citizens will begin shifting their expectations to the region and satisfying them will increase the likelihood that economic-social integration will 'spillover' into political integration (Haas 1958, 1964).

Among those studying the European Economic Community (EEC)/European Communities (EC)/EU, neofunctionalism is by no means uncontested in its capacity to explain *ex post* or to capture *ex ante* the sinuous path of European integration. Indeed, it has been one of the most frequently misunderstood, caricatured, pilloried and rejected of all such theories. To the extent that there is a dominant theory among North American political scientists, it tends to be something called 'intergovernmentalism' – probably because most of those in the US who have examined the EU have approached it from the perspective of international relations, where the reigning orthodoxy, neorealism, translates easily into the idiom and assumptions of intergovernmentalism. From this perspective, the message is simple: power matters and state power matched to national interest matters absolutely. The direction and pace of regional integration will be determined by the interaction of sovereign national states, which control not only the initiation of the integration process but also all of its subsequent stages. Whether the process moves forward or backward or stagnates depends on calculations of national interest and the relative power that can be brought to bear on any specific issue. Under no conceivable circumstances could this process transform the nature of

its member states. Indeed, its purpose is to strengthen, not weaken, those states (Hoffmann 1966; Moravcsik 1998).

Europeans have tended to approach the EU more frequently from the perspective of comparative politics (Hix 1994), and this helps to explain why they opt for other approaches – while still not agreeing on a dominant one. For example, the original approach after the Second World War was federalism (Burgess 1989), mostly borrowed from the American experience. Long confined to the margin as an item of ideological wishful thinking, it was revived with the convocation by the EU of a Convention on the Future of European Institutions and the drafting of a so-called Constitutional Treaty – only to be subsequently arrested by popular referenda. A fourth approach currently well represented in Europe places its emphasis on the regulatory nature of EU policies. Interestingly, it too draws much of its inspiration from the US or, better, from the national government's practice of 'independent regulatory agencies', but projects its notions and observations to the supranational level. It shares with neofunctionalism the attention to micro- and meso-exchanges between subnational actors, eschewing the exclusive emphasis that intergovernmentalism gives to treaties or that federalism gives to constitutions, but it denies any transformative potential. Supranational regulation is seen as a technocratic imperative generated by highly interdependent economies and societies, but not something that changes the basic nature or autonomy of national politics (Majone 1996).

However, as one can see in Figure 8.1, there are many other candidates for the job of explaining and, thereby, producing generic lessons about regional integration. Especially since it was relaunched in the mid-1980s with the Single European Act, the EU has become once again a very lively site for theoretical speculation. The 'policy-network approach' (Peterson 1995), 'the regulatory approach' (Majone 1996), 'international regime analysis' (Breckinridge 1997), 'the fusion-thesis' (Wessels 1997), 'liberal intergovernmentalism' (Moravcsik 1998), 'a transaction-based theory of integration' (Stone Sweet and Sandholtz 1998), 'an institutionalist theory of European integration' (Tsebelis and Kreppel 1998), 'multi-level governance' (Hooghe and Marks 2001) and the more generic 'rationalism', 'constructivism', 'reflectivism' and 'post-modernism' have all followed each other over the past years and managed to find themselves a place somewhere in Figure 8.1.

Nor are these disputes over concepts and assumptions purely academic. As we shall see, one is likely to draw very different lessons for other world regions from each of these theories/approaches. One of the main tasks of any scholar trying to assess the prospects of integration in South America will be to select that theory (or theories) in Figure 8.1 that is most apposite for the peculiar conditions of her embryonic region.

All theories of regional integration could be placed somewhere within a two-dimensional property space formed by two variables: ontology – whether the theory presumes a process that reproduces the existing characteristics of its member-state participants and the interstate system of which they are a part, or presumes a process that transforms the nature of these sovereign national actors and their relations with each other – and epistemology – whether the evidence

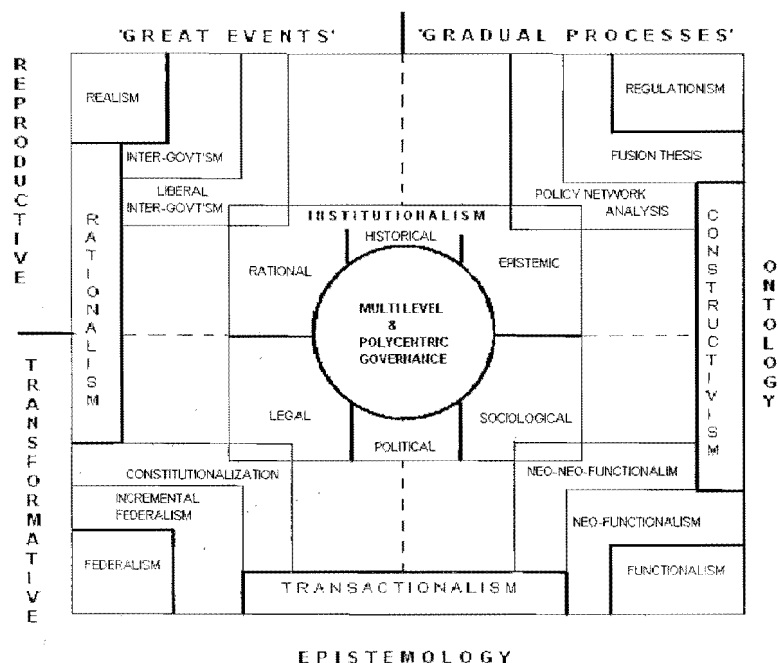


Figure 8.1 Neo-neofunctionalism in context (Schmitter 2004: 48).

gathered to monitor these processes focuses primarily on dramatic political events, or upon prosaic socio-economic-cultural exchanges. Figure 8.1 fills that property space with real-life 'isms' that have been applied at different moments in time and from different disciplinary perspectives to explaining the dynamics (and statics) of the EU. Appropriately, we find functionalism with its neo- and neo-neo-versions in the bottom right-hand corner of the plot. Its ontology is transformative in that it assumes that both actors and the 'games they play' will change significantly in the course of the integration process; its epistemology is rooted in the observation of gradual, normal and (by and large) unobtrusive exchanges among a wide range of actors. Its historic opponent, realism, with its pure intergovernmental and liberal intergovernmental modifications, is diametrically opposite since its key assumptions are that dominant actors remain sovereign national states pursuing their unitary national interests and controlling the pace and outcome through periodic revisions of their mutual treaty obligations. Federalism is another transformative option, but it too relies on episodic 'moments' at which a multitude of actors (and not just their governments) agree upon a new constitutional format. Its diametrical opposite is what may be labelled 'regulation-ism'. It shares with intergovernmentalism the presumption of fundamental continuity in actors with only a shift upward in the level at which regulation occurs. The member-states, however, remain the

same as does their motivation and their predominant influence over the process. The empirical focus differs in that, like functionalism, it emphasizes almost exclusively socio-economic exchanges and the 'normal' management of their consequences.

In the centre of the property space of Figure 8.1, we find an enormous and amorphous thing called 'institutionalism'. Most of the growth in recent theorizing about European and regional integration more generally proclaims itself as such – and then immediately alerts the reader to the fact that there are many different versions of 'it'. By Schmitter's (2004) account, there are six: (1) a 'rational' one that overlaps loosely with liberal intergovernmentalism in its insistence on unitary actors, marginalist calculations and credible commitments; (2) a 'legal' one that stresses the gradual but intrusively federalist role of juridical decisions and precedents; (3) a 'historical' one that emphasizes the 'stickiness' of identities and the 'path-dependency' of institutions, but is not insensitive to less obtrusive processes of change; (4) an 'epistemic' one that focuses on the normative and professional communities that cluster around specific issues-arenas and influence the making and implementing of regulations; (5) a 'political' one that locates a source of potential transformation in the interpersonal networking of key politicians and their relative autonomy from followers; and finally (6) a 'sociological' one that overlaps with neo-neofunctionalism in its emphasis on the formation of transnational class, sectoral and professional associations and the contestation generated by global and regional social movements. Whether any or all of these deserved the prestigious title of 'theory' is a matter of dispute. Institutionalism, as such, has only minimal content ('institutions matter' seems to capture and exhaust it), but some of its subtypes at least deserve the label of an approach.

In the very centre of the box called 'institutionalism' appears 'Multi-level & polycentric governance' (MLG+PCG). MLG can be defined as an arrangement for making binding decisions that engages a multiplicity of politically independent but otherwise interdependent actors – private and public – at different levels of territorial aggregation in more or less continuous negotiation/deliberation/implementation, and that does not assign exclusive policy *compétence* or assert a stable hierarchy of political authority to any of these levels.

It is also apposite to stress the 'poly-centric' as well as the 'multi-level' nature of the EU in order to include the functional dimension along with the territorial one. Polycentric governance (PCG) can be defined as an arrangement for making binding decisions over a multiplicity of actors that delegates authority over functional tasks to a set of dispersed and relatively autonomous agencies that are not controlled by a single collective institution.

MLG has become the most omnipresent and acceptable label one can stick on the contemporary EU. Probably, its popularity among theorists can be attributed to its descriptive neutrality and, hence, its putative compatibility with virtually any of the institutionalist theories and even several of their more extreme predecessors. For politicians, it has the singular advantage of avoiding the controversial term 'state' (especially 'supranational state') and, therefore, sounds a lot less forbidding and threatening. For example, the emergence of the MLG+PCG from the process of European integration can be explained (in part) by almost all of the

theories in Figure 8.1. However, the latter sophisticated constructs are of little use when it comes to understanding regions other than Europe. As their very names indicate, these approaches focus on governance – that is policy-making – rather than integration – that is *polity*-making. Yet, as we shall see, other world regions have not developed significant structures of governance even when embarked on integration processes. Therefore, in order to grasp integration – or the lack thereof – we need to go back to the basics.

### Past and present of South American integration<sup>3</sup>

Latin American integration has a long history according to conventional political rhetoric, but a poor record when it comes to concrete accomplishments. The region was previously ruled by the two Iberian powers: while Portuguese Brazil was to remain united, the territory dominated by the Spanish crown broke up into the eighteen independent, Spanish-speaking states in existence today. Even as the process of fragmentation evolved, the leaders of the wars of independence nurtured the myth of Latin America's natural unity and the ultimate aim of restoring it. Simón Bolívar, the best known of these leaders, called two Pan-American congresses in 1819 and 1826, but failed to bring about regional unity. Almost two centuries later, with the failure of reiterated unification attempts, the Pan-American movement waned and was superseded by a less ambitious but more realistic project: that of regional integration.

The first serious effort to promote regional integration occurred in 1960 with the creation of the Latin American Free Trade Association (LAFTA). Given its poor performance, twenty years later it was replaced by the Latin American Integration Association (ALADI by its Spanish acronym)<sup>4</sup> with slightly better but still unremarkable results. Various subregional integration efforts were also made: the Central American Common Market (CACM) was established in 1960; the Andean Pact and the embryo of the Caribbean Community were set up in 1969; and in 1991 MERCOSUR was created. These four groups scored some early points, but then stagnated or decayed.

The Andean Pact, predecessor of AC, was established in 1969 within the framework of LAFTA. Its goals were to improve the conditions for participation of the less developed countries encompassed by the LAFTA agreements, while simultaneously aiming at the gradual formation of a common market. Five countries signed its founding treaty, the Cartagena Agreement: Bolivia, Colombia, Chile, Ecuador and Peru. Venezuela joined the group in 1973, but Chile withdrew in 1976. However, it did not acquire juridical autonomy until 1983.

The emergence of the Andean Pact was a response to LAFTA's failure, and its integration scheme was more far-reaching than anything ever before realized in the Third World (Mace 1988). At the economic level, it relied on two parallel processes: interregional trade liberalization and regional industrial planning. At the political level, it created a decision-making structure including two main institutions, the Commission and the Junta, whose respective majority-rule voting and binding supranational authority were as ambitious as exceptional.

Although the Andean Pact performed quite satisfactorily in its early years, the enlargement to Venezuela and the withdrawal of Chile generated a succession of major crises. Given the complexity of the Andean integration scheme, those events led to the renegotiation of some important mechanisms of the process and, in the end, to the abandonment of the original integration schedule (Mace 1988). Apart from the rigidity of the scheme, the failure was due to the unequal distribution of costs and benefits, the politicization of integration issues (Vargas-Hidalgo 1979), recurrent democratic instability and the lack of regional leadership (Mattli 1999). Whereas some causes were basically domestic, others were intrinsic to the integration process. One of the solutions proposed to overcome the crises was to build up regional institutions able to settle conflicts between members: the result was the creation of the Court of Justice and the Andean Parliament in 1979. However, these institutions lacked real weight – owing to, in neofunctionalist terms, the precedence of form over function. In 1987, the Quito Protocol was signed in order to make the working mechanisms of the bloc more flexible. The renewed institutional structure of the Andean Pact was broader and deeper than that of any other region in Latin America. Nevertheless, it was not until the setting up of a new body, the Andean Presidential Council in 1990, that the region embarked on a process of further deepening and opening.

Today, the legal principle of direct effect and the pre-eminence of the community law formally liken the Andean Community to the EU. Effective compliance and economic performance, however, are far less impressive. Although a free trade zone has been in force since 1993 and a common external tariff has been formally operative since 1995, not economic development but rather social turmoil, political instability and economic failure have been the mark of the region. Despite its high level of formal institutionalization and the commitment to establish a common market, the Andean countries have not succeeded in creating a region of peace, stability and development. As a result, some of them have opted for negotiating complementary agreements with third countries or regions, while Venezuela has simply left the bloc. Consequently, regional institutions have remained feeble and intraregional interdependence has stalled.

MERCOSUR was created in 1991 by the Treaty of Asunción, which brought together Argentina, Brazil, Paraguay and Uruguay. Although the original goal of Presidents Alfonsín (Argentina, 1983–89) and Sarney (Brazil, 1985–2000) was to provide support for their fledgling democratic regimes by lessening domestic pressures for greater military spending and increasing social welfare through international cooperation, the Treaty abstained from referring to political institutions or social actors. Instead, it focused exclusively on economic and commercial issues. The Protocol of Ouro Preto (1994) gave MERCOSUR its current institutional structure and an international legal personality. Despite its name, however, the bloc has not become a common market. At best, it has established the blueprints for a customs union that is still far from complete (Bouzas *et al.* 2002).

MERCOSUR treaties deal with economic integration (content) and organizational structure (form). They do not deal with aspects that have acquired greater relevance in the EU such as regional citizenship, social cohesion and democratic

decision-making. Somewhat surprisingly, however, these issues have been and still are present in nearly all debates about MERCOSUR.

After the global financial crises of 1995–99, MERCOSUR came to be seen as a symbol of resistance to neoliberalism, standing in the way of a US-promoted hemispheric free trade area. For some, it has become a tool for promoting social rather than merely economic goals. Their view is that the original agreements signed by Argentina and Brazil in 1985–88 were perverted in the 1990s, transforming what had been a progressive state-led initiative into a conservative market-based project. A return to the original intent would involve bringing political objectives to the fore, by prioritizing the social and representative dimensions of regional integration as opposed to trade and investment. Henceforth, recurrent references have been made to the participation of civil society and the establishment of a regional parliament. We contend that these appeals, well-intended as they may be, fail to grasp the lessons derived from the European experience that most advocates are so fond of invoking.

MERCOSUR was created and maintained as an intergovernmental organization. Its founders did not want to replicate the failures of previous attempts at integration in Latin America, especially the experience of the Andean Pact. Hence, they insisted that all decisions would have to be made through a process that exclusively involved national officials, with unanimous consent as the only decision rule. As there is neither community law nor direct effect, all significant decisions have to be transposed into the domestic legislation of every member state to take effect. Furthermore, policies can only be implemented at the national level by national officials, as there is no regional bureaucracy. Dispute settlement is the only area that has been formally excluded from the requirement for intergovernmental consensus, although the established mechanisms have been called upon only a dozen times in eighteen years – in contrast to the over 100 rulings made every year by the EU Court of Justice. MERCOSUR incarnates an extreme type of intergovernmentalism: ‘interpresidentialism’ (Malamud 2003, 2005b), which consists of resorting to direct negotiations between national presidents every time a crucial decision has to be made or a critical conflict needs to be solved. Low levels of previous interdependence associated with interpresidential dynamics allowed MERCOSUR to reap early fruits from integration, but afterwards the mechanism prevented spillover from taking place.

Lately, some projects have been advanced with the aim of placing MERCOSUR on the track towards deeper integration. The launching of IIRSA (Initiative for the Integration of South American Regional Infrastructure) in 2000 and the creation of a Committee of Permanent Representatives in 2003, a permanent Court of Appeals in 2004, the Fund for MERCOSUR Structural Convergence (FOCEM) in 2005, and a common Parliament in 2006 seem to be steps in that direction. At the same time, a more ambitious initiative aimed at integrating the whole subcontinent has been launched: the Union of South American Nations (UNASUR). All of them mimic similar developments in the EU, but none has reached anything close to the European achievements.

### How well do EU-based theories travel to South America?

In the first section of this article, our analysis was resolutely Eurocentric. Our presumption was that, if South America were to move towards greater transnational integration, it could learn from the European pattern. Moreover, we have understood integration in European terms, as the process of ‘how and why they [national states] voluntarily mingle, merge and mix with their neighbors so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflicts among themselves’ (Haas 1971: 6). To this classical definition by Ernst Haas, we would only add that they do so by creating common and permanent institutions capable of making decisions binding on all members. Anything less than this – increasing trade flows, encouraging contacts among elites, making it easier for persons to communicate or meet with each other across national borders, promoting symbols of common identity – may make it more likely that integration will occur, but none of them is ‘the real thing’. This is why we consider that a debate with the ‘new regionalism approach’ is futile: its definition of the phenomenon is so broad that it encompasses several different species under the same label, and thus cannot be subject to standardized comparison. However, this is no longer a problem since its founders, perhaps inspired by Haas, ‘propose[d] its dissolution’ (Hettne and Söderbaum 2006: 2).

Under our definition, AC and MERCOSUR have made little progress toward integration. There have been moments of regional cooperation, solidarity and identification, but they have not created an institutional legacy of much significance, nor have they succeeded in diminishing those ‘factual attributes of sovereignty’ that Haas mentioned. Only by softening or changing the definition of what constitutes regional integration can it be said that significant progress has been made in this part of the world.

It is sometimes claimed that there is a distinctive ‘Latin American’ (or, for that matter, ‘Asian’ or ‘African’) pattern of integration that may not resemble the European ‘institutional’ one, but nevertheless is capable of resolving regional problems, asserting regional cohesion and building regional identity. We disagree. We think this is a misleading overextension of the definition of ‘regional integration’. Regional integration should be conceptually differentiated from simple, that is, un-institutionalized and usually erratic, regional cooperation or collaboration.

Assuming that regional integration is desirable in both AC and MERCOSUR, but has made minimal progress so far, we now present a number of reflections on the existing theories of European integration and on European ‘lessons’ that might help to understand, and even advance, integration processes in South America.

*Federalism* is not likely to apply in South America for several reasons:

- 1 Some states (e.g. Brazil and Paraguay) have constitutions that prohibit any delegation of sovereignty to supranational institutions. Although this is not an insurmountable obstacle (constitutions may be amended), it is not negligible either.

- 2 In MERCOSUR, population asymmetries among member states make a prospective 'federation' unsustainable, as Brazil, with 200 million inhabitants, accounts for 80 per cent of MERCOSUR's population – and it would still account for more than 50 per cent if all of the remaining South American countries were to join the bloc. In AC, the main obstacle is population heterogeneity rather than asymmetry: Bolivia, Ecuador and Peru are already torn societies as regard ethnic composition, and bringing them together would probably reinforce social cleavages and spread racial tensions rather than dilute them.
- 3 All federations require a 'core' of stateness, and none of the South American countries seems prepared (yet) to concede such powers to a prospective regional government.
- 4 Therefore, the threshold is simply too high. Only after fifty years of intensive cooperation and very extensive interdependence have the EU member states agreed to even begin to discuss the 'T-word' – and they failed in their most recent and modest attempt to constitutionalize it.

Neither will '*Regulation-ism*' be an option for the following reasons:

- 1 '*Regulation-ism*' becomes relevant only once the level and extent of economic and social interdependence is very high, and both AC and MERCOSUR are still far from either (Burges 2005).
- 2 Given the greater dependence upon 'extra-regional' powers, South American countries are more likely to be compelled to conform to standards and norms elaborated and imposed by these 'hegemons', the US and the EU, or by specialized international institutions such as the WTO and the IMF.
- 3 Regulatory politics across national borders depends heavily on three factors, none of which is consistently present across South America: (a) reliable observance of the rule of law; (b) relative autonomy and professionalism of state bureaucracies; and (c) 'epistemic communities' of specialized experts who share initial premises and operative procedures.
- 4 The efficacy of regulatory agencies in democratic countries depends upon their being embedded in a broader context of political legitimacy that allows non-democratic groups of experts to make binding decisions because they can ultimately be held accountable by independent parliaments, commissions of inquiry, a free press and partisan competition. These groups should be exempted from executive discretion, arbitrary financial restrictions and patronage politics. In most South American countries, these conditions are not guaranteed.

This leaves us with two potentially viable options for regional integration: intergovernmentalism and neofunctionalism. Both have their pitfalls and using either strategy will certainly be problematic, although our assessment is that the former is less promising for the following reasons:

- 1 The 'classic' (and apparently easiest) starting point for *intergovernmentalism* would be a free trade area (FTA) or, more ambitiously, a customs union (CU).
  - a FTAs and CUs are notoriously difficult to negotiate sector by sector. They usually incorporate lots of derogations and exemptions, and the disputes they raise drain away most of the enthusiasm and integrative momentum – as the history of AC and MERCOSUR testifies.
  - b Moreover, in the present global context, in which trade liberalization is on the broader agenda of organizations such as the WTO, there are limited benefits to be gained (also, because of the proliferation of 'most-favoured-nation clauses' in many bilateral trade treaties).
  - c The 'victims' of regional trade displacement are concentrated and often well-connected politically, whereas the 'beneficiaries' are quite dispersed and much less well-organized.
  - d The 'logic' of FTAs (but less so CUs) is to include as many 'regional' partners as possible whereas the logic of effective regional integration is to concentrate on a small number of initial participants and to share the benefits among them first, and to expand only later.
  - e There is no conclusive historical evidence that FTAs tend to become CUs and then turn into monetary unions or common markets. Previous experiments with FTAs in Latin America suggest that, if they survive at all, they do so by encapsulating themselves and not by spilling over into wider arenas of policy-making (Schmitter 1970). They may be easy to adopt (if sufficiently riddled with exemptions), but they are very unlikely to expand into monetary affairs or greater labour mobility or even to extend their 'lessons of cooperation' into less closely related policy arenas.
  - f FTAs are particularly susceptible to problems with the size distribution of member states. The larger ones with greater internal markets are almost always accused of exploiting the small ones – especially in the 'uneven' exchange between manufactured goods and raw materials.
- 2 Intergovernmentalism is highly sensitive to the contradictory role of the hegemon. On the one hand, it has to be interested in taking the lead and paying a disproportionate share of the costs; on the other hand, it must be very careful not to be perceived as exploiting the others once an agreement is reached and has begun to generate its inevitably unequal flow of benefits. Why, then, should the hegemon – when it presumably could dominate a given region and simply impose its preferred rules – choose deliberately to underutilize its power resources and concede so much to its minor partners?
- 3 Intergovernmentally based regional arrangements, provided they remain intergovernmental, are not very likely to lead to spillovers and, hence, further integration – unless some external shock or exogenous condition intervenes. If governments enter into such arrangements only voluntarily and rationally – that is, when they are fully conscious of their costs and benefits and have excluded all possible unintended consequences – they are highly unlikely to react to unsatisfactory performance or unequal distributions of benefits

by agreeing to upgrade their commitments and draft a new, more expansive treaty. Their response will probably be either to freeze their existing level of commitment or to withdraw from the arrangement altogether – as Chile did in 1976.

So, we estimate that intergovernmentalism, especially in its extreme form of interpresidentialism, is not so much impossible to imagine as much less consequential with regard to regional integration. It would be relatively easy to accomplish in formal terms – treaties supposedly establishing free trade areas have been signed frequently within and across world regions – but it would not make much difference. Many of those free trade agreements were never fully implemented and, when they were, they rarely (if ever) led to highly levels of regional integration, which leaves *neofunctionalism* as the most promising (if not necessarily the most feasible) approach for understanding the potential for integration in South America.

### What lessons can be (cautiously) transferred?

The ‘lessons’ sketched out below have been drawn, primarily but not exclusively, from a neofunctionalist ‘reading’ of the sinuous course of European integration. We think that this approach offers the best understanding of its long-term processes – with one, very important, caveat. The initiation of regional integration requires an explicit agreement among governments, and the institutions and *compétences* that they endow it with initially will have a continuous impact on its subsequent trajectory. Moreover, there is a high likelihood that the national states that agree to such a founding treaty will do so with the expectation that it will protect and even strengthen their sovereignty, not transform it. What happens subsequently, once the process of integration has kicked in and begun to generate its intended and unintended consequences, can be quite another matter.

- 1 *Regional integration is a process, not a product.* Once it has begun, the peaceful and voluntary integration of previously sovereign national states can proceed in a multitude of directions and produce secondary and tertiary effects not imagined by those who initiated it. Precisely because it has been such an infrequent occurrence, no one can predict how far it will go and what its eventual result will be. Moreover, once national states have made a serious commitment to forming a ‘region’, they are likely to change their motives for doing so. They may begin with security and geostrategic reasons (Western Europe did so) and then find other applications for their ‘joint venture’, for example economic prosperity or unity of political action. There is no assurance that the initial effort will succeed (indeed, most attempts at regional integration have failed). Depending on conditions prevailing within and between member states, it can just as well ‘spillback’ as ‘spillover’ – to use the jargon of neofunctionalism. However, under certain conditions (and Western Europe seems to have fulfilled them), actors are more likely to

resolve the inevitable conflicts of interest that emerge from the integration process by enlarging the tasks and expanding the authority of their common, supranational institutions. In South America, as was the case in Europe, we should not assume that we know where integration is heading. MERCOSUR, as has been pointed out, has long lacked a focus (Bouzas 2002; MERCOSUR 2004), that is, an agenda of priorities, methodologies, and schedules. The challenges AC faces are still harder, as centrifugal forces (towards the US) and inner tensions put its very existence at stake – as Venezuela’s breakout exposed.

- 2 *Regional integration has to begin somewhere and the most promising place to do so is with a functional area that is of low political visibility, that can apparently be dealt with separately and that can generate significant benefits for all participants.* After experimenting unsuccessfully with the ‘direct’ route to integration via common political or military institutions, the Europeans tried a second-best, indirect one – and it has worked. The contemporary point of departure is likely to be different (the Europeans started with coal and steel; no one today would think of this combination), but the strategy is captured by Jean Monnet’s phrase ‘*Petits pas, grands effets*’, loosely translated as ‘Take small steps that will lead to large effects.’ One wants a concrete task that can be jointly managed with little initial controversy, but which is sufficiently linked to others so that it generates secondary effects upon other areas of potential joint cooperation. The gamble is that the conflicts generated by trying to fulfil this initial task will be resolved positively. In the case of the EU, sectoral integration was followed by trade liberalization and the Common Agricultural Policy and, only belatedly, by monetary integration. Elsewhere, the sequence may be different, but the key point is the need to start out with something that involves cooperation to solve concrete problems in a positive fashion. The task is not just about removing barriers – negative integration – but also about creating common policies to regulate and distribute benefits – positive integration (Scharpf 1996). The distribution of benefits can be disproportional at times, but it is critical to ensure a ‘fair’ distribution over a longer period. Trade liberalization alone is a form of negative integration and is unlikely to produce ‘spillover’ effects. In MERCOSUR, there was an early case of successful integration in the area of nuclear energy (Milanese 2007). However, as had been the case with EURATOM, it did not generate spillover effects. The contemporary equivalent of ‘coal and steel’, which is where the EU began in the early 1950s, has not been found yet. Transport and energy, two highly interrelated functional areas, are often mentioned as the most likely candidates. Energy issues seem to satisfy two key conditions, namely separability and interconnectedness, but they are highly controversial. It is, however, telling that one of the most substantive projects recently launched, the above mentioned IIRSA, is focused on these functional areas and encompasses all of South America.
- 3 *Regional integration is driven by the convergence of interests, not by the formation of an identity.* International regions are artificial constructs. They

are produced, not found. Some of the clusters of national states that share the most in terms of language, religion, culture and historical experience have been the least successful in creating and developing organizations for regional integration, for example the Arab world or Latin America. Ironically, it has been Europe with its multiple languages, firmly entrenched national cultures and dreadful experience with armed conflict that has proceeded the furthest. If nothing else, the EU demonstrates that it has been possible 'to make Europe without Europeans'. Those who expected that concerted effort at solving concrete problems, increased economic interdependence or facilitated social communication across national borders would produce a decline in national identities and an upward shift in loyalties have been frustrated. In South America, we should be careful about the notion of economic complementarity, as pre-existing trade patterns may not be a good indicator of the potential for generating new forms and levels of interdependence. Nation states join regional organizations with convergent – but not necessarily identical – motives. This provides the potential for making 'package deals' that include a variety of payoffs across participants. Also, there seems to be no automatic effect on integration of substantial increases in social communication across national borders. Decreases in communication may lead to separate identities, but increases do not necessarily produce integration. Contrary to the common notion, previously intense national antagonisms can be useful for integration – provided there is a strong motive for overcoming them. In South America, something approaching a regional consciousness has certainly emerged after decades of rivalry and neglect. However, there is little evidence that this new consciousness is pushing forward regional integration. President Cardoso (1997) recognized this point when he launched South American integration based on three pillars: trade and economic, physical, and energy. Although he also referred to a regional identity and a political dimension, he mentioned them not as pillars but rather complementary elements of integration.

- 4 *Regional integration may be peaceful and voluntary, but it is neither linear nor exempt from conflict.* The neofunctionalist strategy (also known as 'the Monnet Method') involves focusing on low visibility and less controversial issues that can be separated from normal, in other words party, politics. As interest conflicts arise, they are decomposed and then recomposed into so-called 'package deals' that promise benefits for all and compensate the prospective losers with side-payments in other domains. Regardless of the formal rules, every effort is made to reach a consensus. When such a solution cannot be found, the decision-making aspect of the integration process goes into hibernation. Meanwhile, the processes of expanded exchange continue to produce their intended and unintended effects and, eventually, the participants return to the table. In the EU, the most visible aspect of the process has been the periodic negotiation of new treaties, which are but the surface manifestation of a more extensive process that has facilitated exchanges between individuals, firms and associations in virtually all domains of social, economic and political life and resulted in the creation

of a large number of public and private organizations at the European level. Whether this strategy can persist is problematic. The EU has run out of low-visibility arenas for policy coordination, and the issues that it is currently facing (e.g. fiscal harmonization, visa and asylum requirements, common foreign and security policy) can be quite controversial. The increasing difficulty with the ratification of treaties is a sign of 'politicization' and its penetration of domestic partisan politics. However, the existence of conflicts is as inevitable as it is exploitable. One of the tricks transferable from the European experience is to use them (usually over inequality in the distribution of benefits) to expand and not to contract the scope and level of common regional authority. The unanimity rule may be crucial at the early stage to reassure potential losers (especially if they are very unequal or, in MERCOSUR's parlance, asymmetric), but tends to be transformed as the integration process advances.

- 5 *Regional integration may begin with a small number of member states, but should from that beginning announce that it is open to future adherents.* Moreover, it seems convenient that this initiating group form a 'core area', to use Karl Deutsch's term, meaning that they are spatially contiguous and have a high rate of mutual exchange. If the functional area and members are well chosen, this should result in a differentially greater increase in exchanges among themselves and a discriminatory treatment of those who have been left outside. Their relative 'success' will attract those neighbouring states that chose initially not to join. The process of incorporating new members places a heavy burden on institutions, but becomes a manifest symbol that the 'region' is worth joining. Especially crucial is the ability to protect the *acquis* when enlarging and not to dilute the accumulated set of mutual obligations as a way of satisfying specific interests in the new member states. The EU started with six members, but was open to others. Demonstration of 'success' through subsequent enlargement was crucial to increase the 'envy' of outsiders. Deliberate ambiguity about 'regional' boundaries is sometimes useful. Wisely, MERCOSUR has from the beginning left an open door to the rest of ALADI members, and specifically promoted the accession of Chile at the soonest. The bloc's very name (featuring neither Southern Cone nor South America but just South, hence avoiding a definition of how far north it could reach) was chosen in order to leave the question of future enlargement wide open. In its early years MERCOSUR accepted Bolivia and Chile as associate members, later took Peru, Colombia and Ecuador in with the same status, and finally started a still unfinished process to take Venezuela in. In December 2004 the South American Community of Nations (SAC) was founded in Cuzco, bringing together the twelve South American countries – all of MERCOSUR and AC plus Chile, Guyana and Suriname. The name was later changed to the Union of South American Nations (UNASUR), whose constitutive treaty was signed in Brasilia in May 2008.
- 6 *Regional integration involves states of different size, power capability, level of development and per capita wealth.* Since it is a voluntary process, the

largest and most powerful members cannot simply impose their will – as they would do in an imperial system. They have to respect the rights and presence of the smaller and weaker units. At a minimum, this implies guarantees for their continued existence, in other words that the integration process will not involve their being ‘amalgamated’ into larger ones, which requires that smaller units be systematically overrepresented in regional institutions. Moreover, there is a positive role for smaller states to play, especially when they can act as ‘buffer states’ between larger ones. The key interest cleavages in the process of integration tend to be based on relative size and level of development. The best imaginable outcome is ‘upward convergence’, whereby the weakest members in economic and political performance find themselves growing faster and becoming more secure relative to those that are stronger – without depressing the performance of the more favoured member states. The thorny issue is how to ensure that the latter agree to such a redistribution of income and power. Symbolic compensation can be made through such devices as an equal number of commissioners, a rotating presidency and the location of regional institutions by overfavouring small states. In MERCOSUR, the two smallest states (Paraguay and Uruguay) are vulnerable to economic volatility and political changes in their larger neighbours. Apart from stabilizing themselves, Argentina and Brazil will need to create mechanisms that redistribute the benefits of integration with a bias towards their weaker partners. A first step has been taken with the creation of FOCEM, a pool of structural funds mostly financed by the larger member states and profited from by the smaller. On paper, AC is at a more advanced stage in this dimension. The Secretariat, Court and Parliament headquarters are respectively located in Lima, Quito and Bogota, whereas the powerful Andean Development Corporation (CAF) is still based in Caracas. However, if significant interstate transfers did not take place even when oil-rich Venezuela was a member, there is little reason to expect that they will take place in the current conditions.

- 7 *Regional integration, however, requires leadership, that is actors who are capable of taking initiatives and willing to pay a disproportionate share of the cost for them.* The European experience suggests that this role can be played by a duopoly rather than a single hegemonic power. It is crucial that these leading regional actors agree to underutilize their immediate power capability in order to invest it in a long-run strategy of legitimizing the enterprise as a whole. Fortunately for the integration of Europe, the potential hegemon (Germany) had just suffered a disastrous defeat in war and was pre-inclined to downplay its role. France, the former great power, has found this more difficult and its tendency to self-maximize has repeatedly threatened the process of consensus formation. Leadership is obviously related to the preceding issue of size and development. The questions to be answered are: (1) why will a hegemon be willing to pay the higher price for membership and (2) what can induce it to underutilize its power advantage? In the case of a hegemonic duo, stability is important but sometimes brings awkwardness

among late arrivers. On the other hand, a single ‘imperial’ hegemon, even if ‘generous’, can sometimes have an inhibiting effect. In South America, Brazil’s share of population and gross domestic product makes of it the natural candidate for leadership. However, there is an ongoing domestic debate about it. Whereas the Cardoso administration (1995–2002) considered that the country was not ready to pay the price, the Lula administration (2003–10) thought otherwise. The latter supported a more decisive role for Brazil, both in the region and worldwide, and pushed the integration agenda with greater intensity. This course of action may have been counterproductive. In the last years, Brazil has not even been able to secure the support of its MERCOSUR partners for its major international bids. Venezuela has also made efforts to build itself a leadership position in the region, taking advantage of the high international prices of oil. However, its militant stance has raised as much opposition as support among its neighbours and has led to its breaking up the AC.

- 8 *Regional integration requires a secretariat with limited but potentially supranational powers.* Not only must this organization not be perceived as the instrument of one of its members, but it also must possess some degree of control over the agenda of the process as a whole. The EU Commission is composed of members selected by an obscure process, firmly rooted in nomination by national governments, but presumed once approved to owe their allegiance to the supranational integration process and, therefore, not to take instructions from the body that chose them. There is evidence that the Commissioners tend to acquire a ‘collegial’ perspective and to act as supranational agents. Moreover, the President of the Commission can under admittedly unusual circumstances not only assert his monopoly over the introduction of new measures, but also play a proactive role in determining what these measures should be. His powers include: (1) control over initiation of new proposals; (2) control over distribution of positions within its quasi-cabinet (the European Commission); (3) budgetary discretion; (4) potential to take member states to the European Court of Justice; (5) network position and possible information monopolies, especially with regard to subnational actors (functional and territorial); (6) alliances with the European Parliament; and (7) package-dealing and log-rolling potential. In AC, the Secretariat is the executive body of the bloc but has been endowed with virtually none of the competencies listed above. In MERCOSUR, a recent reform to strengthen the secretariat by bestowing it with technical – in addition to administrative – competencies all but failed, and no regional institution has any of the powers listed above. Building up and funding a regional secretariat with effective powers and transparent procedures is advisable and has been frequently advocated (Peña 2006), but it is unlikely to happen in the short run.
- 9 *Regional integration requires that member states be democratic.* This is a factor that virtually all theories of European integration have taken for granted – as did the earlier practitioners until in the early 1960s when the application of Franco Spain for EEC membership made them explicitly stipulate that

'domestic democracy' was a prerequisite for joining. In the Treaty of Amsterdam (1998) this was extended to cover respect for human rights and the rule of law. Obviously, when transferring the lessons of integration 'out-of-region', this can no longer be taken for granted. Most regions in the world include some non-democracies. There are three reasons why democracy is necessary: (1) only governments that have strong legitimacy within their respective national societies can make the sort of 'credible commitments' that are necessary for them to enter into agreements, to ratify them and to monitor their implementation; (2) the presence of a democratically accountable government within all members is a supplementary assurance that none of them will resort to force in resolving disputes, as it seems unlikely that this would be supported by their citizens; (3) if the neofunctionalists are right, a key element driving the integration process forward will be the formation of transnational interest associations and social movements and their intervention in supranational policy-making. Only in national democracies will citizens have the freedoms needed to organize such forms of collective action and to create links with others across national borders. In South America, the democracies are at different levels of regime consolidation. However, most of its leaders share a strong commitment to the link between democracy and regional integration. In MERCOSUR, this commitment became manifest in the Protocol of Ushuaia, which established a democratic clause, and in the resolute action taken by all member states to support democracy in Paraguay in 1996 – when it faced a serious threat – and later in Bolivia. In AC, widespread support for democracy made itself evident when Fujimori's Peru was excluded from several bloc arrangements after the self-coup of 1992.

- 10 *Regional integration is basically an endogenous process, but it can be critically vulnerable to exogenous forces, especially in its initial stages.* Once a subset of national states has agreed to create a 'region' by accepting certain mutual obligations and endowing a common organization with specified powers, its subsequent success or failure is primarily a matter of exchanges between these member states, plus the influence of non-state actors within and increasingly across their borders and the regional leadership. The European experience, however, suggests that in its early stages regional integration can be very dependent on external powers. More precisely, it is doubtful that the process would have even begun without the benevolent intervention of the US. Here is where the 'realist' perspective and its 'intergovernmental' cousin should be especially relevant. Obviously, the overriding imperative in the case of Western Europe in the 1950s was fear of the Soviet Union. However, now that this imperative no longer exists, the implication seems clear: the US will be less likely to view favourably movements toward regional integration that it does not participate in or cannot control. In South America, where the influence of the US has been traditionally greater as a result of the Monroe doctrine, the toleration and cooperation of the US would be essential for the success of any movement toward regional integration. So far, the US has been either supportive or indifferent to various integration projects in

Latin America, but it is unlikely that it will keep such support or indifference with regard to the largest initiative at regional integration in the Western Hemisphere ever. In these circumstances, it is advisable not to confront but to engage the US in supporting South American integration by agreeing to simultaneously negotiate the continental agreement that it promotes.

- 11 *Regional integration, at least until it is well established, is a consumer, not a producer, of international security.* To make sense of this affirmation one has to make a distinction between regional defence pacts and regional integration organizations. The former, usually the product of a hegemonic power that spreads its defence capability over that of subordinate others, for example the US and NATO, is exclusively oriented towards protecting the external sovereignty of its participants by military means; the latter's purpose is to supplant or, at least, to pool the internal sovereignty of its participants by removing barriers to economic, social and political exchange. In Western Europe, membership in the two was not coincident and not obligatory. The EU was fortunate in its early decades to have existed 'in the shadow of NATO' and, therefore, not to have had to add external security to its already controversial agenda. With the end of the Cold War, NATO's role has become increasingly ambiguous and EU member states have begun to elaborate their own capability for collective security. Given the difficulty of such a task, it has been suitable that their 'civilian' regional institutions are already well established and recognized. What is much more crucial for the success of regional integration is the existence among member states of what Deutsch *et al.* (1957: 5–6) called a 'pluralistic security community'. This does not require common formal institutions, as would a viable military alliance, but involves a firm and reliable, if informal, understanding that under no foreseeable circumstances will its members either use or threaten to use military force in the resolution of disputes among them. MERCOSUR is a case in point: although Argentina and Brazil have historically perceived each other as a rival, war among them has not been waged since 1828 – and democratization has propelled mutual trust. Violent conflict has been absent among the four MERCOSUR partners since 1870 and is currently unthinkable. The historical record in the Andean region is more blurred and some militarized interstate conflicts have taken place in the twentieth century. In contrast, violence within the domestic realm is a worrying feature in some of these countries. In March 2009 a South American Defence Council was established within UNASUR, but it only functions as a forum and does not integrate defence capabilities.

## Conclusions

The recent developments within the EU involving the non-ratification of its Constitutional Treaty, within MERCOSUR with regard to the non-development of common institutions, and within AC concerning its chronic underperformance suggest that, in guise of conclusion, three more 'lessons' should be added to the previous list.

- 12 *Regional integration may suffer from excessive or, at least, precocious institutionalization, as much as from an institutional deficit.* Institutions matter, and so does the timing of their creation and evolution. Lesson 8 helps to capture the paradox. The initial 'secretariat' of a regional organization has to have some significant supranational component if it is to play a proactive role. This means that its founders have to behave 'precociously' in the sense that they are 'ahead' of the expectations of individual member states. Subsequently, however, the promoters have to become reactive and be assured that the further expansion of these institutions come in response to a widely perceived need to pursue new activities and assume new competences at the regional level. The neofunctional approach shows an awareness of this paradox and identifies time and timing as crucial intervening variables. Without setting a specific threshold, it does imply that spillovers are likely to occur only once processes of increased exchange among member states have become sufficient to generate new interests and new conflicts, as well as mechanisms for collective action across national borders. Therefore, the decision to establish or upgrade institutions cannot be disconnected from the process of integration itself and its unintended consequences. The failure to ratify an ambitious Constitutional Treaty showed that the broad public in the EU member countries was not convinced that there was a functional need for such an institutional expansion. MERCOSUR performed reasonably well in its first years because it chose not to replicate the precocious and pretentious institutions of the Andean Pact. Had it tried to do so, its ineffectiveness would have eroded the legitimacy of the integration process as a whole. Granted that the underdevelopment of common institutions cannot persist for long if regionalization is to move ahead, reforms in their scope and authority must be timed with regard to needs and perceptions. Merely replicating the practices of successful experiences with regional integration has not worked out.
- 13 *Regional integration needs both formal agreements and informal arrangements, but as it proceeds the former should increasingly prevail over informal settlements based on momentary distributions of power.* The EU has taken from its member states a highly institutionalized system of government. Democratically accountable national leaders make regionally binding decisions through formal procedures, and professionalized national bureaucracies are supposed to implement these decisions in a predictable fashion. However, such a model of government and administration took a long time to develop and an even longer time to spread more or less evenly across its member states. Transferring this model to a region composed of less developed polities is problematic, all the more so when there is great deal of variation in state capacity and rule of law among these units. The initial mix between formal and informal transactions is much more imbalanced in favour of the latter and the integration process itself does relatively little to alter the situation. The real sources of power and conformity remain hidden and rarely match the formal prescription of competences in treaties and protocols. As a result, the impact of publicly announced and commonly agreed

decisions is usually overestimated and, when revealed as such, contributes to disillusionment with the process of regional integration.

- 14 *Similarly, all integration movements require a mix of material payoffs to specific members and symbolic rewards for the region as a whole, but, once they settle into routinized transactions, the former should prevail over the latter.* In Europe, the exalted rhetoric of common cultural identity and purpose and international peace and solidarity rather quickly gave way to much more prosaic objectives and expectations – many of which were realized. Granted that the symbolic component was later revived (more or less in tandem with the pretence of constitutionalizing the process), nevertheless, the EU has never witnessed the mismatch between words and deeds that has become a standard characteristic of Latin American efforts at integration. The terms 'token integration' (Nye 1968: 377) and 'integration-fiction' (Peña 1996) have been used to denote this lack of realism concerning cause and effect, which has contributed to making the general publics of member states skeptical of the value of regionalism.

We are aware that our analysis could be considered Eurocentric by some. Our prescriptive stance notwithstanding, we think of integration as a potentially global phenomenon, and thus one that should be recognized whenever it appears. This calls for standard definitions and theory that can travel. Think of democracy: there are as many types thereof as there are countries in which citizens are formally equal and rulers are accountable; yet, lacking these characteristics, we do not call it a democracy. The same applies to regional integration: either there are sovereign states that voluntarily transfer parcels of sovereignty to joint decision-making or there are not, and in the latter case we do not call it integration. We have resisted the temptation to stretch conceptual definitions or dispose of working theories when a given phenomenon does not turn out as expected, as long as those concepts and theories are capable of explaining why this happened. EU lessons are useful for understanding South American travails with regional integration precisely because they can also make sense of non-integration – instead of calling it otherwise and pretending that it is a new animal.

## Notes

- 1 We are grateful to Alex Warleigh-Lack, Ben Rosamond, Mark Aspinwall and Nick Robinson for comments.
- 2 The following part contains segments drawn from Schmitter (2004).
- 3 This section draws on Malamud (2004, 2005a).
- 4 ALADI comprises ten South American countries plus Mexico and Cuba.

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