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From Success to Failure : Under What Conditions Did Mercosur Integrate?

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Abstract

The Mercado Comum do Sur (Mercosul in Portuguese) is a regional integration bloc in Latin America. Mercosur has fallen dramatically from being a regional integration bloc, experiencing remarkable success in integration to becoming a stalled bloc that has failed to meet the initial expectations set. This paper looks beyond current European-centered theories of regional integration. It tests Malamud's (2003) theory of inter-presidentialism and Mattli's (1999) theory of regional integration to evaluate what drove Mercosur integration. The focus is on Mercosur, from its formation in 1991 to the present day, engaging with theory, academic papers and official government speeches to identify what controlled integration in this regional bloc. This paper concludes that state leadership, especially that of Brazil's, was and continues to be crucial in shaping the integration in Latin America. This leadership was largely influenced by the national gains, both economic and political.

JEL Classifications: F14, F15, F17
Keywords: Mercosur, Mercosul, Regional Integration, Regional Leadership, Trading Bloc, Economic Institutions, International Institutions, Inter-Presidentialism

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I. Introduction

The Southern Common Market (Mercosur, English), or Mercado Comum do Sul (in Portuguese), is a regional trade bloc with an economic, political, and social integration project for Latin America (Malamud 2010a). Argentina, Brazil, Paraguay, and Uruguay signed the Tratado de Asuncion in 1991 thereby founding Mercosur. This regional integration bloc's experience is one of the contrasting developments since its initial years (1991~1999). In fact, Mercosur experienced an impressive expansion owing to its integration. However, at the turn of the century, integration stalled significantly and Mercosur has been regarded as one of the largest failures in recent times (Campbell, Rozemberg, and Svarzman 1999, Kaltenthaler and Mora 2002, Malamud 2005a).

This paper seeks to explore regional integration in Latin America and to analyze what factors influenced the deepening and stalling of this project. This paper also aims to provide a theoretical background on how integration in this region can be better understood. The process of the historical development of Mercosur is accounted for, incorporating willingness, various actors and the institutional framework of Mercosur. This research question is as follows: under what conditions did Mercosur integrate? To address this question, Andres Malamud's (2003) theory of inter-presidentialism and Walter Mattli's (1999) theory of regional integration are adopted. The concept of inter-presidentialism accounts for the influence that presidential diplomacy and domestic presidential institutions diffuse in the progress of regional integration in terms of decision-making and dispute-settlement (Malamud 2016). There are two related questions. Firstly, what directed Mercosur integration during its successful early years? Secondly, what contributed to these factors shifting and to integration stalling after 1999? The paper engages with a qualitative analysis of primary and secondary data. It uses primary sources, such as empirical data from the online databases of the International Monetary Fund and the World Bank. Interviews with government officials and presidential speeches of member countries to Mercosur have also been translated from Spanish and Portuguese where needed and incorporated into the analysis. Secondary sources such as academic journals, books, newspaper articles, and working papers in the field also contribute to answering the research question.

This paper is divided into five sections. In this first section, definitions and a brief overview of Mercosur's history of integration is provided. Section II, Literature Review, refutes the applicability of two prominent regional integration theories to the case of Mercosur and then introduces the two theories adopted, inter-presidentialism (Malamud 2003) and Mattli's (1999) theory of regional integration, to explain what shapes integration in Mercosur. Section III, Dusk of Integration, engages with the two theories and empirical data to evaluate their accuracy in explaining how, and under what conditions integration deepened in Mercosur during its golden years of 1991~1999. This section argues that state leaders played a vital role in controlling integration, with Brazil taking leadership and directing integration at a time where its economy was struggling. Section IV, Dawn of Integration, explains why integration has been stagnant since 1999, focusing on the role played by Brazil. This paper concludes that Mercosur integration is shaped by state leaders, with Brazil taking leadership in deciding the direction that integration will flow, depending on the economic and political gains that integration provided.

The concepts of integration, regionalism, and regional integration are multidimensional. There is currently no commonly accepted definition for any of these concepts (Russett 1967, Hurrell 1995, Sbragia 2008, Börzel 2011). Additionally, integration projects are dynamic developments that can be both broadened and deepened. Broadening often refers to an increase in the expansion of member states across the region, whereas deepening is often associated with increasing political, economic, and social interdependence through creating strong supranational institutions (Mahrukh 2012). Balassa (1961) described the integration process as encompassing four progressive levels: a free-trade area, a customs union, a common/single market, and an economic union. As integration increases, institutional arrangements are often developed in order to regulate and facilitate the flow of integration. The process of developing and deepening these supranational institutions requires that a degree of sovereignty be transferred to these institutions (Haas 1971, Malamud 2013). Integration can also occur through multilateralism or regionalism. This paper focuses, however, on regional integration. A region is defined as a limited number of states located within the same geographical area (Nye 1968). Regional integration is defined as the voluntary linking of the economic, political and social spheres of two or more independent states in the same region, leading to the shifting of authority and sovereignty from a national level to a supranational institutional level (Mattli 1999, Malamud 2010b, Mahrukh 2012).

The Treaty of Asunción was signed in 1991, extending previous bilateral commitments to reduce tariff rates and increase trade liberalization between Argentina, Brazil, Paraguay, and Uruguay. This treaty laid Mercosur's foundations, and integration was established as a three-step process (Mattli 1999, Preusse 2000, Mahrukh 2012). First, a free-trade area was created from 1991 until December 1994 with trade liberalizations and a reduction in tariffs between Mercosur members. This first goal was achieved within the stipulated time frame. The second step was to create a customs union in January 1995, to facilitate the adoption of common external tariffs for trade. This step was followed through, and an average external tariff of 11%, which covered about 85% of all customs lines, was adopted by all member states (Bouzas *et al*. 2002). In addition, the Mercosur Trade Commission was "created to ensure the implementation of a common trade policy" (Mercosur 2015). Mercosur was an integration strategy that included adopting policies such as reducing trade barriers and opening states up to world markets, as well as promoting regional development and improving international inclusion (Bouzas, Veiga, and Torrent 2002, Molteni *et al.* 2011, Mahrukh 2012). These measures highlight the commitment and initial success of the Mercosur integration, which will later be expanded upon in section III. Lastly, it was estimated that by 2006, a common market would be created. This goal was later postponed to 2011. Ultimately, however, a common market was never established and Mercosur stagnated into an imperfect common market (Mahrukh 2012).

II. Literature Review

As regional integration globally deepened and broadened, several theories emerged as an attempt to explain and predict this occurrence. These theories mostly focused on the experiences of the EU. The literature on Mercosur has often adopted these EU-based theories as an attempt to explain integration, or the lack thereof, in this regional integration bloc. The focus has often been on comparative regionalism between the EU and Mercosur to explain its more recent failure in integration (Söderbaum, Stålgren, and Van Langehove 2005, Malamud and Schmitter 2006, Mukhametdinov 2007, Gomez Mera 2008, Saraiva 2010, Lenz 2012). A large proportion of the literature on Mercosur also engages with isolated periods in Mercosur integration, applying a theoretical perspective to explain the direction of integration under specific crises or presidential mandates (Burges 2006, Hurrell 2008, Börzel 2011, Gratius and Saraiva 2013, Bueno and Schenoni 2014).

In "MERCOSUR: Integration Through Presidents and Paymasters (2012)," Hummel and Lohaus adopt Mattli's theory and inter-presidentialism. Their focus, however, is on explaining Mercosur's integration in two economic crises faced by the bloc. This paper goes further in the application of these theories by considering the historical development of Mercosur from its formation in 1991 to the present time. Additionally, Perales's (2003) paper, "A Supply-Side Theory of International Economic Institutions for the Mercosur," attempted to develop a supply-side theory of economic integration in Mercosur. In his paper, Perales emphasizes that political elites used Mercosur to improve their bargaining position, especially in terms of improving their credibility to transform the preferences of the private sector in their respective domestic economies (Perales 2003:98). Borras and Kluth (2003) and Philipps (2003) also focus on the launch of Mercosur as an initiative of political elites to influence the domestic private sector and the direction of trade. This paper, however, incorporates the willingness of political actors, beyond the desire to influence private actors. In addition, other factors such as institutions and historical development are considered when analyzing their influence on the formation and deepening of Mercosur.

The contribution and value of this paper is, first, its focus on the influence that politicians and domestic politics have in creating international institutions and influencing their development for domestic, political, and economic gains; second, its incorporation of the historical development of Mercosur; and third, in its focus on the influence that willingness, different actors, institutions, and history had on the formation of regional economic institutions such as Mercosur. It aims to provide an analysis to better understand and predict what shapes integration in this regional bloc.

Ernest Haas' (1958) classical theory of neofunctionalism and Andrew Moravcsik's (1998) theory of liberal intergovernmentalism are two of the best-known theories of regional integration. However, they adopt the EU's framework as a basis for development and are often regarded as "Eurocentric" theories that lack explanatory power for regional integration outside the EU (Krapohl 2010, Mahrukh 2012). These theories argue that economic interdependence between nations within a region is crucial for fostering regional integration (Haas 1958, 1961, Malamud 2005b, 2010b). Although they differ in their views concerning the extent to which regional integration is shaped by states, interest groups, and the wider economy, both theories argue that interdependence is a pre-requisite for regional integration. In addition, they posit that supranational institutions are created as integration deepens. As supranational institutions become a more important platform to manage integration, they gain more autonomy over integration and eventually replace national regulatory regimes. Through a process of spill-overs, integration is furthered and eventually becomes a self-sustaining process (Hurrell 1995, Martin and Simmons 1998, Malamud 2010a, Vigevani and Aragusuku 2015).

These assumptions of economic interdependence and spill-overs are not consistent with the experience of Mercosur. As Malamud argues, “the sequence interdependence–integration–institutions simply did not take place” (Malamud 2003:59~61). Therefore, other theories need to be considered and further developed in order to better understand, explain, and predict regional integration in Mercosur and regional blocs outside the EU. The paper now turns to the two theories adopted to explain regional integration in Mercosur.

Malamud (2003) developed the theory of inter-presidentialism, which argues that presidential institutions, leadership, and leaders’ goals influence the process of regional integration, rather than institutions and economic interdependence. Inter-presidentialism focuses on the domestic, rather than regional, level, considering presidential competences, veto power, and wider power sharing within presidential institutions (Malamud 2003). Inter-presidentialism emphasizes the highly personalized decision-making process in Mercosur (Preusse 2004). According to Malamud, the democratic regime of the countries in the regional bloc determines how integration progresses. This theory adopts a specific sequence for the development of regional integration: presidential democracy–integration–interdependence. Consequently, interdependence is established as a result of integration.

The presidential politics of Latin American countries results in presidential intervention and implies that presidential istitutions are the main actors shaping the process and outcomes of integration (Malamud 2003). Integration becomes highly dependent on presidential diplomacy as state leaders are often unwilling to give up autonomy in order to create stronger supra-national institutions to implement integration mechanisms. According to Malamud (2008), negotiations, decision making, and conflict resolution within regional integration blocs are directed mainly by and between national officials, such as presidents or chief executives, after whom this concept of integration is named. This intergovernmental role in shaping procedures is a persistent feature of the dynamics in Mercosur, heightened by the inter-presidential style of the regional bloc (Malamud 2008). The theory of inter-presidentialism encompasses a state-led nature of integration, where presidential-driven integration is the norm (Malamud 2015:172). This theory, as will be developed in section III of the paper, reflects the experience of regional integration found in Mercosur.

In “The Logic of Regional Integration” (1999), Mattli argued that a set of demand-side and supply-side conditions needs to be fulfilled to allow regional integration to succeed. Mattli's theory attempts to account for the economic and political factors that contribute to regional integration regardless of the region in which integration is being adopted. The demand-side condition for integration is the existence of "economic gains from market exchanges" between countries within a region. As this economic interdependence deepens, there is a need for the creation and deepening of integration through an institutional framework (Mattli 1999). The demand-side condition is often emphasized by theories of economic interdependence that argue that it is market players that drive integration (Mattli 1999). The demand for further integration, which proceeds from economic factors, result in the creation of institutions that facilitate integration due to the belief that such institutions will lower transaction costs, increase cooperation, coordination and integration (Mattli 1999).

As Mattli noted, the demand-side condition is not sufficient on its own: "if demand is not met by supply, no change will occur" (Mattli 1999:47). Supply-side conditions can account for the starting, relaunching, success and stalemate in regional integration. These are conditions that determine whether state leaders, who value their political autonomy and power, are willing and able to accommodate demands for regional integration (Mattli 1999). Mattli's theory focuses on structural leadership, where the leader holds a large share of material capabilities along with the willingness to direct and shape integration (Ikenberry 1996). Leadership is thought to play a specific role in both deepening and stalling regional integration.

Willingness to foster integration depends on the "payoff of integration to political leaders" (Mattli 1999:42). As integration deepens and interdependence increases, states tend to experience a loss of sovereignty and policy autonomy (Mahrukh 2012, Pecequilo and Carmo 2013). As leaders value their political autonomy (absent interference by outside agents) and political power (support from the populace through votes), the will to deepen integration requires strong perceived gains from integration. Mattli (1999) predicts that leaders who value autonomy and power are unlikely to deepen integration, if their economies are relatively prosperous. A prosperous economy does not provide motivation for state leaders to forfeit national sovereignty. When the country faces economic difficulties, however, political leaders will try to secure their political survival by enhancing the performance of the economy through means that increase regional integration (this will be further discussed in section III). When furthering integration leads to increased economic prosperity, presidential leaders benefit from political gains, such as a higher chance of re-election and a consolidation of their power (Mattli 1999).

In addition to the willingness to lead integration, leaders need to possess the ability to lead. According to Mattli (1999), for a leader to be able to lead, he/she needs to be a benevolent and uncontested leader with the capacities to act as regional paymaster when needed. A leader able to lead has the responsibility to ease distributional tensions, to facilitate the coordination of policies, and to enable the path of integration (Mattli 1999, Hummel and Lohaus 2012). Theories developed for regional integration in the EU are not applicable to Mercosur's case as they do not account for the highly state-led dynamic and lack of economic interdependence found in Mercosur. Inter-presidentialism and Mattli's theory of regional integration are adopted and applied to the case of Mercosur in the next section in order to better understand what drove integration in Mercosur during its most successful years of integration.

III. Dawn of Integration

This section analyzes the factors that controlled and contributed to the expanding integration of Mercosur from 1991~1999. Following a description of Mercosur's golden years of flourished integration, inter-presidentialism is adopted to support and explain Mercosur's state-led integration process. Mattli's demand-side condition for integration is disproved. The section adopts Mattli's supply-side condition to test the role of leadership in facilitating and significantly shaping the direction of integration in Mercosur. The section concludes by engaging with data on Brazil's leadership role. The data supports Mattli's supply-side condition that leaders will seek deeper levels of integration if the country experiences economic problems and, furthermore, if the leaders themselves assume that integration will increase their political power.

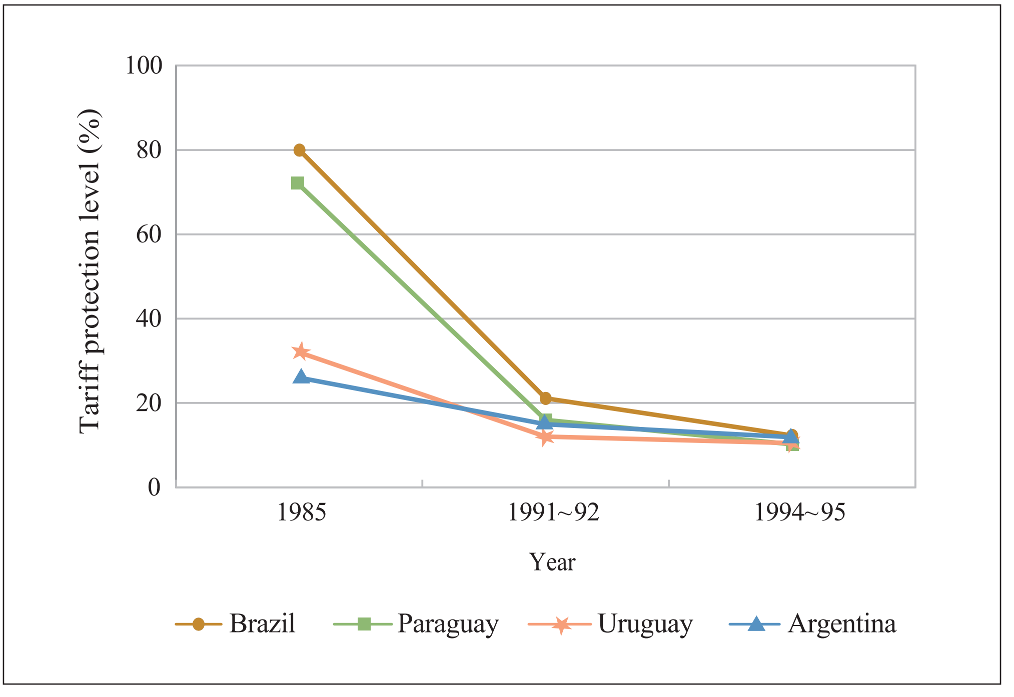
In 1999, eight years after Mercosur's formation, the regional integration project was seen as remarkably successful. The years between 1991 and 1999 are often referred to as Mercosur's golden years (Malamud 2003, Malamud 2008, Krapohl 2010). Deepening economic integration through the creation of a free trade area (1991) and a customs union (1995) decreased trade barriers and increased trade and economic gains (Laursen 2010). In the period from 1991 to 1999, Mercosur's total world trade went from 11% to almost 20% (Mecham 2003). By 1999 Mercosur was the fourth largest economic bloc in the world (Vaidya 2006). Mercosur's trade performance was also remarkable. In

1999, total exports were more than 70 billion US dollars, total imports were larger than 80 billion US dollars, and total trade with the rest of the world exceeded 122 billion US dollars (Mercosur 1999). Such figures highlight the extraordinary economic gains and international involvement that Mercosur achieved within its first eight years.

In addition to expanding international trade, Mercosur also experienced a substantial increase in intra-regional trade. Between 1991 and 1999, intra-regional trade increased from 8.9% to almost 25%, from 11 billion US dollars to over 20 billion US dollars (Preusse 2000, Mahrukh 2012). The doubling of these figures within the initial years of Mercosur's creation emphasizes the remarkable increase in economic interdependence. Intra-regional trade grew mainly as a result of the outstanding reductions in tariff protections and non-tariff barriers to trade. These measures were vital in decreasing the cost of trade between Mercosur members. As illustrated in Figure 1, average tariff protection in Mercosur countries dramatically decreased until the formation of a customs union in 1995. In Brazil the level of tariff protections towards Mercosur member countries was 80% in 1985 and was reduced to 12% by 1994~1995. Similarly, other Mercosur members' protective tariffs fell between 1985 and 1995: in Argentina rates dropped from 26% to 11.9%, in Paraguay 71.7% to 10.2%, and in Uruguay from 32% to 10.5%.

Figure 1. Average tariff protection in Mercosur countries

Average (unweighted) total charges (tariffs + para-tariffs) (%)

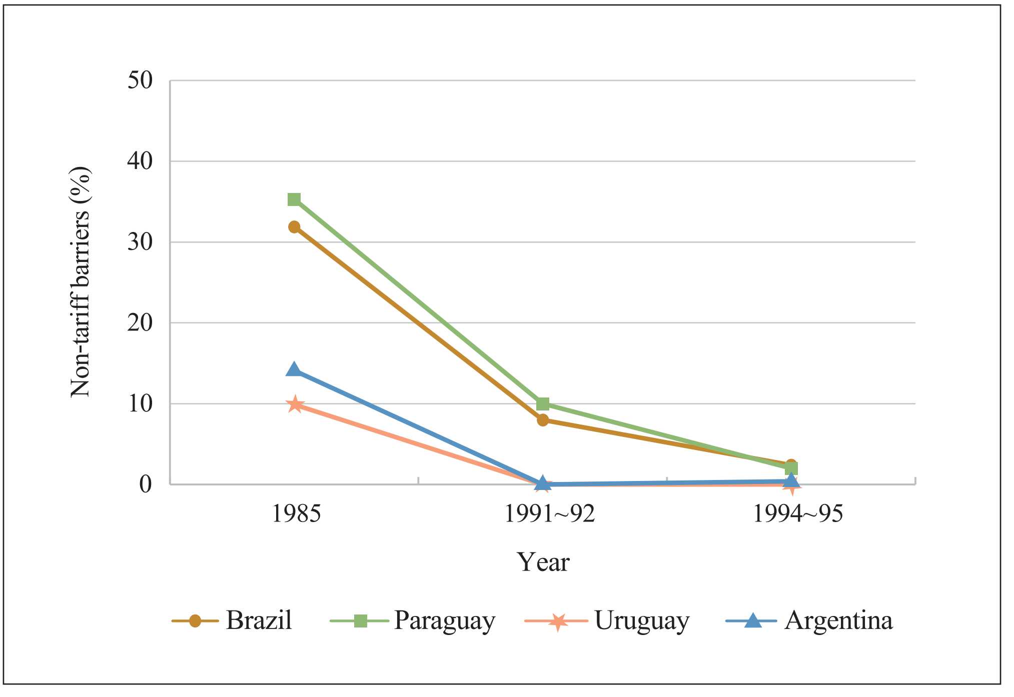


(Source) Author's calculations using data from United Nations Conference on Trade and Development (UNCTAD) (1996)

Likewise, non-tariff barriers were also reduced following the creation of Mercosur, as illustrated in Figure 2. Non-tariff barriers decreased from over 30% in Argentina and Brazil in 1985 to around 2% in 1995. In Paraguay and Uruguay, non-tariff barriers were also substantially reduced. In August 1994, the signing of the Common External Tariff (CET) and the later establishment of a common trade policy decreased barriers to trade between Mercosur member countries and further facilitated trade within and through Mercosur (Mercosur 2015). Between 1991 and 1999, the rapid pace at which regional integration expanded, in terms of increased trade and economic interdependence, is visible and outstanding.

Figure 2. Coverage of non-tariff barriers in Mercosur countries

Average (unweighted) (%)

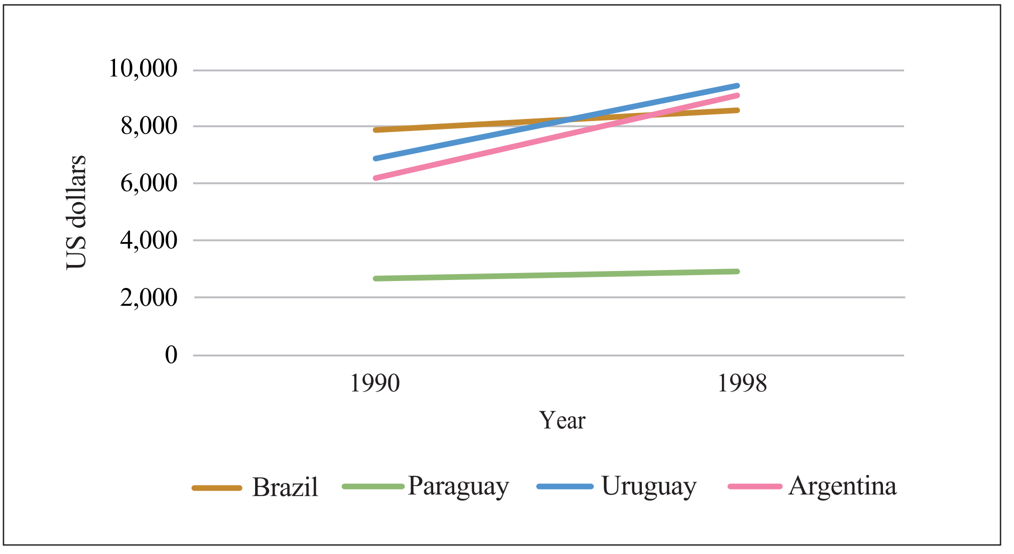


(Source) Author's calculations using data from United Nations Conference on Trade and Development (UNCTAD) (1996)

In addition, Gross Domestic Product (GDP) per capita also increased for Mercosur members after its foundation, as illustrated in Figure 3. In Brazil GDP per capita increased from 7900 US dollars in 1990 to over 8500 US dollars in late 1990s. Argentina, GDP per capita went from around 6000 US dollars in 1990 to over 9000 US dollars in the late 1990s. In Paraguay GDP per capita increased from 2600 US dollars in 1990 to 2900 US dollars in the late 1990s, and Uruguay experienced the most significant increase in GDP per capita, from 6800 US dollars in 1990 to over 9000 US dollars in the late 1990s (Trading Economics 2016, Figure 3).

Figure 3. GDP per capita

Average (unweighted) (%)



(Source) Author's calculations using data from Trading Economics (2016)

Along with economic integration, Mercosur's political and social integration should not be underestimated. From 1991 onwards, the four Mercosur member countries experienced decreased border tensions and arms competition with each other, cooperation increased, and a zone of peace was established (Mahrukh 2012). Thomas O'Keefe, the president of Mercosur Consulting Group in the 1990s, said that "the hypothesis of war between Argentina and Brazil has been junked [no one] in the Argentine or Brazilian military still sees the other as a potential threat" (Kacowicz 1998: 85). Mercosur's support for democracy as the legitimate system of rule and its encouragement to build citizenship and to respect human rights had a positive influence on democratization in Latin America. Mercosur was highly important in supporting Paraguay's transition to democracy (Motta Veiga 1992, Kaltenthaler and Mora 2002). Furthermore, integration in terms of cultural exchange was visible: while samba and capoeira schools flourished in Argentina, Spanish language classes became increasingly popular in Brazil. Mercosur member states also experienced an increase in tourism (Mahrukh 2012). Integration flourished during the golden years: what drove it? Through adopting inter-presidentialism and Mattli's demand-side theory, This paper undertakes an analysis of whether integration was a state-led or market-led process.

Mercosur's foundation was a political decision made by Argentina and Brazil, and therefore it started as a state-led project, relying on presidential diplomacy (Mecham 2003). In Latin America, presidents are expected to have centralized decision-making abilities, which were efficiently used in engaging with and promoting integration in Mercosur's founding years (Cheirub and Limongi 2000). President Sarney (1985~1990) and President Collor (1990~1992) of Brazil, and President Alfonsin (1983~1989) and President Menem (1989~1999) of Argentina, were key players in Mercosur's formation and integration process. They acknowledged and advocated for economic gains and political benefits in terms of regional peace and democratic stabilization that integration encompassed (Kaltenthaler and Mora 2002).

The political objectives of economic integration were to increase trust among the region's political leaders, to "lock in each government's liberalizing reform" and support one another's democratic transition (Mahrukh 2012). President Sarney of Brazil summarized his perspective as follows: We came to the conclusion that, isolated, our countries could never change the global order. "Together, however, we can greatly influence international decisions on questions that directly are of interest to us (Sarney 1986: 141, own translation)." "The Brazilian Minister of Foreign Affairs, Saraiva Guerreiro, further added that "in a world where we see an increase in regional integration blocs… it seems necessary that our subcontinent overcomes the difficulties and limitations we face… as a family" (Guerreiros 1979, own translation)." These affirmations by Sarney and his administration confirm the active leadership role played by state leaders in the formation of Mercosur, as well as the political benefits expected to be gained from integration.

Although it was President Sarney and his administration that initiated consultations on the formation of Mercosur, it was President Collor who brought the discussions that took place into being. President Collor visited Argentina, Uruguay, and Paraguay and met with the presidents of these countries during his first official foreign trip after being elected (1990). He reaffirmed Brazil's commitment to Mercosur:

> "I confirmed in these meetings that our relationships with each of these nations, and the nature of our connection and identity, that we share similar problems and hopes, we are part of the same family. I reaffirm the ideal of integration that will come through Latin American politics of my government. I understand that integration is a necessary step to modernize our economies and a relevant step to transform our position and role in the global scene" (Collor 1990, own translation).

The prominent position of state leaders, especially of Brazilian presidents, in the formation of Mercosur supports inter-presidentialism's argument that it was state leaders that formed Mercosur. In order to test Mattli's demand-side condition, the role of economic actors needs to be further evaluated. Mattli's demand-side condition argues that market-led conditions, especially previous economic interdependence, are key to ensuring successful integration. This argument disregards the agency of state leaders in driving integration, as well as the deeper and wider political and economic motives that can encourage regional integration. The declining and low levels of trade between Latin American countries prior to 1991 illustrates that there was very limited economic interdependence before the establishment of Mercosur. In 1986, for example, Latin American trade was extremely low, comprising around 1.5% of Argentina's GDP and 0.9% of Brazil's GDP (Hummel and Lohaus 2012). Prior to the formation of Mercosur, the region's share of world exports was around 3% (Mattli 1999:155). Table 1 highlights the low levels of intra-regional trade share amongst Mercosur members between 1980 and 1991. The share of intra-regional trade was on average 10% before Mercosur's formation, in comparison to the golden years where this average was around 25%. The low intra-regional trade between Mercosur members proves the low level of economic interdependence between countries in the region. This points to the inability of economic interdependence and market-led forces to have formed Mercosur: there were no economic spill-overs that would have demanded and encouraged further integration.

Table 1. Intra-regional trade share in Mercosur

Year	Intra-regional trade share (%)
1980	9.98
1981	8.57
1982	8.19
1983	6.78
1984	7.98
1985	7.17
1986	10.30
1987	9.00
1988	9.00
1989	10.95
1990	11.28
1991	13.18

Furthermore, according to an official at the Argentine Central Bank, it was "a political decision to integrate Mercosur countries" (Cason 2000). This is confirmed by the lack of participation of the private sector during the negotiations preceding the formation of Mercosur (Chudnovsky and Porta 1990). The "primary purpose of Mercosur was to increase its economic intercourse rather than administer its effects" (Bouzas and Soltz 2001). As articulated by President Sarney, integration in Mercosur was "born from a common political will, which then was translated into concrete initiatives" (Flores 2005: 85, own translation).

Mercosur's state-led formation was institutionalized, which helped to perpetuate the state-led integration process. In Chapter 1 of the Protocol of Ouro Preto, the structure and role of Mercosur's institutions are described. The highest decision-making body is the Council, which is constituted by the foreign and finance ministers of the member countries. The presidency of the Council is held by each country on a rotating six-month basis. The Council meets at least once every six months with all presidents present (Mercosur 1991). Mercosur's executive power and directorate is not held within the institutions formed, but with governments. This highlights states' unwillingness to cede autonomy to supranational institutions as well as the important role played by state leadership in shaping integration (Mattli 1999, Bouzas *et al.* 2002). This is in line with the theory of inter-presidentialism. President Sarney argued that "the biggest challenge to our history, and the goal that inspired our independence, is without doubt the creation of true autonomy for our countries, reducing external dependence, and making international relations a conscious option for our sovereignty" (Sarney 1986: 31~32, own translation).

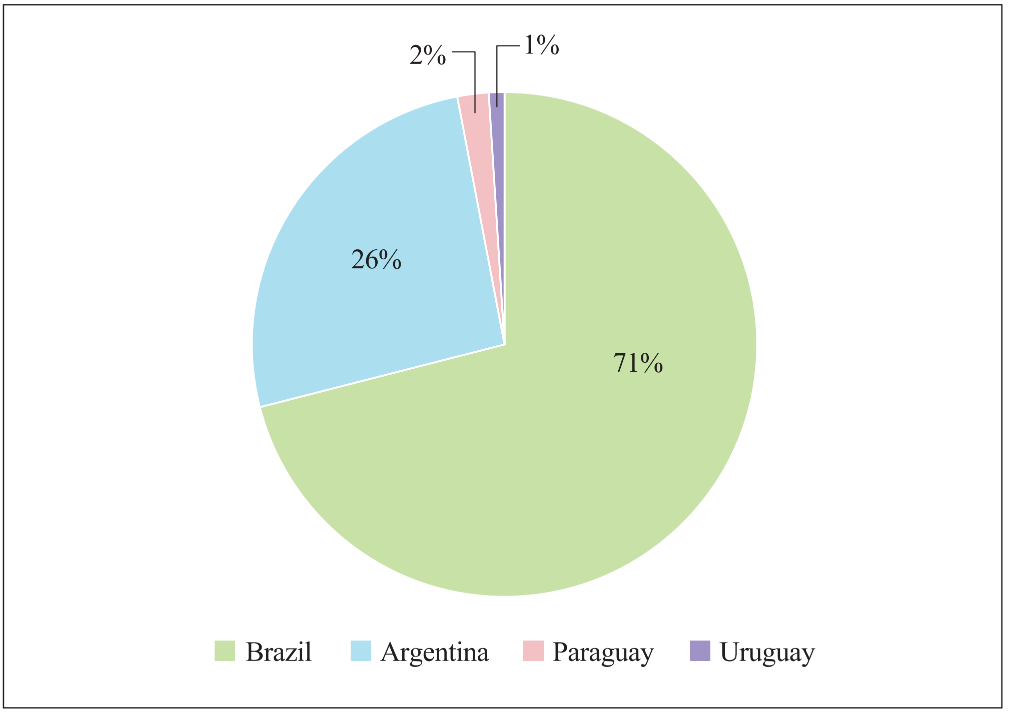
Since its formation, Mercosur has had a judicial structure with an acquis communautaire and a dispute-settlement mechanism to encourage arbitration through judicial, rather than diplomatic, means (Malamud and Castro 2007). Although the institutions are often in place, this does not necessarily translate to them being followed. For example, as Hummel and Lohaus argue, in theory, Mercosur produces binding law, but in practice, member states defect frequently (Hummel and Lohaus 2012). The majority of legislation passed by the regional bodies requires incorporation into the national legislation of all the member countries before it can be applied. This results in an implementation gap (Malamud 2008). The effectiveness of the implementation of trade policies and integration depends on diplomatic resources. Furthermore, there is also an over-reliance on national discretion when applying regulations (Malamud 2004, 2005a). The current dispute-settlement process has been used only 16 times in 20 years, and can only be used by states. This further highlights the leadership role of states in Mercosur rather than institutions or economic actors (Malamud 2013). There was the political will to engage in integration, and there was also the political will to ensure that states remained in control of the integration process. Therefore, inter-presidentialism is a more suitable theory to explain how Mercosur integration began and has been expanded. This stands in contrast with Mattli's argument that demand-side conditions are a necessary precondition for integration to deepen.

The notion of inter-presidentialism provides an explanation for Mercosur's state-led dynamic due to its emphasis on the role that state leadership plays in integration. According to inter-presidentialism, presidential diplomacy is the type of leadership that best explains leaders' ability to lead integration. Presidential diplomacy is regional leadership at a domestic level, by states through institutions. As already established,

states in Mercosur are the main leaders in decision making, implementation of regulation, and dispute settlement. State leadership can be exerted through institutions; it is a persistent feature of the regional bloc. Inter-presidentialism is able to explain that both Mercosur's formation, and its integration is led primarily by states rather than market-forces. However, inter-presidentialism fails to provide a deeper understanding of the nature of state leadership. It does not help to answer the question why state leaders engage in integration. This section seeks to delve deeper into the role that leadership plays in integration through adopting Mattli's supply-side condition of integration.

Mattli's supply-side condition for leaders in order for integration to succeed encompasses the following: the willingness of states to integrate and the presence of an uncontested leader who is willing and able to lead (Mattli 1999). Although Argentina, Paraguay, and Uruguay were founding members, their smaller economic size and lesser political weight weakened their ability to influence the direction of Mercosur's integration (Cason 2000, Mathias, Guzzi and Giannini 2008). Brazil had a privileged position as the dominant economy, holding around 71% of the share of Mercosur GDP, while Argentina held 26%, Uruguay 2%, and Paraguay 1%, as illustrated in Figure 4.

Figure 4. Share of Mercosur GDP



(Source) Author's figure using data from Genna and Hiroi (2007)

Brazil has often been described as a "natural leader" in South America; it was also the leading force that promoted Mercosur's formation (Russell and Tokatlian 2016). This is exemplified first in the role that Brazilian President Sarney played in the launch of Mercosur and the role that Brazilian President Cardoso played in the evolution of Mercosur (Genna and Hiroi 2007).

Brazil's leadership role is evaluated according to Mattli's supply-side conditions: as a leader willing and able to lead integration in Mercosur from 1991 to 1999. Leadership can be defined as the capacity to obtain and influence followers (Malamud 2008). Regional leadership in Mercosur would thus be the capacity of a state to lead the region and influence the integration process; a state's leadership in a presidential system of government is highly interlinked with state leaders. Mattli's theory argues that states are willing to integrate if their economy is struggling and if integration would increase their political power. Mattli (1991) predicts that leaders who value political autonomy and power are unlikely to deepen integration if their economies are relatively prosperous.

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This hypothesis is tested in relation to Brazil's role as a leader in Mercosur's integration.

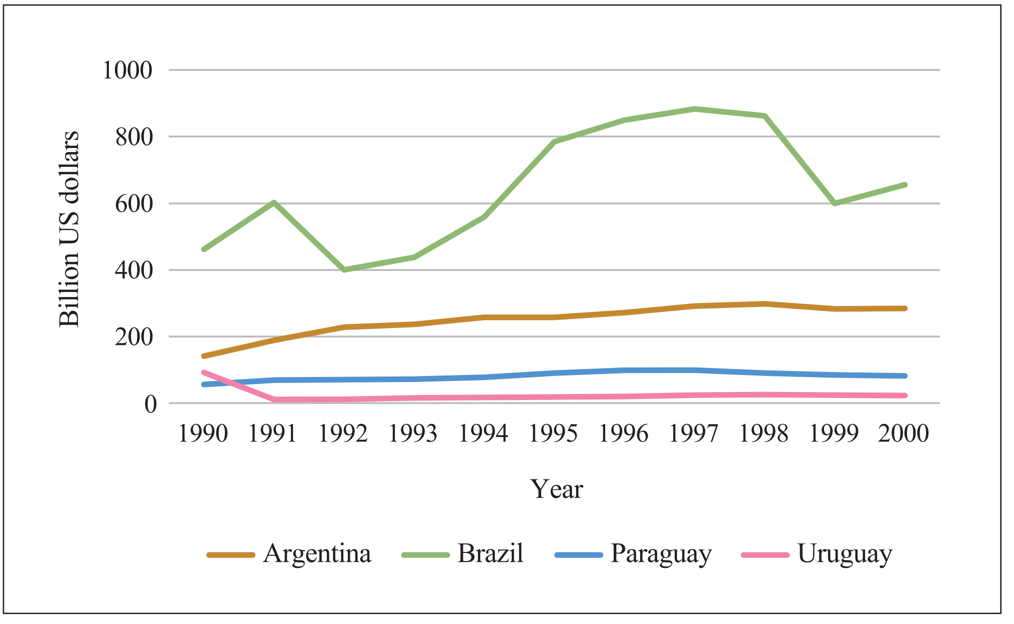
At the start of the 1990s, Brazil's economy was struggling through a period of contraction in trade and debt crisis (Castilho and Zignago 2002). Other members of Mercosur were also struggling economically, due to the debt crisis of the 1980s. Integration was perceived to be a means of solving the economic problems that South American countries faced at the time, ranging from slow economic growth to external debt and inflation (Cason 2000, Bouzas *et al.* 2002, Pecequilo and Carmo 2013). In addition, from 1986 to 1990, Brazil had the lowest intra-regional trade share in the bloc, with an average of 4.68%. By comparison, other members' intra-regional trade share was more than double that of Brazil's. The shares were as follows: 12.9% for Argentina, 40.34% for Paraguay, and 30.72% for Uruguay (Bouzas *et al*. 2002). Therefore, Brazil was the country with the highest potential for growth in intra-regional exports through furthering economic integration to the level of its regional neighbors. This opportunity to increase exports was embraced, and as Brazil engaged in increasing integration, intra-regional trade increased. From 1994 until around 1999, Brazil experienced a large expansion in total trade, with 8.9% average annual growth (Bouzas *et al.* 2002). Between 1991 and 1999 Brazil's intra-regional exports were double their percentage prior to Mercosur's formation, averaging 13.74%. Furthermore, Brazil also had the lowest intra-regional imports, averaging 7.3%, in 1988. Meanwhile, intra-regional imports were again much higher in other Mercosur member countries in 1988. The figures are as follows: 21.5% for Argentina, 42% for Paraguay, and 44% for Uruguay (Bouzas *et al.* 2002).

Brazil's low levels of intra-regional exports and imports highlighted the economic benefits Brazil could gain from integration, namely, better access to the markets of the other Mercosur member countries. Integration provided Brazil with the opportunities needed to expand its own markets within the region, by increasing regional exports and imports with less restrictive trade barriers (i.e., lower prices). President Sarney emphasized that the project of integration would create reciprocal economic gains and further economic initiatives and opportunities (Sarney 1986). Brazilian willingness to integrate was contingent on the economic benefits that integration posed, and its willingness tended to wane if trade policies or other integration projects were not economically profitable. This is illustrated by the fact that Brazil placed a 35% maximum external tariff on certain products, like electronics, motor vehicles, and chemicals, because Brazil defined them as "sensitive" products. This tariff rate was imposed despite other members desiring reduced tariffs (Pecequilo and Carmo 2013). As Vidigal (2012) concludes, it was an economic and financial difficulty faced by Brazil in particular that encouraged integration in Latin America. This supports Mattli's theory that state leaders with vulnerable economies will engage in integration to enhance economic gains.

Brazil's willingness to integrate was also influenced by national political interests, as it is presidential state leaders that control integration. Malamud (2013) argues that the integration project was mainly a political project for Brazil's national autonomy and international strategy. This supports Mattli's theory that leaders will engage in integration if it increases their chances of retaining power (Mattli 1999). Kaltenthaler and Mora (2002) argue that one of the main motivations for integration was to diminish the security dilemma between Argentina and Brazil. By increasing economic integration and interdependence, regional rivalry and distrust could be eradicated. The prospect of political peace in the region that integration posed encouraged Brazil to promote this project (Cason 2000). Politically, Brazil and many Latin American states were struggling due to a wave of democratization (Katenthaler and Mora 2002). President Collor of Brazil described this socio-political integration as follows: "There were ambitious goals established, these were rewarded and needed to overcome old rivalries; we must note that a peaceful zone was created that will not be eliminated because of this social integration" (Collor 2011, own translation). Political peace meant that democracy could be strengthened in Latin America. This political motivation and the potential for increased economic gains influenced Brazil's willingness to integrate through Mercosur.

Brazil's ability to be the leader encompasses an economic (paymastering) and political (benevolent and undisputed) dimension. Brazil's economic power is demonstrated by its large and profitable domestic market. Brazil's exports to Mercosur countries grew at an average of 37% per year during the golden years (Kaltenthaler and Mora 2002). In addition, Brazil had the highest GDP in Mercosur, as illustrated by Figure 5, and its GDP remained the highest throughout 1990~1999. At the formation of Mercosur, Brazil's GDP was around 400 billion US dollars, while the other member states' GDPs were as follows: Argentina, 140 billion US dollars; Uruguay, 9 billion US dollars; and Paraguay, 5.5 billion US dollars. Brazil had the ability to act as regional paymaster. Such high growth rates highlight the increasing importance of the Brazilian market and the increasing dependence of the other Mercosur countries on Brazil's economy.

Figure 5. GDP



(Source) Author's calculations using data from the World Bank (2016)

Politically, Brazil also had the ability to lead. Due to the inter-presidential style of integration it was able to use diplomatic means, which, combined with its economic capacity, allowed it to influence states to follow their process of integration. Mercosur members saw Brazil as a benevolent leader that emerged without any evident opposition. Brazil's commitment to the integration process, was highlighted by Presidents Sarney and Collor. For example, President Collor stated that "in my first trip as president, I traveled to our neighboring and friendly countries in the Southern Cone. I maintained honest and useful talks with each respective president" (Collor 1990, own translation). Throughout President Sarney's and President Collor's official presidential visits to Brazil's neighboring countries, their diplomatic language emphasized the mutual economic, political and social benefits that integration would encompass. This allowed Brazil to be perceived as a benevolent and uncontested leader.

Although Mercosur members saw Brazil as a benevolent leader, this does not describe all of Brazil's leadership techniques. Mercosur's highly diplomatic decision-making and conflict-resolution approach allowed Brazil to diplomatically dictate much integration and policy (Taylor 1997). Brazil was thus able to lead integration in the direction that best suited its economic and political goals. As the dependence on and the economic power of Brazilian markets increased during Mercosur's formation and the golden years, Mercosur members accommodated Brazil's needs, even if they disagreed with the direction of integration. Cason calls Brazil's economic leadership a "*modus operandi* of shooting first and asking questions later" (Cason 2000:29). Brazil used its economic might in the region as a political tool for gaining influence. As integration increased in Mercosur, Brazil's role in setting limits on imports, exports, and the introduction of nontariff barriers without consulting Mercosur countries was rapidly noted (Cason 2000).

Mercosur's formation and institutional structure between 1991 and 1999 support the argument of inter-presidentialism for a state-led integration process, rather than Mattli's demand-side condition. Brazil's economy was struggling and its democracy was consolidating. Brazil was thus willing to lead and to reap the economic and political benefits of increased integration. However, by the late 1990s, as integration began to stagnate, Brazil's GDP continued to increase (Castilho and Zignago 2002). The following section adopts Mattli's supply-side condition to analyze whether the integration of Mercosur stagnated as Brazil's economy prospered.

IV. Dusk of Integration

In the post-1999 era, government leaders continued to emphasize the will to integrate. These diplomatic statements, however, were not translated into action, and integration stalled. This section argues that inter-presidentialism remained a constant feature of Mercosur, and inter-presidentialism and Mattli's supply-side condition should continue to be adopted as a framework for the analysis of the conditions under which Mercosur integrated.

Mercosur's regional integration in the 2000s came to be described as mere "ceremonial regionalism," "token integration," and "integration fiction" (Malamud 2013:17). Social, political, and economic integration was not deepened in the post-1999 era; instead, the already-established level of integration persisted. Social integration, in the form of cultural exchange, tourism, and language classes, continued between Mercosur members (Mahrukh 2012). Political integration continued to promote regional peace and democracy. An Argentinian diplomat said, "the most relevant accomplishment of the integration process has been the opening up of the nuclear programs" (Malamud 2005a: 426). The previously antagonistic relationship between Argentina and Brazil had been transformed into cooperation. The democratic umbrella established during the golden years was also maintained. For example, in 2004 Mercosur member-states cooperated to find a political solution to Bolivia's internal political crisis. This cooperation has been regarded as a positive influence on Bolivia regaining stability (Malamud 2005a). The failure of political and social integration to deepen is highlighted by the limited mention and recognition of Mercosur throughout the member countries. Mercosur flags and their associated symbols are rarely used within countries, and the awareness of Mercosur's achievements largely remains limited to the diplomatic arena (Malamud 2005a). Although in 2012 Venezuela completed its accession process to Mercosur (Mercosur 2015), the regional bloc still remains restricted in the number of member states, failing to attract more South American members and thus constraining the potential political and economic influence of the bloc.

The stagnation and decline of integration is most visible in Mercosur's economic sector. Mercosur integration has not gone beyond trade liberalization (Malamud 2005a). Bouzas *et al.* (2002) described the current situation regarding Mercosur integration as an imperfect or incomplete free trade area. Total trade between Mercosur members decreased consistently after 1999, declining from 25% in 1998 to around 10% in 2012 (Molteni *et al.* 2011). Mercosur members' trade *vis-à-vis* the rest of the world was 5.5 times greater than intra-bloc trade in 2005, highlighting the fall of interdependence and regional trade as countries focused their efforts internationally (Malamud 2008). In addition, the goal of creating a common market by 2006 was continually postponed and has still not materialized. This highlights the stagnancy of the integration process (Mahrukh 2012). For Brazil and other Mercosur members such as Uruguay, trade with Mercosur members has decreased, and currently is at the same level as it was prior to the formation of Mercosur in 1991 (Malamud 2008). Reges Arslanian, ambassador of Brazil to Mercosur, stated that "25 years later this bloc is living through the worst moment of its history" (Arslanian 2015, own translation). Integration did not deepen beyond the level found in the golden years; there were no spillovers into more integration. Three possible reasons for Mercosur's failure to deepen integration are evaluated in this section: weak institutions, economic crisis, and state leadership.

As integration decreased after 1999, Mercosur's stagnation may have been a result of the lack of institutional development. Although institutions can play a significant role in facilitating integration, this was not the case in Mercosur. Inter-presidentialism remained a vital feature of the integration process. The state-led dimension of integration was institutionalized; states remained the main actors in directing integration within the regional bloc. Furthermore, the same institutions were in place both throughout the 1990s when integration flourished and after 1999 when integration deteriorated. Mercosur institutions continued to hold little autonomy over much of the integration process, throughout both the golden years and the post-1999 era.

The maintenance of the same institutions, despite changing integration levels, demonstrates that institutions lack the ability to shape integration in Mercosur (Pedersen 2002, Best 2005). Between 1998 and 2003, for example, only 9 of the 201 cases filed for dispute settlement in Mercosur were solved through Mercosur-institutionalized mechanisms. The others were solved through diplomatic means (Hummel and Lohaus 2012). As Veiga explains, institutions do not work in a "political vacuum" and Mercosur's problems are the result of structural characteristics and the "nature of the member countries'… political commitment to integration" (Veiga 2004:10). Keeping institutions weak facilitated the bargaining power of Brazil in shaping integration based on national preferences. It was Brazil's preference to "leave Mercosur in a state of latent institutionalization" and thereby to provide Brazil with more executive control and autonomy in shaping the degree of integration (Hummel and Lohaus 2012).

The economic crises in Brazil and Argentina from 1999 to 2001 have been cited as a reason for Mercosur's stagnant integration (Bulmer-Thomas 1999, Gomez Mera 2005, Carranza 2006). These crises are another example of how states are the main leaders in the process of integration in Mercosur. In 1999 Brazil devalued its own currency, the real, and this resulted in cheaper Brazilian exports in regional and international markets. This devaluation was crucial for quick economic recovery in Brazil, while it was a "disaster for Argentina and the beginning of the Argentinian crisis" (Bouzas *et al.* 2002:20). In addition to Brazil's financial crisis, the Asian and Russian financial crises of the late 1990s also played a role in influencing and worsening Argentina's economic crisis (Cibils *et al.* 2002). Argentinian exports became relatively more expensive and quickly declined. This led to Argentina becoming highly indebted and interest rates increasing the debt, and this created a debt spiral (Krapohl 2010). In 2001, Argentina declared insolvency (Krapohl 2010). Between 1999 and 2001 inflows of Foreign Direct Investment (FDI) to Mercosur members decreased from more than 20 billion US dollars in 1999 to around 1 billion US dollars.

Throughout the economic crisis, Mercosur member governments worked together to overcome the negative influence that the crisis had on trade and integration (Bouzas *et al.* 2002, Saraiva 2010). Brazil's role as a leader, willing and able to lead, was key in shaping integration throughout this period. Brazil's weak economy, coupled with the opportunity to improve economic conditions by means of integration, increased its willingness to lead integration. Brazil's ability to lead was demonstrated by its engagement in financing Mercosur projects, including the creation of new transport routes and the creation of the Initiative for the Integration of the Regional Infrastructure of South-America in 2000, which was funded by Brazil's National Bank of Economic and Social Development (Saraiva 2010). For Brazil, investing in infrastructure in the region was a means to increase FDI and to improve economic conditions. Additionally, what the Brazilian government did not do during this crisis is of significance, and exemplifies Brazil's willingness and ability to integrate. Brazil could have abandoned Mercosur's common external tariffs with Argentina, thus opening up the possibility for Brazilian buyers to purchase relatively inexpensive Canadian, rather than Argentinian, products (Genna and Hiroi 2007). In the case of the overvalued Argentinian wheat this would have saved Brazilian buyers 50 US dollars per metric ton (Genna and Hiroi 2007). It is especially noteworthy that Brazilians continued to purchase Argentinian products, while Argentinian buyers were switching from consuming Brazilian milk products to consuming relatively inexpensive Chinese and Southeast Asian products. This, as Genna and Hiroi (2007) argued, resulted in an increase in the Brazilian trade deficit with Argentina and a decrease in trade flows between Argentina and Brazil. This currency crisis forced Brazil to make a critical decision, one which involved a continued commitment to integration (Bouzas *et al.* 2002, Gomez Mera 2005, Mahrukh 2012).

Inter-presidentialism continued to shape and explain relations within Mercosur. It was not institutions or the economic crisis which shaped integration but state leaders. This political commitment can be the consequence of a weakening economy and a quest for more political power. Although the 1999~2001 crisis created the re-launching of Mercosur integration, as some term it, it failed to create momentum. "It did not go beyond a list of unfinished business and good intentions" (Veiga 2004:3). Mattli's supply-side condition will be tested in the following. As illustrated earlier, the supply-side condition is the hypothesis that leaders will only integrate if the cost of integration, in terms of loss of sovereignty, does not outweigh the economic benefits of integration (Mattli 1999).

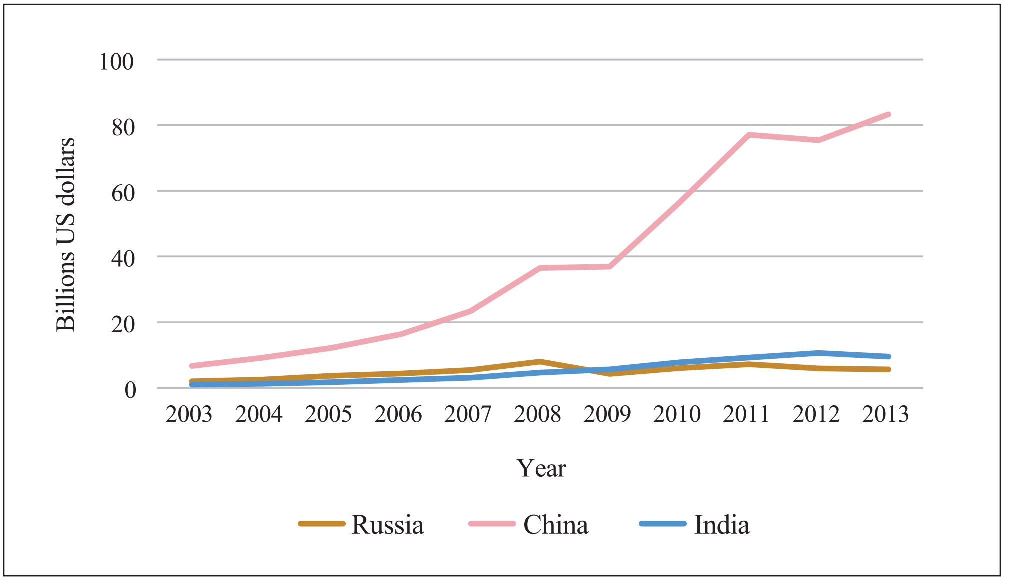
Brazil's political commitment to regional integration shifted as it began to be more economically prosperous and to view itself as a global trader, no longer bound to the regional markets of Mercosur. As Brazil's commitment to regional integration declined, so did its willingness and ability to engage in regional integration. However, in the political realm, discourse continued to focus on the benefits of the integration of Mercosur and the need to increase it. As Malamud and Castro note, although there is political discourse of strengthening Mercosur, "no national government has signaled a credible intention to relinquish power to a supranational body" (Malamud and Castro 2007:123). Reges Arslanian, the ambassador of Brazil to Mercosur, further highlighted that Brazil was aware of the weight of its actions in shaping integration. In a conference regarding Mercosur's failure to increase integration in recent times, Arslanian stated: "Mercosur is currently experiencing the worst moment in its history, it is Brazil's role to adopt a firmer position within the group in increasing negotiations" (Arslanian 2015, own translation).

In the years after 1999, Brazil's willingness to lead drastically changed. At the heart of this integration dilemma was autonomy. Brazil was unwilling to increase and deepen integration through a supra-national institution, such as Mercosur, due to a reluctance to cede autonomy (Kaltenthaler and Mora 2002). Malamud (2010a) described Latin American integration as "always protective of sovereignty rather than sharing" sovereignty. Brazil's president at the time, Lula da Silva, said in a speech to Argentinian and Brazilian business leaders, "sovereignty is untouchable" (Alexandre de Gusmão Foundation, FUNAG 2008). For Brazil, sovereignty and economic growth were key national goals. Through increasing international and regional trade, Brazil was able to sustain high growth rates. In the early 2000s Brazil began to be classified as an emerging economy (O'Neil 2001). By 2010 it was the 7th largest economy in the world, compared with the 1980s, when it was only the 17th largest economy (Price Waterhouse Coopers, PWC 2015). As its economy improved, so did its international power, and its focus shifted away from regional integration. This supports Mattli's argument for the supply-side condition, that leaders will not be willing or encouraged to deepen integration if their economies are prosperous: the cost of losing sovereignty becomes larger than the economic and political benefits integration would bring (Mattli 1999).

For Brazil, Mercosur integration was crucial in the 1990s in order to enable it to be a regional leader and to improve its economic situation. As Brazil began to be considered the voice of Mercosur and Latin America, its leadership role became recognized by actors in the international sphere, such as the EU and the US. In the early 2000s, Brazil came to be seen as an emerging economy along with China, India, and Russia, as the famous acronym BRIC highlights (O'Neil 2001). When the political, economic, and regional dimensions of Brazil's leadership improved, Brazil's focus shifted and its share of exports to Mercosur decreased from 17% in 1998 to a mere 5% in 2002 (Mahrukh 2012). As Brazil adopted policies of trade diversification in situations where multilateralism became more beneficial than regional trade, Mercosur integration stagnated. While other Mercosur member countries continued to export heavily to regional markets in the early 2000s, most of Brazil's export destinations shifted to outside the regional bloc. Through membership in BRIC, Brazil was able to focus on increasing the more prosperous bilateral trade with Asia. Brazil's shift can be explained by the large and emerging potential markets for its products, such as those of India and China. These markets allowed for more economic gains than regional Mercosur markets (Molteni *et al.* 2011). Rubens Barbosa, foreign trade minister for Brazil, argued that "Today Brazil's main trade partner, our main trade region is Asia, through the Atlantic Ocean, not the Pacific" (Barbosa 2015, own translation). Brazil's willingness to integrate and lead integration was thus contingent on its economy's prosperity and on the potential prosperity that integration could bring.

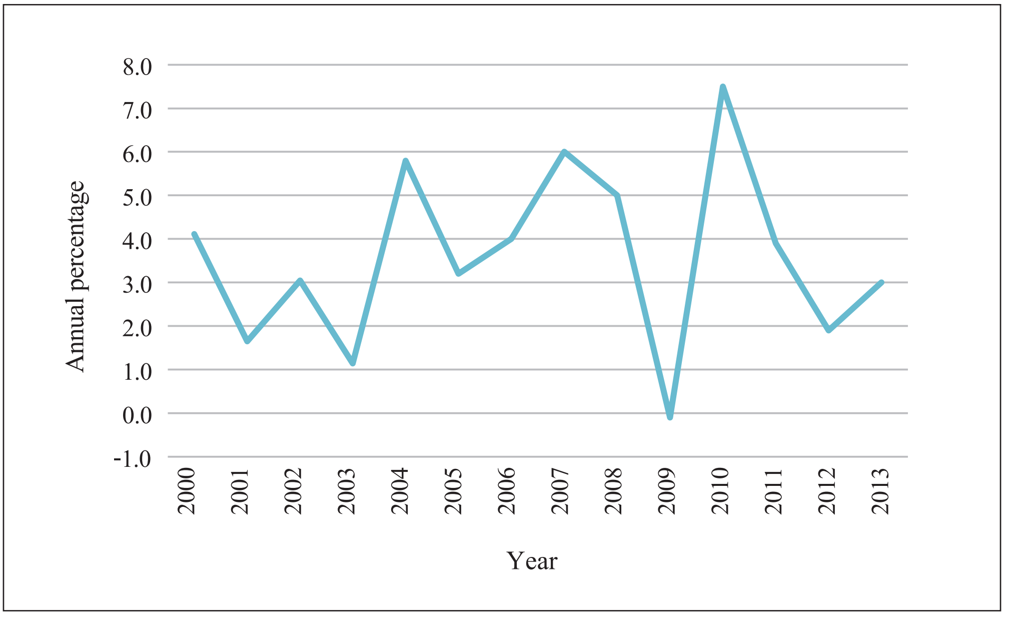
Diversification to international markets was achieved through Brazil increasing its trade with China, India, and Russia, as illustrated in Figure 6. During the time of increased BRIC trade, Brazil also experienced economic growth. This economic growth is highlighted in Figure 7, through the increase in Brazil's GDP growth. Such economic gains thus provided an alternative to regional integration and the potential loss of national autonomy to supranational institutions. Leaders in a democracy rely on public support in order to stay in power, the cost of losing voters and sovereignty are both weighed against increasing integration (Preusse 2000). Brazil attempted to exert greater political influence internationally by focusing on the promotion of democratic values, human rights, and diplomatic peace on a regional level (Saraiva and Valenca 2012). As President Lula da Silva said in his first presidential speech, the main objective for Brazil is to become a "sovereign and worthy nation, aware of its own weight in the international scene, which will broaden its horizon" (Silva 2003, own translation). Willingness to integrate was stalled as Brazil's economy improved, autonomy was protected, and a more international focus seemed to match Brazil's national goals.

Figure 6. Brazil-BRIC trade



(Source) Author's calculations using data from the Americas Society/ Council of the Americas (2016)

Figure 7. Brazil GDP growth



(Source) Author's calculations using data from the World Bank (2016)

In addition, the creation of the Union of South American Nations (UNASUL) in 2008 was intended to expand Brazil's leadership role without forcing it to forfeit autonomy to a supranational institution (Saraiva 2010). Gratius and Saraiva (2013) argue that both Mercosur and UNASUL became major platforms for Brazil's regional strategy and ambitions. The choice to become a global player was Brazil's. It influenced its willingness to shift focus from a regional to a more international leadership, beyond Mercosur. As Amorim, Brazil's Minister of External Relations during Lula da Silva's term as president, claimed, "Brazil's foreign relations should not be confined to one region, or restricted by one dimension. Brazil can contribute to the construction of one peaceful world order… built on principles of multilateralism… Brazil can act, without inhibitions, in various international, regional, and global forums" (Amorim 2003, own translation).

The international context and the strategic vision of becoming a global leader were always part of Brazil's willingness to integrate through Mercosur. As this became easier to be achieved through means outside of Mercosur, Brazil's willingness to integrate into this regional bloc stalled. In an interview regarding Mercosur's stagnant integration, a Brazilian foreign minister said, "in reality there needs to be a desire to change, and I don't think, through what I gathered from my meetings with foreign ministers, that there is a sincere will to change the current situation… there is an inertia" (Barbosa 2015, own translation). Regional leadership, for Brazil, was a stepping-stone to international leadership, and the gains from regional trade and integration were exploited and projected into international markets. Through this approach Brazil was able to preserve its sovereignty untouched (Preusse 2000, 2004). "Saraiva stresses that Brazil's goal was "to build up regional leadership and be seen as a global power" and its status as a regional leader was instrumental in increasing bargaining power and strengthening its presence in the World Trade Organization, the United Nations and other international forums (Saraiva 2010, own translation)." Brazil's willingness thus, again, supports Mattli's (1999) theory that leaders with a prosperous economy will be less likely to lead integration. As willingness decreased, did Brazil's ability to lead remain in place?

In addition to willingness, the leader needs to possess the ability to lead integration. The ability to lead is contingent on the ability to be a benevolent, uncontested leader and to be the paymaster. As Brazil's prominence grew both in terms of international trade and in terms of being a global player, asymmetries within the bloc increased as other Mercosur members remained relatively less prosperous. Molteni *et al.* describes how the smaller members, especially Uruguay and Paraguay, "questioned and rejected Brazil's leadership, which sought to promote trade without assuming the economic costs of creating supranational bodies and without creating the necessary mechanisms to correct these asymmetries" (Molteni *et al.* 2011:65). Mercosur members began to question whether they were "piggy-backing on Brazil's influence" and whether Brazil was using Mercosur for self-interest (Mahrukh 2012:7). Mercosur members stopped perceiving Brazil as a benevolent leader, and thus its leadership ability was contested.

Furthermore, as Brazil's leadership role became internationally recognized, previous historical rivalries between Mercosur members and Brazil, especially between Argentina and Brazil, were re-ignited. Integration, initially, sought to ameliorate these rivalries. However, as asymmetries increased both economically and in terms of international political power, Brazil lost its ability to lead (Amorim 2003). Frictions were thus created between Mercosur member states, as they were no longer willing to follow Brazil. This in turn, reduced Brazil's ability to lead integration. This resulted in Brazil becoming what Malamud (2011) termed a "leader without followers," as Mercosur members refused to recognize and follow Brazil's leadership.

Brazil continued to be the largest economy in Mercosur and Latin America, the largest country territorially and in terms of population size. Brazil therefore appeared to be the natural regional paymaster (Malamud 2008). However, Brazil's rates of inequality and poverty continued to be among the highest in Latin America. Because Lula da Silva was engaging in pro-poor policies within the country, investing abroad was no longer a viable option (Malamud 2008). As Brazil increased funding for national welfare programs, it became harder for Brazil's leaders to justify spending on regional development and integration, and thus to act as paymaster. Brazil founded Mercosur Structural Convergence Fund in 2008 as a redistributive fund with around 60 million US dollars. While this sum was large, it only accounted for 0.007% of Brazil's GNI (Malamud 2008, Saraiva 2010, Mercosur 2016). Brazil's ability to be the paymaster was reduced in the years after 1999. Burges (2006) described Brazil's ability to lead as "without sticks or carrots," no followers and no monetary ability to lead. Brazil's loss of ability to lead coincided with its loss of willingness. This led to stagnant, and even failing, regional integration.

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V. Conclusion

Mercosur's achievements and failures over the past 25 years have been incredibly diverse, ranging from a successful regional bloc to a failing project. Through applying inter-presidentialism and the supply-side condition for regional integration, this paper has found that leadership by member states played a vital role in shaping Mercosur integration. Mercosur's formation and institutional structure throughout 1991 to 1999 support inter-presidentialism's argument of state-led integration, rather than Mattli's argument for the demand-side condition. In addition, as institutions were formed, the state-led feature of integration in Mercosur was institutionalized and continued to shape the direction of Mercosur integration. This paper sought to prove that demand-side conditions, such as economic interdependence, are not necessarily required for regional integration to flourish. The lack of interdependence between Mercosur members, prior to the formation of this regional bloc, is an example of successful regional integration despite a lack of initial interdependence.

In the case of a regional bloc where presidential power is dominant, having a leader who is willing and able to lead ensures success in integration; thus, this supports Mattli's supply-side condition. In the 1990s, Brazil's weak economy and desire to strengthen democracy nationally and in the region encouraged the creation and expansion of Mercosur. As the economy improved and democracy strengthened, Brazil shifted its focus to international markets, which offered more promising economic and political gains for its economy. The willingness to lead diminished as Brazil became more economically successful and integration stagnated. This supports Mattli's (1999) hypothesis that state leaders who value autonomy and sovereignty are unwilling to cede these powers unless the benefits outweigh the loss of autonomy incurred. Furthermore, Brazil's shift to international markets and its improving economy created tensions and increased asymmetries within the regional bloc. This hampered Brazil's ability to lead and additionally stagnated integration. This paper further developed Mattli's ability conditions, arguing that it is not required that the leader be benevolent in its intentions, solely that it is perceived as benevolent by those it seeks to lead. Table 2 summarizes these findings.

Table 2. Historical development of Mercosur

Year	1991	1991~1999	1999~2000	2000~Present
Event	Formation of Mercosur	Mercosur 'Golden Years'	Argentinian Economic Crisis	Stagnation of Mercosur
Summary	In 1991 Argentina, Brazil, Paraguay and Uruguay signed the Tratado de Asuncion, thus founding Mercosur	Mercosur experienced economic, political, and social integration	The 1999 to 2001 economic crisis in Brazil and Argentina.	Economic, political and social integration stalled significantly in this period.
Brazil's economy	1990s Brazil's economy was struggling through a period of contraction in trade and debt crisis.	1990s Brazil's economy continued to struggle.	Brazil had a weak economy	Economic conditions improved, Brazil in early 2000s was the 7th largest economy in the world, classified as an emerging economy.
Brazil's leadership: willingness	Brazil's low levels of intra-regional exports and imports highlighted the economic benefits Brazil could gain from integration, namely, the better access to the markets, of the other Mercosur member countries. Integration provided Brazil with the opportunities needed to expand its own markets within the region, by increasing regional exports and imports with less restrictive trade barriers.	Willingness of President Sarney and Color of Brazil, was based on the potential economic growth, political stability, and regional peace that Mercosur could provide. Willingness tended to wane if trade policies or other integration projects were not economically profitable, thus was based on national political interests.	Brazil's ability to lead was demonstrated by its engagement in financing Mercosur projects. For Brazil, investing in infrastructure in the region was a means to increase Foreign Direct Investment and to improve economic conditions.	Brazil's political commitment to regional integration shifted as it began to be more economically prosperous and view itself as a global trader, no longer bound to the regional markets of Mercosur. Brazil became unwilling to increase and deepen integration through a supra-national institution, such as Mercosur, due to a reluctance to cede autonomy.

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Year	1991	1991~1999	1999~2000	2000~Present
Brazil's leadership: ability		Brazil's ability to be the leader encompasses: 1. An economic (paymastering)Brazil had a privileged position as the dominant economy. 2. A political (benevolent and undisputed leader) dimension such as diplomatic means which allowed it to influence states to follow their integration process, Mercosur members saw Brazil as a benevolent leader that emerged without any evident opposition.	Brazil's ability to lead continued from the Golden Years throughout this period.	
Impact of Brazilian leadership: In Brazil		Brazil was able to lead integration in the direction that best suited its economic and political goals. As the dependence on and the economic power of Brazilian markets increased, Mercosur members would accommodate Brazil's needs, even if they disagreed with the direction of integration. In Brazil GDP per capita increased from 7900 US dollars in 1990 to over 8500 US dollars in late 1990s.	Brazil's role as a leader, will ing and able to lead, was key in shaping integration throughout this period and resulted in a relaunching of integration in Mercosur.	When Brazil's political, economic and regional dimension of its leadership improved, Brazil's focus shifted and its share of exports to Mercosur decreased from 17% in 1998 to a mere 5% in 2002, Brazilian exports shifted to outside the regional bloc. Mercosur integration stagnated. Brazil experienced high economic growth and GDP growth.
Impact of Brazilian leadership: In Mercosur		Increase in intra-regional trade share between Mercosur members. The previous antagonistic relationship between Argentina and Brazil had been transformed into cooperation. There was an increase in social integration, in the form of cultural exchange, tourism, and language classes. Political integration promoted regional peace and democracy.	Mercosur remained an integration bloc and integration was deepened.	Although Brazil increased tradre with countries outside Mercosur, Mercosur member countries continued to export heavily to regional markets. Mercosur integration both in terms of deepening and broadening stalled.

(Source) Author's calculations using data from the paper (2016).

In conclusion, there are two features that best explain Mercosur's regional integration: the state-led nature of the integration process as explained by inter-presidentialism and the importance of supply-side conditions. Inter-presidentialism merely describes what directs integration. The supply-side conditions argument seeks to describe the conditions under which integration flourishes and provides a deeper understanding by answering the question why leaders are willing to engage in integration. The supply-side condition requires two conditions to be fulfilled: (i) the willingness of the state leader to integrate as a consequence of the perceived economic, political, and social benefits of integration; (ii) the ability of the state leader to lead as a consequence of the country's monetary ability to act as the paymaster, of being a country which is an uncontested leader, and of the country's perceived image as a benevolent leader.

Thus, this paper suggests that a new and more flexible theory can be developed to explain regional integration where previous initial economic interdependence was not present. This new theory would combine inter-presidentialism and Mattli's supply-side condition, while rejecting Mattli's demand-side condition as a requisite for regional integration. This new theory would to argue, as in Malamud (2003), that in the case of integration blocs where states have presidential democratic institutions, the main actors in shaping integration can be called inter-presidential. For integration to deepen under such circumstances, Mattli's (1999) supply-side conditions needs to be met.

The individual influence that different governmental administrations, in Brazil or any other Mercosur member, have on integration lies outside of the scope of this paper. The agenda and political and economic ideology of individual presidents regarding regional integration can be analyzed in order to evaluate the influence these factors have on integration. While such an analysis was not incorporated into this paper, I would like to refer the reader to the rich academic literature on these issues Kaltenthaler *et al.* 2002, Saraiva 2010, Mahrukh 2012, Pecequilo and Carmo 2013.

Furthermore, the role that international crises and pressures could play in regional integration is also outside of the scope of this analysis. This could be an area for further research. Cason (2000) argued that the end of the Cold War began a period where protectionism decreased and economies liberalized. This had a significant influence in encouraging integration across different regions in the world. Other important international events whose influence on regional integration might be worth analyzing are: the 2008~2009 economic crises; the recent Petrobras Scandal; Brazil's current economic downturn; and the impeachment of Brazil's president, Dilma Rousseff. These events are possible areas for further analysis that could provide an interesting perspective on the importance of a regional leader who is able and willing to integrate (Costas 2014, Cavalheiro 2016). This paper has focused on the soft power that leaders have in increasing their ability to act as a regional leader, through being the paymaster and influencing others to follow them. Further research could explore the role that coercive, hard-power factors played in Brazil's ability to deepen integration in the initial golden years of integration. This is especially interesting in light of the debate on whether economic factors are to be classified as hard or soft power (Mattli 1999). In this case, for Mercosur to continue to deepen its integration there needs to be a reawakening of the willingness and ability of Brazil, or another uncontested leader, to provide constructive regional leadership.

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