

THE POLITICAL ECONOMY OF ARGENTINA-BRAZIL RELATIONS (1977-2013): HYPER-PRESIDENTIALISM AND BILATERAL COOPERATION

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Abstract

This paper proposes a different understanding of cooperation between Argentina and Brazil. It draws attention to the role of the president in the management of the bilateral relation and highlights that only strong presidents were capable of improving the relation – furthering cooperation or even economic integration – by imposing their will to opposing coalitions. On the contrary, weaker presidents could not advance cooperation any further and, on certain occasions, were prone to conflict. A comparative analysis of the most important bilateral negotiations regarding integration is developed, which focuses on three important negotiations that considerably improved these countries relation in 1980, 1986 and 1991, and one context of conflict in 1999-2001.

Introduction

This article discusses a complex and relevant problem in South American international politics that has remained unanswered for decades and yet contains the key for the understanding of many current developments in the region.

During the last thirty years, South America has become a unipolar region (Actis & Schenoni, 2014) and a pacific one, despite Brazilian primacy and evident regional unbalance. Among other factors, the stability of the regional structure became possible because of the changes in South American foreign policies and particularly that of Argentina, once a pole of a bipolar region. However, the reasons why Argentina has underbalanced and cooperated with a rising Brazil are not yet clear.

Lots of studies have been developed trying to explain the reasons accounting for the formation of this South American axis in the 80s. This literature expanded in the 90s, with the creation of the Common Market of the South (Mercosur). However, no hypothesis was successful in explaining the rapprochement. In the case of Argentina-Brazil bilateral relations, international institutions, interdependence, regime type, domestic interest groups and systemic constraints (Cfr. Keohane, 1990; Haas, 1964; Moravcsik, 1998) explain very little about bilateral cooperation and economic integration.

Analyzing the creation of Mercosur, Andrés Malamud (2005) has noticed that contrary to neofunctionalist expectations, the presidents have been a central actor in the domestic realm, leading to cooperation and integration. This paper advances in the way proposed by Malamud, stating that the president was not only the main actor in this process but power concentration in the president was a condition for the rapprochement which, in the case of Argentina, needed

a strong Executive to impose cooperative behavior on the military, bureaucrats and interest groups.

In the following pages, this paper develops a brief story of the four most important negotiations in Argentina-Brazil bilateral relations, followed by a brief description of how the Argentine president was concentrating power in the domestic realm – therefore leading to cooperative results in 1980, 1986 and 1991 – or losing it – leading to crisis in 1999.

The first bargain: settling the nuclear rivalry

Rapprochement under the authoritarian regime

Cooperative behavior between Argentina and Brazil started under authoritarian rule, while a series of treaties put an end to the crisis caused by the construction of the Itaipú dam. For this purpose, five meetings between foreign ministers of Argentina, Brazil and Paraguay took place between 1977 and 1978. These negotiations ended with the signature of the Acuerdo

Multilateral de Corpus-Itaipú – also known as the Tripartite Agreement –, which settled the dispute on the 17th October 1979.

During 1980, both de facto presidents, José Baptista Figueiredo and Jorge Rafael Videla visited each other. Under the New Dialogue motto, the exchange of visits reflected the rapprochement between Argentina and Brazil after a historical wary rivalry. Moreover, they intended to plant the seeds for future integration.

Old and new issues were brought to the table. The main subject at stake was nuclear policies, but talks also included topics on commerce and cooperative defense on the South Atlantic (Escudé & Cisneros, 2000: 312). In a joint declaration issued in May, Brazil finally gave clearer signs regarding its positioning in relation to the Malvinas conflict, showing a nuanced sympathy in relation to Buenos Aires.

At the end, these meetings rendered eleven protocols regarding mutual cooperation for the development of missile, aeronautic and nuclear technology. The agreements were signed at the Casa Rosada on the 17th May 1980. Even if no substantial compromises were reached in the commercial realm, during 1980 alone Argentina and Brazil signed thirty-one bilateral treaties, more than ten times the average of the previous lustrum.

When considering the broad range of issues discussed during these meetings and the level of compromise reached, it is obvious that democratic transitions did not constitute a critical conjuncture, nor a hinge in these countries foreign policies towards each other. In addition, this first approach was also prior to the fostering of regional regimes and regional commerce. In other words “the initial rapprochement occurred much earlier, under the military regimes in 1979–1980, and economic integration proceeded under democratic governments in the 1980s well before neoliberalism arrived” (Darnton, 2012: 120).

Presidential power under authoritarian rule: the case of Videla

In this sense, one may question: what did change between 1977 and 1980 that allowed for a cooperative turn in Argentina-Brazil relations? The answer is both systemic and domestic. On the one hand, Carter Administration’s Human

Rights policy put serious pressure over both, Argentina and Brazil. On the other hand, a radical change took place within Argentina's domestic coalition, allowing cooperation.

During the year of 1977 – the most violent in terms of military repression – “...Martínez de Hoz [Argentina's Ministry of Economy] based his macroeconomic plan in an alliance with rural sectors and financial capitals...” (Fausto y Devoto, 2004: 387). National industrial bourgeoisie was deeply affected, even though many businesspeople were able to convert to other sectors. Also, the state capacity, all along with a fairly trained developmentalist bureaucracy, was severely damaged by an overvalued currency, high interest rates and a sensible decline in public expenditure. This was neither the result of neoliberal ideas, nor of Brazilian pressures. It was rather the consequence of the

historical competition between the industrialist and agro-financial patrias in Argentina, both of which always promoted different development models (O'Donnell, 2004). As a matter of fact, only the victorious model could benefit from a more cooperative relation with Brazil and decompress bilateral tensions.

Lastly, the Beagle crisis also explains the process. Since 1977, negotiations were being held between Argentina and Chile with no results. The Argentine

military - who opposed the Itaipu project so fiercely two years before – had finally come to the conclusion that a war in two fronts would be unsustainable, softening, therefore, the more hawkish positions against Brazil. Moreover, the

most anti-Chilean positions inside the Argentine 'Junta' – such as the navy's – started to menace the Videla administration, leading the president to take personal control of the negotiations with Chile and diplomacy in general (Alles, 2011: 107).

The Argentine victory in the 1978 FIFA World Cup served to forget the difficulties of the previous years while cleansing the image of repression. Many artist and intellectuals returned from exile and the middle classes could enjoy the benefits of an overvalued currency in an open market, by accessing modern consumer goods.

In September 1978, Videla imposed his will to his fierce competitor inside the Junta, Admiral Emilio Massera, who had organized attacks against the president's political allies and close friends, such as the Argentine Ambassador to Venezuela, disappeared during the previous year. Now the entire Junta retired from office, but Videla was elected again by the generalship and the incoming Junta to remain the president until March 1981. Moreover, inside the army, Videla's successor Roberto Viola found it difficult to gain support, so the president remained the informal leader of the force until this space started to be occupied by General Galtieri a few years later.

Even if the worst years of repression were gone, the echoes of terror extended the political paralysis. By April 1979 a few trade unions promoted a very restricted strike ending in arrests and from then on, for a two-year period, no other general strike was called upon (Novaro, 2010: 163). This situation was replicated in the press, where most papers were silenced.

The president also secured the support of the United States' Department of State, by accepting a mission of the Inter-American Human Rights Commission. Even if the report was critical and denounced the disappearance of numerous men and women, its effects over the Argentine public opinion were initially moderate. On the contrary, the Catholic hierarchies, mass media, lawyers and judges respected and supported the '*paz procesista*' and questioned foreign intrusion in domestic matters (Novaro, 2010: 173). While the world – from the

Pope to the Nobel Prize commission – was turning its back to Videla in 1980, the United States – the most relevant international actor – and almost every vernacular political faction – from peronists to radicals – aligned behind him. The year 1980 was not particularly favorable in economics. Driven by a rise of the American bonds interest rate, capitals started to leave de Argentine financial system, but even if devaluation was inevitable, an overvalued currency was kept at the cost of half the reserves during the whole year. In 1981 Videla became the first Argentine president in completing two consecutive – though not constitutional – ‘mandates’, and the first in decades to hand over the presidency under the rules of the prevailing regime, reflecting the exceptional strength of the president (Novaro, 2010: 177). With economic crisis starting in March 1981, Videla’s successors would be much weaker and the prospect of any military government would be rather implausible after the Malvinas defeat in June 1982, but during 1980 he may have been the most powerful Argentine president in several decades.

The second bargain: starting economic cooperation

The big leap forward: bilateral relations during 1985-1986

Unlike Videla and Figueiredo, who were interested in ending the Argentina-Brazil rivalry in order to better address the Chilean, British or American challenges and allow for economic reform, democratic presidents had the additional interest of diminishing the domestic role of the military, who were still powerful in both countries. Therefore, José Sarney and Raúl Alfonsín met several times during 1985 and 1986 in the most impressive rapprochement ever seen between these two countries.

In May 1985, for the first time after 25 years, two civil presidents from Argentina and Brazil met again in Foz do Iguaçu to discuss both international and bilateral matters. The Argentine president left a profound impact in its partner “that day, Alfonsín took the first important step to change the image of our differences. Out of the schedule and against the opinion of his advisors, he visited Itaipú. It was just a picture, but buried war in the waters of the Parana River” (La Nación 15/10/1999; cited in Malamud, 2003: 155).

Afterwards, on the other side of the river, Sarney was the main actor resolving disputes inside Itamaraty on whether to further cooperation or not (Campbell et al. 1999) and had a strong personal inclination towards an approximation with Argentina (Didonet, 2000).

Closing a second visit, two important documents were signed on the 30th November 1985, the Declaration of Iguaçu and the Joint Declaration on Nuclear Policy. Particularly, the later improved the terms of nuclear cooperation agreed in 1980, reaffirming previous commitments on the peaceful use of nuclear energy. In terms of economic cooperation, a joint commission was created for cooperation and bilateral economic integration. The goal of the commission was to analyze and propose programs, projects and different ways of interaction.

To agree on the nuclear realm was relatively easy. Bureaucratic and military opposition to this type of cooperation had already been overcome under Videla and Figueiredo, and nuclear policy was under the control of the presidents. Convincing businessmen to cooperate bilaterally was a far more difficult task. However, very soon both Alfonsín and Sarney would be at a superb situation to unlock domestic opposition. While Argentina had controlled inflation by July

1985 – and until 1987 – Brazil also enjoyed a mild spring offered by a similar economic plan, which lasted more or less from February until price control release in December 1986.

In July 1986 presidents Sarney and Alfonsín met again, but this time in Buenos Aires. The Brazilian chief of state was accompanied by a large group of more than a hundred and thirty people, including seven ministers and several businessmen. The expectations were high, even though the air was filled with cautiousness, and the results were superb.

The Argentine-Brazilian Integration Act – leading to the Economic Integration Program (ABEIP) – was signed on the 29th July 1986. More concrete compromises were to be signed in a series of protocols to be negotiated, but during this first phase, the talks even included the prospect for a common market, macroeconomic coordination and a future common currency named the “Gaicho”.

Such an impressive improvement of bilateral relation motivated some understandable distrust in businessmen and bureaucrats, but the Argentine and Brazilian chiefs of state did not relinquish the initiative. They convened again in Carajás, Brasil, in December 1986, and emphatically insisted on the need of more concrete steps.

The signature of the Argentine-Brazilian Friendship Act on the 10th December 1986 closed the meeting. By the end of that impressive year, 18 protocols were signed, reaching serious compromises in different sectors such as capital goods, wheat, food industry, terrestrial and maritime transport, automotive industry, iron and steel industry, aeronautic industry, informatics, biotechnology, energy in general and nuclear energy in particular, among others. Because of their cumbersome nature and macroeconomic instability to come, most of these protocols were never executed (Manzetti, 1994), but nevertheless they clearly show the most significant advance in bilateral cooperation during the 1980s.

If macroeconomics had remained stable in the following months, probably the ABEIP would have progressively led to MERCOSUR. But both countries were to enter a period of severe economic turmoil, leading to the weakening of the presidents and the progressive abandonment of the project. In the words of Luigi Manzetti:

However, the favorable economic situation which had prompted Argentina and Brazil to embark upon the ABEIP in 1986 soon turned sour in the years that followed due to (1) failure of domestic macroeconomic policies and (2) external constraints imposed by their respective foreign debts. By the end of the decade, both Argentina and Brazil found themselves in deep economic crisis which slowed, even further, any progress toward economic integration. (Manzetti, 1994: 103).

Presidential power in Argentina during 1985-1986

In perspective, the ABEIP must be considered the most important agreement between Argentina and Brazil before MERCOSUR (Cfr. Soares de Lima, 2008; Lafer 1997). Moreover, during 1986 alone, Argentina and Brazil signed forty bilateral treaties, more than eight times the average of the previous lustrum. What happened that allowed for such a leap in bilateral cooperation? The accumulation of Presidential power seems to have much to do with it.

After a series of failed attempts to control the effects of the debt crisis, 1985 was a year of relevant changes in the institutional balance of power inside Argentina, which certainly favored the position of Alfonsín. This period has been referred to as a 'brief summer', comprising roughly twenty months from May 1985 to December 1986 (Novaro, 2010: 207-214).

At the very beginnings of 1985, the design of the Plan Austral – an heterodox plan to control inflation – required the Ministry of Economy, Juan Vital Sourrouille, to concentrate an important amount of power and information, in order to apply a shock therapy that ought to be unknown to most economic agents before its deployment. In the words of a renowned historian: “the solution conceived by the President and its new team consisted in incrementing the discretionary powers of the Executive, strengthening and extending the centralized decision-making procedures that – in a rather limited way – had already been exerted over prices, wages and exchange rates” (Novaro, 2009: 135).

During the first months of that year, Sourrouille increased transport and other services' fees, while reinvigorating tax collection and implementing a drastic cut of unnecessary public spending in all levels of government. The President's commitment to the Plan Austral was fierce, leading him to search for international support, which he eventually got from the Reagan Administration and the IMF (Novaro, 2009: 133).

The new measures brought Alfonsín several conflicts with trade unionists, governors from his same party and the military. However, he would eventually impose his position and emerge fortified in all of these fronts by the end of the year.

Knowing that the Armed Forces were mostly under control during the autumn of 1985, Alfonsín exaggerated the military threat to display his democratic credentials and gather popular support to the economic plan. A massive demonstration organized on the 26th April helped him to strengthen his personal relation with the citizenship. Starting then, the whole year was a paradigm of civilian control over the military and a worldwide example of Human Rights policy. As Alfonsín himself remembers with pride “between April 22 and December 9, 1985, an oral and public trial took place against those who participated of the three military juntas that had governed the country until two years before. A crowd accompanied the beginning of the sessions in front of the courts of justice; every citizen was informed with profusion about the developments related to the trial and any citizen could attend the court with only queuing” (Alfonsín, 2004: 38). Of course, this resulted in massive support to the government and an increase of the President's positive image.

On the economic realm, the Plan Austral was finally announced on the 14th June and almost immediately matched the expectations. Inflation dropped from 30.5% in June to 6.2% in July, 3.1% in August and 1.9% in October, remaining between the 2% and 3% until February 1986. There were no massive withdrawals from the financial system due to the lowering of interest rates, nor scarcity of any goods. Quite on the contrary, the adjustment led to a moderate growth of employment (1%), industrial activity (13%) and the purchase power of the salary (15%) during the last quarter of 1985 (Novaro, 2009: 139).

The economic success, jointly with the developments in the trial of the military juntas and a sounding victory in the legislative elections held in November – where the radicals won by almost ten points and were victorious in twenty out of twenty-four Argentine provinces – put Alfonsín in a unique situation of stability and power concentration.

“Having stopped inflation, won a partial victory in the legislative elections and ended the trial to the former military commanders (...) an era of glory was inaugurated for Alfonsín. The president believed that ‘the worst had passed’ and that the moment had arrived to concretize his most ambitious plans. He would announce so in a statement pronounced at his party’s convention” (Novaro, 2010: 209).

In fact, the president’s plans were so encompassing and ambitious that included the possibility of moving the capital city of Argentina from Buenos Aires to Viedma, a city sixty-times smaller located in Patagonia.

By 1986, Argentina not only had reduced inflation to a minimum in more than a decade, but also reactivated its economy at an impressive 7% growth rate. However, starting in April, a series of permissive economic measures were taken, tolerating an ‘acceptable inflation’, an increase of the federal and subnational fiscal deficits, demonstrations from trade unionists and boycotts from businessmen (Novaro, 2010: 211).

The window of opportunity was finally closed by 1987, because of a deteriorating economic and political situation that put democracy itself in risk. Not only inflation but the Human Rights policy went out of control. The courts continued advancing the trial against the military, even further than the President expected, bringing the military menace back in. From the ‘Easter Week’ military uprising in April 1987, domestic developments in Argentina restricted presidential power to its minimum in a crisis that would end only after hyperinflation and Alfonsín’s resignation in 1989.

The Treaty of Integration, Cooperation and Development, signed on the 29th November 1988 followed, but it was a declaration of purpose, foreseeing the removal of commercial barriers between Argentina and Brazil in a time period of 10 years and lowering the expectations created by the ABEIP.

“Faced with domestic opposition from congress and interest groups, Alfonsín and Sarney found it increasingly difficult to sustain the pace of integration. As political instability escalated in both countries, it became increasingly difficult for both presidents to overcome internal opposition to further integration” (Kaltenthaler & Mora, 2002: 75).

The third bargain: a common market

Bilateral relations during 1990-1991

The announcement of the Enterprise for the Americas Initiative by the United States’ President Bush in June 1990 was a key element that helped to forward integration after five years of stalemate. Domestic coalitions who opposed regional integration were suddenly facing the menace of gigantic industry and capitals from the United States. If Argentina or Brazil were to oppose free-market policies at a continental scale, they would have to do so together. As a consequence, one month later, both presidents remained untied to forward a process that was convenient to them as it was to their predecessors.

Chiefs of state, Carlos Menem and Fernando Collor de Mello, signed the Buenos Aires Act on the 6th July 1990, establishing the formal mechanisms to the creation of a common market between the two countries. In fact, they

changed the ABEIP's formula that agreed to "gradually remove asymmetries" for an ambitious commitment to "establish a common market between Argentina and Brazil that should be definitely conformed by 31 December 1994" (Buenos Aires Act, Art. 1).

In other words, Collor and Menem "substantively altered the parameters of bilateral integration (...) without a doubt, the main actors in this process were the presidents of Argentina and Brazil" (Cavarozzi 1998: 13). The central goal of the Act of Buenos Aires was to achieve a situation where all products of the two

countries would be subject to no non-tariff barriers. The Asunción Treaty followed on March 26, 1991, gave the name and the institutional structure to MERCOSUR and established a schedule for a progressive, linear and automatic tariff reduction, this time including Paraguay and Uruguay. The final aim was the establishment of a common external tariff and a commercial bloc to face commercial negotiations with third parties.

Asunción Treaty did not cover some issues – macroeconomic coordination and the common external tariff – that were to be resolved by future presidential summits. The pre-eminence of the presidential figure in these agreements is pictured by Luigi Manzetti as follows:

"Like its predecessor, the Argentine-Brazilian Economic Integration Program (ABEIP), MERCOSUR has been marked by a top-down development strategy heavily dependent upon presidential initiatives. Following the signing of the Asuncion Treaty, the presidents of all four countries were active in soliciting support for the project from business, labor, political parties and even government agencies (...) Initially, only a few sectors of the business community seized the initiative and promoted it vigorously. Much of the early reluctance of political parties and interest groups to commit themselves to MERCOSUR was due to the mixed performance record of the ABEIP, not to mention the failure of Latin America's previous attempts at integration. Optimism was tempered with skepticism. On the other hand, neither was there any real opposition, at least at the outset, due in part to the lack of studies assessing MERCOSUR's potential impact on domestic economies (...) Argentina and Brazil have since set up special congressional committees for the purpose of evaluating the likely consequences of MERCOSUR, and both business and labor have become more involved in the negotiation process. Nevertheless, the initiative still remains firmly in the hands of the president and of their respective ministries of foreign affairs."
(Manzetti, 1994: 117-118).

The pre-eminence of the presidents in the Asuncion Treaty is also evident in the deadlines to enact the common market agreement –December 1994 for Argentina and Brazil and December 1995 for Paraguay and Uruguay –, which were chosen in order to coincide with the end of the presidential terms of Menem, Collor de Mello, Rodriguez, and La Calle because "in so doing, the outgoing presidents hoped to lock their successors into the integration process, much as Alfonsín and Sarney had done with the 1989 treaty" (Manzetti, 1994:106).

However, presidential diplomacy was not only a policy-making style, but had a cause-effect relation with the success of the integration process (Torrent, 2006: 37).

Presidential power in the first years of the Menem Administration

What does explain the sudden success of the integration initiative in less than one year? The answer is again, the concentration of presidential power and the weakening of the domestic opposition to the aforementioned treaties.

As it has happened with previous bargains, at the beginning, MERCOSUR was a project of the presidents and foreign ministries that had to be sold to other actors (Didonet 2000). But unlike Alfonsín and Sarney, the length and depth of economic crises led both Collor and Menem to have a more aggressive stance *vis à vis* protectionist coalitions against bilateral integration. Now the presidents were not only interested in controlling the military, but were also interested in

facilitating and locking-in more encompassing domestic economic reforms.

Power concentration under Menem was not automatic, even if the depth of the economic crisis ending in hyperinflation and social unrest could have justified almost any solution in the eyes of Argentine society (Palermo y Novaro, 1996). The politics of accumulating power combined the legitimacy of his double electoral victory, the institutional resources of the president and his position as leader of peronism (Novaro, 2009: 325), a party that the crisis had rendered much easier to manage and reorient (Levitsky, 1997).

From an institutionalist stance, hyperinflation had affected confidence in political parties and norms in a way that left the president untied. During his first years of office, Menem overruled the Congress, issued unconstitutional decrees and managed public goods in an overtly illegal fashion.

This situation also facilitated a drastic reorientation of the macroeconomic policy towards a neoliberal shock, completely at odds with his previous political campaign. The cornerstone of the plan was a complete freezing of prices and salaries for a ninety-days period, introducing consumer taxes and reducing the fiscal deficit at any cost. Inflation was reduced drastically, from a 37,9% in August to a 9,4% in September and a 5,6% in October 1989. Of course this implied several costs to very specific employees and enterprises, but in general, the Argentine citizenship rewarded the president, whose popularity increased to the 75% (Novaro, 2009: 341). Moreover, the plan counted with the support of the IMF and a 1500 million dollars *stand by* lend, conditioned to reducing the deficit to 1,25% of the GDP and increasing tax collection to a 22,6%. During Menem's visit to the White House in November 1989, George Bush publicly expressed his unconditional support to the new economics and foreign policy of Argentina.

Under the Economic Reform Act, - initially thought for 180 days, but then prorogued for years -, the president could issue decrees in almost every relevant aspect of government and Menem did so without timidity. Furthermore, the Executive named five new judges - out of nine - in the Supreme Court, securing the political support of the Judiciary.

Even if the power that the Argentine president accumulated by that time would already suffice to handle a major turn in foreign policy towards Brazil, Menem would further increase his authority over other political actors after the failure of his initial plan by the end of 1989. By then he started to be attacked in several fronts and even has to stand a run against the Argentine currency, leading interest rates to a 150% and inflation back to a 40% in November (Novaro, 2009: 356). During the first months of 1990, many closest allies were reluctant to support the Menem. The president of his own party called him a neoliberal

traitor to the peronist ideology. Anyways, the incoming Argentinean president discarded a recoil and doubled the stakes, starting with a belligerent speech on March 11, the reorganization of his partisan support under the 'Menem Conducción' nucleus on March 23 and a massive demonstration of addict trade unionists on April 6, 1990 (Pucciarelli, 2011: 40).

When Menem met Collor in July, his positive image was again in the 60% - almost as high as in the beginning of his mandate - and the 80% of the population approved the administration (Clarín, 08/07/90). One month later, he and his brother Eduardo retained control of the peronist party, being named president and vice-president, respectively.

Economic reform continued with a firm step. Besides defeating and subjugating the opposition to the new order, the new economic plan intended to send a sound message to the market that Menem was ready to do the impossible to bring stability back. Legislation changed that allowed for foreign investment to participate amply of the closing sale of public enterprises. By October 1990, the Argentine government had already sold state owned monopolies in five sectors: highways, trains, telephones, commercial aviation and oil, and announced the privatization of subways, natural gas, water and electricity, among others (Palermo y Novaro, 1996: 171). It would until mid March 1990 to moderate inflation, after Menem closed 56 Secretaries of State and reduced Sub-Secretaries of State from 112 to 32, diminishing public administration spending by a 25%. A few days later he issued a decree foreseeing the dismissal of 14% of the national administration by mid 1991 (Novaro, 2009: 365).

After a few months that coincide perfectly with the advancement of negotiations with Brazil, Menem suffered a few drawbacks once again which lowered his positive image back to 32%, the most notable being a brief military uprising that menaced the Argentine president in December 1990. However, Menem rapidly retained control and came out strengthened by the public opinion's support to his democratic credentials. Again, these nuisances hardened Menem's determination and steady hand. His next policy initiative was going to be the most audacious in the Argentine economic history since the 1890s and would stabilize his mandate once and for all.

Almost no academic work so far has highlighted or even noticed the incredibly accurate parallel between the signature of the Asunción Treaty - on March 26, 1991 - and the announcement - on March 20 - and congressional approval - on April 1 - of the Convertibility Act, which tied the Argentine currency to a fixed parity *vis à vis* the USD. Convertibility remained the most important norm of Argentinean macroeconomics for a decade. The timing of both policies show that presidential power and domestic economic concerns were determinant of this particular foreign policy - which was the most radical effort to boost bilateral integration in all of these countries history.

The extraordinary success of the Convertibility Plan started the 'golden years' of Menemism (Novaro, 2009: 409). What followed was historic: "Argentina suffered one of the most encompassing market reforms among developing countries. In less than five years this country witnessed a fundamental restructuring of state-society relations" (Etchemendy, 2001: 675). Because of institutional factors but also because of the political and macroeconomic context, Collor and Menem came to be 'delegative presidents' (O'Donnell, 1994) in 1990 and 1991, but power concentration in the Argentine president continued, facilitating a smoother implementation of the Mercosur compromises in the years to follow.

The fourth bargain: the crisis of Mercosur

Bilateral relations from the 1999 Real devaluation to the 2001 Argentine crisis

After the Treaty of Asunción, bargaining was all about formalizing or solving de facto exceptions to what had been previously agreed. Institutional building, when it existed, was irrelevant and was mostly oriented towards legitimizing the institution. Regarding the Asunción Treaty compromises, as early as December 1992 a summit had to be held in Montevideo, after Argentina raised its average tariffs towards Brazil from 3% to 10% as a way to counter the steady depreciation of the Real (Manzetti, 1994). Brazil's new president Itamar Franco had to personally ensure his Argentine counterpart that MERCOSUR remained a foreign policy priority. Later on, "despite recurring conflicts, mostly between Argentina and Brazil over the former's implementation of safeguards clauses and antidumping duties, presidents repeatedly expressed their commitment to strengthening the process" (Kaltenthaler & Mora, 2002: 76). However, in 1995 many voices were already denouncing how frequent 'crises' undermined the process (Cason, 2000), an evolution that had much to do with the relative loss of presidential power – particularly in Brazil, but also in Argentina – *vis à vis* a more stable and less desperate opposing coalition. However, since the status quo had already been altered, drawbacks in the integration would require a much more important mobilization of domestic actors and governmental agencies (Gomez-Mera, 2013).

Chile's denial to join the common market could also be explained as a consequence of a much more limited president, matched by proactive and powerful private interests. As it has been noticed, "Chile's decision to join the Southern Cone trade bloc just as an associate member in June 1996 resulted in large part from pressure exerted by organized business associations that favored a deal with Mercosur" (Cason & Burrell, 2002: 459). In the years to follow, a series of unilateral measures and countermeasures were taken, leading to institutionalized exceptions and the labeling of this experience as an "imperfect customs union". Even though these crises had its ups and downs during the 90' (Gómez-Mera, 2013), they reached the paroxysm during the period 1999-2001, between the Real devaluation and the Argentine financial crisis.

During 1999, the depreciation of the Brazilian currency triggered a fall in Argentine exports towards its neighbor, intensifying an already serious recession. In response to sectorial complaints, Buenos Aires imposed quotas to textiles and technical restrictions for footwear imports. As expected, Brasilia retaliated, as the private sector discourse in both countries became harshly chauvinistic. Presidents did a great deal in stopping the conflictive trend. On the one hand, Fernando de la Rúa's administration brought a whole new insight to the problem and keen to maintain foreign allies, promised to discipline domestic sectors. On the other hand, Cardoso fostered a new conception of MERCOSUR inside Itamaraty, according to which Argentine misbehaviors were to be tolerated as a means to reach more important strategic objectives. This 'relaunch' of MERCOSUR, including the plans for macroeconomic coordination – a so-called 'Little Maastricht agreement' –, put

an end to the most serious crisis since the bloc was created (Gómez-Mera, 2005:121).

However, conflict arose again in 2001 when the Argentine crisis had notoriously worsened and Domingo Cavallo, then ministry of economy, breached the common external tariff by raising tariffs to imports of consumer goods and eliminated tariffs on capital goods in order to encourage investment. These serious violations led Brasilia to threaten to suspend wheat and oil imports, while Cavallo publicly declared that MERCOSUR should become a mere free trade agreement. In the end, Brazil lost the chicken game and acceded to a safeguards regime that formalized bilateral sectorial conflict in the case of competitive imbalances. Again, presidents played a central role in maintaining MERCOSUR alive. In Argentina, the President and the Foreign Affairs ministry dissuaded the internal opposition to MERCOSUR by saying that the customs union was a necessary step to enter the Free Trade Area of the Americas in a better position: "the official position was that MERCOSUR would be a steps towards the FTAA. This did not constrain Cavallo's anti-Brazil measures and statements (...) but he eventually had to accede to the President's foreign policy position" (Gómez-Mera, 2005: 133). In Brazil, many capitalists and bureaucrats saw the benefits of keeping Argentina inside the bloc – and close to foreign powers –, but the president was central in coordinating this interests. After the Argentine collapse a line of credit was opened by the BNDES to promote Brazilian foreign investment in its suffering neighbour as Brazilian diplomacy interceded in front of the IMF, the World Bank, the Inter American Development Bank and the United States to represent Argentine financial interests. Last but not least, Cardoso played a big role in refraining domestic demands to abandon the common external tariff on wheat, a measure that could have seriously delayed the Argentine recovery (Genna & Hiroi, 2007: 53).

Internal constrains and the weakening of the Argentine president

After a decade in power, Menem was ending his administration in 1999, immersed in an economic recession that prevented a peronist victory. Fernando De la Rúa, the presidential candidate presented by a coalition of opposition parties called *Alianza*, harvested a sounding victory 48,4% of the votes. However, soon after the elections he would show to be in a very weak situation to deal with the problems ahead.

De la Rúa problems started with the elections themselves. First, even if he had won the presidency at the national level, he had lost the Argentine three bigger provinces – Buenos Aires, Córdoba and Santa Fe, those with the higher public expenditures – to strong peronist leaders. Moreover, because of the moderate results obtained by the *Alianza* in the legislative elections, peronism still controlled the Senate and could therefore block any intent to legislate. In this situation, De la Rúa could not – and never proposed – take any significant economic turn such as leaving the Convertibility, opting for fastening his seatbelt and navigating the turbulences of economic adjustment, a policy that was rejected by the 65% of the population by that time (Novaro, 2009: 556).

The context required a lot from the president's leadership to overcome the institutional deadlock, both at the federal and subnational level, and unite the Argentine political elite. On the contrary, De la Rúa was part of a complex coalition where he had limited power. He could not even exert leadership

inside his own party, the UCR, where Alfonsín was still in command. Even the Ministry of Economy José Luis Machinea was imposed to him by his vice-president Álvarez – a former peronist – and Alfonsín, leading the president to boycott his own economic plan as if he was an outsider, by naming other economists in different ministries (Novaro, 2009: 563).

Being a ship without a captain, Argentina had to face a perfect storm of economic and institutional constraints. First, was the compromise assumed by the Fiscal Responsibility Act approved during the last months of the Menem Administration to reduce fiscal deficit until zero in a three-year period. But the law only limited federal spending and permitted provincial deficits and relative power to grow indefinitely while the crisis worsened.

De la Rúa reached an agreement with the governors in limiting federal transfers, but opposition in the Senate blocked the rise of taxes, the privatization of national banks, social security reform and cuts in education among other policies. When the Executive tried to get an emergency bill allowing for the dismissal of public employees, the suspension of trials against the state and the restructuration of public debt – such as Menem had a decade before – the Congress blocked it as well. Among these frustrated laws was the Labor Flexibility Act, which was finally approved at the price of bribing the opposition. The latest resulted in the outbreak of a corruption scandal ending in the vice-president's resignation in October 2000 and the tearing apart of the governing coalition.

Drowning in despair, De la Rúa named a neoliberal Ministry of Economy who lasted only for a month and was replaced by Cavallo – the guru of the Convertibility Plan – in April 2001. But the economist had now become a politician and was playing his own game. In the words of an acknowledged historian: "Cavallo was not willing to commit again the same unforgivable mistake he committed with Menem; in the case of economic success, he should be the only one in collecting the electoral benefits" (Novaro, 2009: 596). In the months to follow, the provinces issued new currency of their own. Legislative elections in October resulted in a mere 17% for the *Alianza* – 47% of the citizenship did not vote for any option, expressing its general discontent with the political elite –, capitals abandoned the country as a sinking ship and the withdrawal from bank accounts was limited to 250\$ a week. Then De la Rúa had to resign amid looting and demonstrations.

Conclusions

As it has been noticed before, in the history of South American integration, the power of the presidents is determinant to explain the cooperative outcome and format of international institutions. This article contributes to this tradition by stating that presidential power should not be seen as a constant institutional factor, but as a variable political and economic factor explaining both the success of foundational bargaining – by its presence – and the failures of the Mercosur project – when absent. These reflections lead to an interesting conclusions for policy makers regarding the future of Mercosur: the possibilities of further institutional creation and even the survival of the bloc could be at stake under circumstances of low presidential power relative to protectionist or anti-integration coalitions.

This view also explains why bilateral relations improved impressively during the period 1977-1994, which was characterized by instability and great power

concentration in the president. As macroeconomics and politics stabilized along the 90s, the costs of fighting internal opposition rose for Argentinean presidents, a halt came in institutional creation. That is why, as 'delegative presidents' live a first period of euphoria and then turn to a long agony (O'Donnell, 1994), 'delegative integration' (Malamud, 2003) such as Mercosur underwent a similar fate. Nonetheless, institutions remained because of general domestic acquiescence and the presence of at least one powerful president that could overrun domestic opposition to maintain the integration scheme in critical moments.

From then on, powerful presidents as Lula and Kirchner had to deal with more and more strengthened coalitions opposing coalitions. As a result, a series of institutions were created within and beyond MERCOSUR reflecting political coincidences among presidents but no compromise fore economic coordination or any further integration.

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