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Decoding the Mercosur Evolution: Data-Driven Insight on Political Integration and Economic Convergence

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Abstract

The Mercosur international organisation, epitomising the most ambitious initiative in Latin American regional integration, stands as the world's third-largest market, wielding a considerable economic and geopolitical power in the region. Nevertheless, amid an integration path marked by periods of advancement and setback, predicting its future trajectory proves challenging. This study employs a mixed method approach to examine the evolution of the Mercosur organisation's institutional framework. It aims to determine whether its initial focus on economic integration has expanded to encompass additional dimensions, such as the political and social spheres. Additionally, it investigates the evolution of its relations with Member States, observing potential transitions from an intergovernmental to a supranational nature. Finally, the study seeks to determine whether the integration process of the 'Mercosur experiment', featured by fluctuating phases, influenced economic convergence between its Member States: Argentina, Brazil, Paraguay, and Uruguay. Therefore, by delving into theories of political integration and real economic convergence, this research aims to provide insights into one of the most relevant Latin American regional organisations.

I hereby declare that I have composed the present thesis autonomously and without the use of any other than the cited sources or means. I have indicated parts that were taken out of published work correctly and in a verifiable manner through a quotation.

February 2024, Matteo Pastorella

THE AUTHOR IS ITALIAN.

TABLE OF CONTENTS

Introduction	VI
Chapter I: Research Methods	3
1.1 Dissertation’s structure.....	3
1.2 Research question(s) and hypothesis	4
1.2.1 Results of the research.....	6
1.3 Literature review	9
1.4 Research Design and Research Strategy	11
1.5 Mixed Methods	15
1.5.1 Qualitative method: the Level and the Scope of political integration.....	18
1.5.2 Quantitative method: the Mercosur real economic convergence	21
Chapter II: Theoretical Framework.....	24
2.1 Political and Economic Regionalism	24
2.2 Regional Economic Integration.....	28
2.3 Neofunctionalism and Spillover Effects.....	30
2.3.1 Political Spillover	34
2.3.2 Functional Spillover	35
2.3.3 External Spillover.....	36
Chapter III: Mercosur’s Institutional process and Spillover effects	39
3.1 The Mercosur framework as a regional economic integration mechanism: historical background and its ‘Genesis Years’ (1984-1990)	39

3.2 The Treaty of Asunción and the rise of Mercosur (1991): a possible Political Spillover?.....	43
3.2.1 Addressing Institutional Changes and Failures in Mercosur’s Integration	47
3.3 The Consensus of Buenos Aires (2003): A Possible Functional Spillover?.....	55
3.4.1 EL (im)PacCTO: Implications for Mercosur's Integration Trajectory.....	76
3.5 Mercosur's political and economic integration process: peculiarities of the Neo-Functionalist Theory in South America?	84
Chapter IV: The Mercosur’s Economic Convergence.....	88
4.1 Scope of the analysis.....	88
4.2 Economic Convergence’s Theoretical framework	90
4.2.1 Solow model of economic growth	90
4.2.2 Unconditional and conditional economic convergence	92
4.2.3 Reduction of cross-sectional income dispersion (σ -convergence).....	97
4.3 Data source.....	99
4.4 Empirical methodology.....	105
4.5 Unconditional and Conditional convergence in Mercosur economies	107
4.5.1 Full sample estimates: 1980-2007.....	111
4.5.2 The Mercosur Precursor Phase: 1980-1990	112
4.5.3 The Mercosur Institutionalization: 1990-1996.....	112
4.5.4 The Mercosur Dark Years: 1996-2003.....	113
4.5.5 The Mercour Socio-Political Redefinition: 2003-2007.....	113
4.5.6 Discussion	114

Conclusions: the Political Integration and Economic Convergence in the Mercosur organisation.....	121
Bibliography	124

'Petits pas, grands effets'.¹

Jean Monnet, May 9th, 1950.

¹ Schmitter, Philippe C. "Ernst B. Haas and the legacy of neofunctionalism." In *The Disparity of European Integration*, p. 257. Routledge, 2013.

Introduction

The Mercosur economic organisation has been described as the most ambitious regional integration attempt in Latin America, the ‘*great leap forward*². From a macroeconomic perspective, Mercosur ranks as the third-largest market globally, trailing only the European Union and NAFTA³.⁴ Absorbing approximately 70% of all foreign trade and direct investment in Latin America and with a combined population of 200 million people spanning over 11 million square kilometers, Mercosur represents a pivotal economic and geopolitical entity.⁵ While it stands as a formidable market force, its evolution process has been riddled with both endogenous and exogenous challenges leading the *Mercado Común del Sur* to setbacks and stalemates. Therefore, given its unique nature in the Latin American integration landscape and considering its relevant macroeconomic characteristics, the objective of the investigation was formulated following a dual approach to interpret this turbulent integration process. The first goal is to assess the transformation of Mercosur from being predominantly an economic union to potentially becoming a political entity. This involves examining shifts in decision-making processes and governance structures, to forecast the future of Latin American regionalism and its role in the global arena. Regional organisations frequently face scrutiny regarding their efficacy in enhancing the prosperity and development of their member countries. Therefore, the second objective of the research is to assess whether Mercosur has succeeded, during its institutional and political process, in narrowing the economic disparities between its Member

² Manzetti, Luigi. "The political economy of MERCOSUR." *Journal of Interamerican Studies and World Affairs* 35, no. 4 (1993): pp. 101-142.

³ The North American Free Trade Agreement (NAFTA) has been effective since 1994 and created a free trade zone between United States, Mexico, and Canada. For further information see Villareal, M., and Ian F. Fergusson. "The North American Free Trade Agreement (NAFTA)." Congressional Research Service (2017): pp. 1-32.

⁴ Gratius, Susanne, and Horacio Coronado. "Zehn Jahre MERCOSUR: Der Anfang vom Ende einer Erfolgsgeschichte?." in: Brennpunkt Lateinamerika, No. 4, Hamburg: Institut für Iberoamerika-Kunde (2001): p. 41.

⁵ Perez del Castillo, Santiago. "MERCOSUR: history and aims." *Int'l Lab. Rev.* 132 (1993): pp 639.

Countries (Argentina, Brazil, Paraguay, Uruguay) and to provide insights into the organisation's influence on regional development and socioeconomic cohesion. To achieve this goal, the framework of real economic convergence is applied to the case study of Mercosur.

Chapter I: Research Methods

This chapter deals with the research methods used in the dissertation, detailing the four-chapter structure. The research questions (RQs) and the hypothesis (H) to be addressed and the results obtained will be defined. The research design and research strategy will be outlined, following the qualitative and quantitative methodology (mixed method) adopted to address the RQs, introducing the *scope* and *level* distinction in the regional integration process and the concepts of *unconditional*, *conditional* and *sigma* economic convergence.

1.1 Dissertation's structure

This dissertation comprises four chapters. The first Chapter outlines the research methods of the project. The research methods section highlights the significance of the research questions (RQs) proposed, outlines the structure and outcomes of the dissertation, and places the RQs within the existing literature. This section elaborates on various hypotheses to be tested and the methods employed to test them. Specifically, the chosen methodology encompasses both qualitative and quantitative approaches (mixed methods).

The qualitative method selected involves an analysis of the *Level* and *Scope* of political integration within the framework of neo-functionalist theory. The quantitative methodology entails studies on real unconditional and conditional economic convergence. The second Chapter delves into the theoretical framework underpinning the project. It introduces the concepts of regionalism and integration in both their political and economic conceptions, considering their development in the Latin American region. The Chapter analyses the neo-functionalist theory and examines recent developments in the selected spillover effects: *political*, *functional*, and *external*. The third Chapter focuses on the analysis of the different

evolutionary phases of Mercosur associated with distinct spillover effects. These phases include the genesis phase of Mercosur (1980-1990), Mercosur's establishment through the Treaty of Asuncion (1991) as a *political* spillover, and the subsequent development of Mercosur up to the Ouro Preto Protocol (1994). Subsequent advancements, starting with the Buenos Aires consensus from 2003 onwards, are considered as a *functional* spillover. The possible external spillover produced by the implementation of the European Programme EL PAcCTO (2017-2022) is also considered. The third Chapter concludes with some reflections on interpreting Mercosur integration processes through neo-functional theory. The fourth Chapter presents empirical findings regarding the assumption of real economic convergence (both unconditional and conditional) and provides descriptive evidence on sigma convergence across the Mercosur founding countries (Argentina, Brazil, Paraguay, and Uruguay). It explores the theoretical concept of convergence and introduces the statistical model adopted for the empirical analysis, as proposed by Mankiw, Romer and Weil (1992) and Barro and Sala-i-Martin (2004). This Chapter outlines the model specifications, the dataset characteristics, and the selection of dependent and control variables used for the convergence analysis. The empirical findings assess the presence of real conditional convergence, offering valuable insights into the evolution of the economies of Mercosur's Member States alongside the organisation's political and institutional development.

1.2 Research question(s) and hypothesis

The research question is twofold: how has Mercosur's institutional framework evolved from a neo-functional integration perspective? Concurrently, what have been the economic convergence outcomes in its founding economies?

This dissertation aims to explore two dimensions (political and economic) and test several hypotheses (H) regarding the evolution of Mercosur. Firstly, it seeks to observe if the political and institutional integration process of Mercosur aligns with the neo-functionalist theory, particularly through *political*, *functional*, and *external* spillover effects. Secondly, it aims to examine, through the integrative dimensions of *Level* (decision-making relations between the organisations and its Member States) and *Scope* (competencies addressed by the organisation and its Member States), whether there has been an evolution of regional organisation towards a supranational or intergovernmental nature, from its inception to the current stage of integration. Thirdly, it aims to observe the processes of unconditional (poor countries tending to grow faster than richer ones) and conditional (the same assumption but controlling for the structural asymmetries between the economies) real economic convergence, in parallel with Mercosur's institutional evolutionary process. The final aim is to determine which convergence process has been achieved and how it relates to the different phases of Mercosur (the neoliberal phase, the Mercosur dark years, or the socialist phase).

H1: *The Mercosur's integration process mirrors different thresholds, which are the political functional and external spillover effects, developed by the Neo-Functionalist theory.*

H2: *There has been an increase in Mercosur's competencies (scope) but not in its authority (level), which remains anchored to an intergovernmental model due to the strong presidentialism.*

H3: *Mercosur has achieved in more sub-periods conditional than unconditional economic convergence, as structural differences in the economies of its Member States remain predominant.*

H4: *Following the Mercosur's 'neoliberal' institutionalization phase, (1990-1996), the convergence process of the economies of its Member States slowed down during the 'socialist phase' and the subsequent Mercosur's socio-political redefinition (2003-2007).*

The frameworks for testing these hypotheses have been described at a general level in this Chapter and tested in the specific Chapters, respectively: Chapter III for the Mercosur integration process through the neo-functional theory (H1, H2) and Chapter IV for Mercosur's economies unconditional and conditional economic convergence (H3, H4).

1.2.1 Results of the research

Observing the evolution of Mercosur's institutional framework through the lens of neo-functional theory reveals various spillover effects throughout its development and confirms the main hypothesis (H1). The thesis positing the genesis of Mercosur during its formative phase (1980-1990) through a *political* spillover effect is substantiated. The role of the neo-democracies of Argentina through Alfonsín (1983) and Brazil through Sarney (1985) in shifting a domestic issue, such as democratic consolidation in Argentina and Brazil, into the transnational sphere, resulting in the creation of Mercosur, proves pivotal in this context.

Regarding *functional* spillover, it is partially evident. This phenomenon arises from specific destabilizing circumstances within a regional organisation, prompting a shift in power dynamics and decision-making processes to address emerging challenges. In Mercosur, systemic spillover occurred during its turbulent years between 1996 and 2003, marked by financial crises and political turmoil. The Buenos Aires Consensus of 2003 ushered in a phase of social and political reorganisation, steering away from the neoliberal model towards

socialism and deepening integration, particularly in social domains. However, the political élite influence on this phase is still evident.

Evaluating *external* spillover effects in terms of integrative impulses is challenging, given the recent implementation of the security cooperation program promoted by the European Union (El PAcCTO programme, 2017-2022) and the difficulties in observing intraregional integrative development in this short period of time. Nevertheless, there has been an increase in multilateral agreements among Mercosur economies after this programme facilitated by the regional organisation. In the Brazilian case, the interaction between the *Procuradoria-General da República* and the government of Paraguay, facilitated by the Mercosur diplomatic platform, represents a potential starting point for further intraregional relations. Additionally, the Paraguayan state, particularly through its Ministry of Justice, collaborates with Brazil and Argentina to enhance penitentiary coordination within Mercosur. Finally, Argentina's Ministry of Justice and Human Rights has been instrumental in safeguarding women witnesses involved in organized crime cases through the Mercosur framework by actively participating in regional activities. Nonetheless, there has been limited progress in the Uruguayan case.

Gauging the Mercosur's institutional evolution through the integration parameters of *Level* and *Scope* (H2), a progressive increase in competencies is evident, evolving from a purely economic organisation in 1991 to encompassing political domains (Ouro Preto Protocol 1994-1999) and democratic values (the 1998 Ushuaia Protocol), to embryonic parliamentary forms (Parlasur, 2006) and security cooperation (El PAcCTO programme, 2017-2022). However, from a decision-making perspective between Mercosur and its Member States, no decisive shift towards a supranational perspective has occurred, with presidentialism continuing to exert significant influence.

Furthermore, Mercosur's economies convergence analysis confirms the presence of conditional convergence across all sub-periods analyzed. However, evidence of unconditional convergence is notably absent during the neo-liberal phase (1990-1996) but is found in subsequent periods. Conditional convergence is more evident during the period of Mercosur establishment (1990-1996) but unconditional convergence does not occur during the same neoliberal phase (H3). The convergence process of the Mercosur Member States decreases during the 'socialist phase' and the subsequent Mercosur's socio-political redefinition 2003-2007 (H4).

Complementary to the conditional convergence analysis, the sigma convergence assumption – reduced dispersion of real per capita income through time – was also assessed in the full sample (1980-2007) adopted in the research. Observing the sigma convergence, it occurs in the pre-Mercosur phase (1980-1990), which demonstrates a gradual decline in cross-country variation of real GDP per capita for all founding Mercosur economies; then it deviated significantly in the following decade, coinciding with the Mercosur establishment; it continued to slow down since the 2000s, resembling the development found in advanced economies. However, focusing on the cross-country variability of output per capita for Argentina, Brazil, and Uruguay, it's evident that the convergence process continued also during the establishment of Mercosur and afterwards, albeit at a more moderate pace. This indicates the presence of a bulk of Mercosur economies moving together towards a country-specific long-run growth rate.

1.3 Literature review

A comprehensive literature review allows for proper contextualisation of the research question and the hypotheses developed. The research project interprets the categories of development of integration processes – *Level*, and *Scope* – originally created by Lindberg and Scheingold (1970)⁶ and expanded by Scharpf (2003)⁷ and Börzel (2005)⁸ for the European Union organisation, to the Mercosur case. The analysis shifts the focus to Mercosur, incorporating the integrative evaluation of economic criteria such as Balassa (1961;1976)⁹ into a political perspective. In this way, their integration evaluation criteria will be applied to the case study of the research. Within this framework, Mercosur is examined through the lens of the neo-functional theory articulated by Haas (1958;1961).¹⁰ This theory investigates possible *political* and *functional* spillover effects during Mercosur's integration process. However, another spillover effect – *external* – was added to the research. The external spillover, elaborated by Bergman (2018:2019),¹¹ was used to investigate the El PACCTO phenomenon (2017-2022), a security cooperation programme with the European Union, that could not be adequately explained through the political and functional spillovers, as proposed by the neo-

⁶ Lindberg, LN Stuart A. Scheingold. "Europe's Would-Be Polity." *Patterns of Change in the European Community*. p. 67. Englewood Cliffs 1970.

⁷ Scharpf, F.W. (2003) 'Legitimate diversity: the new challenge of European integration', in T.A. Börzel and R. Cichowski (eds), *The State of the European Union VI: Law, Politics, and Society*, Oxford: Oxford University Press, pp. 79–104.

⁸ Tanja, A. Börzel. "Mind the gap! European integration between level and scope." *Journal of European Public Policy*, 12:2, (2005): pp. 217-236.

⁹ Balassa, Bela. "Types of economic integration." In *Economic Integration: Worldwide, Regional, Sectoral: Proceedings of the Fourth Congress of the International Economic Association held in Budapest, Hungary*, pp. 17-40. London: Palgrave Macmillan UK, 1976. Balassa, B. (1961a): *The Theory of Economic Integration*. Richard D. Irwin, Inc, p. 2.

¹⁰ Haas, Ernst B. *Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*. University of Notre Dame Press, (re-edition 2020; first published in 1958): pp. 1-642. Haas, Ernst B. "International integration: The European and the universal process." *International organization* 15, no. 3 (1961): 366-392.

¹¹ Bergmann, Julian, and Arne Niemann. "From Neo-Functional Peace to a Logic of Spillover in EU External Policy: A Response to Visoka and Doyle." *JCMS: Journal of Common Market Studies* 56, no. 2 (2018): pp. 420-438. Bergmann, Julian. "Neofunctionalism and EU external policy integration: The case of capacity building in support of security and development (CBSD)." *Journal of European Public Policy* 26, no. 9 (2019): pp. 1253-1272.

functionalist theory. Following Flemes' (2005)¹² approach, the security dimension – which is generally underestimated in analyses of Mercosur integration - is considered. Indeed, security could be a new and potential field for promoting greater integration within a regional organisation, as Kacowicz (2018)¹³ points out. Therefore, the neo-functional theory is applied in every Mercosur evolution phase (from 1980 to 2007), as outlined by Gardini (2013)¹⁴ and Caballero (2013).¹⁵ By doing so, a new approach to the neo-functional theory is embraced. The latter approach could evaluate the whole process of Mercosur's evolution through the different categories of spillover, rather than focusing solely on individual considerations of spillover effects, as proposed for Mercosur's Parliament by authors like Malamud & Clarissa (2013)¹⁶.

Conversely, the idea of this research to analyze both unconditional and conditional real economic convergence resulted from the lack of convergence studies in Latin America – namely concerning Mercosur – and the potential impact that regional integration could have on this phenomenon. Indeed, the convergence analysis primarily draws upon Organisation for Economic Co-operation and Development (OECD) countries, as stated by Camarero et al. (2002; 2006)¹⁷. As for individual studies on Mercosur's countries, Muendler (2002)¹⁸ analysed

¹² Flemes, Daniel. "Creating a regional security community in Southern Latin America: The institutionalisation of the regional defence and security policies." German Institute for Global and Area Studies (GIGA), no. 13 (2005): p. 11.

¹³ Kacowicz, Arie M. "Regional governance and global governance: Links and explanations." *Global Governance* 24 (2018): pp. 61-79

¹⁴ Gardini, Gian Luca. *The Origins of Mercosur: Democracy and Regionalization in South America*. New York: Palgrave Macmillan, 2010.

¹⁵ Caballero Santos, Sergio. "Mercosur, the role of Ideas and a More Comprehensive regionalism." *Colombia Internacional* 78 (2013): p. 130.

¹⁶ Malamud, Andrés, and Clarissa Dri. "Spillover effects and supranational parliaments: The case of MERCOSUR." *Journal of Iberian and Latin American Research* 19, no. 2 (2013): p. 235.

¹⁷ Camarero, Mariam, Renato Flores, and Cecilio Tamarit. "Multivariate time series evidence of international output convergence in Mercosur." In *Computing in Economics and Finance*, vol. 87. 2002. Camarero, Mariam, Renato G. Flôres Jr, and Cecilio R. Tamarit. "Monetary union and productivity differences in Mercosur countries." *Journal of Policy Modeling* 28, no. 1 (2006): pp. 53-66.

¹⁸ Muendler, Marc-Andreas. "Trade, technology and productivity: a study of brazilian manufacturers 1986-1998." *Technology and Productivity: A Study of Brazilian Manufacturers* 1998 (2002).

Brazil and Pavcnik (2000)¹⁹ focused on Chile, but there are few studies that encompass all four founding countries. A significant convergence analysis for Mercosur is proposed by Camarero (2002; 2006). The conditional convergence analysis presented in this research includes control variables as proposed by Mankiw, Romer, and Weil (MRW, 1992),²⁰ Kunčič (2014)²¹ and Coutinho and Turrini (2019)²². The empirical findings of this analysis are overall aligned with those of Camarero (2002; 2006), who adopts a different methodological framework, but our results are obtained for an updated timeframe (from 1960-1999 to 1980-2007).

1.4 Research Design and Research Strategy

The research design of this dissertation first refers to the guidebook of research methods for the social sciences written by Matthews and Ross (2010).²³ It is based on the *case study*²⁴ approach, as it is characterised by the detailed analysis of a single or a small number of entities (such as households and firms), organisations or states. This type of research design was preferred over other designs as it focuses on a detailed analysis of a single and particularly complex subject or phenomenon to investigate both its relations of cause and effect between its components, and the social, political, and economic context in which it takes place, following a holistic approach.²⁵

¹⁹ Pavcnik, Nina. "Trade liberalization, exit, and productivity improvements: Evidence from Chilean plants." *The Review of economic studies* 69, no. 1 (2002): pp. 245-276.

²⁰ Mankiw, N. Gregory, David Romer, and David N. Weil. "A contribution to the empirics of economic growth." *The quarterly journal of economics* 107, no. 2 (1992): pp. 407- 437.

²¹ Kunčič, Aljaž. "Institutional quality dataset." *Journal of institutional economics* 10, no. 1 (2014): pp. 135-161.

²² Coutinho and Turrini, (2019), Convergence and macroeconomic imbalances, Quarterly Report on Euro Area, Vol. \8 No.1, pp. 37-51.

²³ Bob Matthews and Elizabeth Ross. *Research methods: A practical guide for the social sciences*. pp. 1-481. Pearson Education Ltd, 2010.

²⁴ Ivi. pp. 128-130.

²⁵ Tellis, W. M. Introduction to Case Study. *The Qualitative Report*, 3(2), 4, (1997): n.p.

In the dissertation, the chosen case study is the Mercosur regional organisation, focusing on the political and economic integration and economic convergence processes in its founding countries (Brazil, Argentina, Paraguay, and Uruguay). Additionally, variations in these processes are observed in relation to the evolution of Mercosur's institutional nature since its creation. The analysis is carried out in the form of a *retrospective longitudinal study* as elaborated by Yin (2003)²⁶, because the main aim of the research is to investigate how this international regional organisation has evolved through time.

The longitudinal study design allows the researcher to observe the development over time of a given phenomenon: the dataset used in the research considers the Mercosur founding Member States referring to a specific time-period, ranging from 1980 up to 2007 to evaluate their process of economic convergence pre and two decades after their membership and Mercosur's full institutionalization. To assess this process, the analysis is performed by comparing the development of Mercosur Member States with the evolution of other countries, as similar as possible to those that are part of Mercosur except that for such membership. The empirical approach adopted in this study is not based on the identification of a control group. Instead, it focuses on selecting a group of Latin American States which are not members of the Mercosur organisation. This approach aims to obtain reliable quantitative estimates about whether, and to what extent, the Mercosur membership contributed to speeding the process of economic integration at given institutional and historical variations. Furthermore, the results of the empirical analysis cannot be considered in terms of causality, i.e., as the assessment of the effect of Mercosur membership on the process of economic integration of Mercosur countries.

²⁶ Yin, Robert K. "Design and methods." *Case study research* 3, no. 9.2 (2003), pp. 150-155.

In this dissertation the empirical analysis aims to provide significant inference on the economic convergence process both within and outside the Mercosur regional organisation and, to obtain empirical evidence on the role of Mercosur membership in the pace of the convergence process.

Using a holistic approach, not only the processes of economic integration will be observed but also the development of Mercosur's political integration process. The assessment of Mercosur's institutional political transformation will be considered from its inception with the Treaty of Asunción (1991) to the creation of the Mercosur Parliament (2006) and its most recent developments in the programme of cooperation and assistance in the security field with the European Union (El PAcCTO programme, 2017-2022).²⁷

To assess political integration development, reference will be made to *the neo-functional theory*, as elaborated by Ernst B. Haas in *Uniting of Europe* (1958).²⁸ The neo-functional theory (which will be discussed in Chapter II) deals with identifying triggering (or mitigating) factors in the integration processes of a regional organisation. Those factors are referred to as *spillover effects* (such as *political*, *functional*, and *external*) depending on which factor triggers it. The spillover effects, when successfully overcome, increase the process of integration of an organisation and its Member States. Thus, the neo-functional theory, developed to interpret the process of European integration, is reinterpreted in the case of Mercosur and is used to highlight the new impacts of Mercosur's institutional developments on its founder's Members' degree of political integration. Furthermore, the research provides estimates of a possible relation between the above developments and the process of real economic convergence of Mercosur countries.

²⁷ «EL PAcCTO - Programa de Asistencia Contra El Crimen Organizado». https://www.fiiapp.org/en/proyectos_fiiapp/el-paccto-assistance-programme-against-transnational-organised-crime/ (accessed October 2023).

²⁸ Haas, Ernst B. *Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*. University of Notre Dame Press, (re-edition 2020; first published in 1958): pp. 1-642.

The reference theoretical framework for this investigation is represented by the neoclassical model of economic growth proposed by Solow (1956)²⁹. The convergence analysis is twofold: first, it is performed considering the development of the per capita income gap between a sample of countries regardless of observable countries' characteristics, such as technology, investments, education, and institutions (unconditional convergence); second, the development of income per capita is investigated taken into account specific country characteristics potentially affecting economic growth (conditional convergence). The empirical framework is represented by the cross-country growth regression popularized by Barro and Sala-i-Martin (1991, 1992, 2004)³⁰. To summarise, the main aim of the research is to evaluate whether and to what extent the institutional and historical changes affected the Mercosur integration process, in both the political and economic fields, through qualitative and quantitative methodologies.

However, as for the qualitative analysis, there are other possible methods, such as the *grounded theory* considered by Matthews and Ross (2010) and the *ethnographic model* proposed by Corbetta, (2014).³¹ Nevertheless, these are not the most suitable approaches to answer the RQ of the project. The *grounded theory* is an *atheoretical* research strategy, i.e., based on the absence of theories and hypotheses during data collection, which are instead generated or developed from the data. Although useful to avoid deterministic *bias* during the research, in this study the goal is to account for the complexity of the political integration and economic convergence aspects of Mercosur over a long time-period, so that the observed data

²⁹ Solow, Robert M. "A contribution to the theory of economic growth." *The quarterly journal of economics* 70, no. 1 (1956): pp. 65-94.

³⁰ Barro, R. and X. Sala-i-Martin, "Convergence Across States and Regions," *Brookings Papers on Economic Activity*, 1, (1991): pp. 107-158. Barro, R. and X. Sala-i-Martin, "Convergence," *Journal of Political Economy*, 100, (1992): pp. 223-251. Robert J. Barro and Xavier Sala-i-Martin, (2004) *Economic Growth*, Second Edition, MIT press.

³¹ Corbetta, Piergiorgio. *Metodologia e tecniche della ricerca sociale*. Bologna: pp. 13-59. il Mulino, 2014.

were reduced according to the theories used. The neo-functionalist spillover theory led to the analysis of certain phases of Mercosur's development, emphasising actors or phenomena that were crucial to it. The *ethnographic model* presupposes the study of a phenomenon relying on the extensive use of interviews. Given the unfeasibility of assessing phenomena of political integration through interviews, this methodological approach was not adopted for the analysis of the RQ objectives.

1.5 Mixed Methods

The dissertation uses the *mixed method* as proposed by Tzagkarakis and Kritas, (2023).³² It is widely accepted that an appropriate combination of quantitative and qualitative methods (the mixed method) provides a better understanding of the research topic as opposed to using them separately.³³ Indeed, as proposed by Johnson and Onwuegbuzie (2004),³⁴ the mixed approach tries to cover any gaps and weaknesses between quantitative and qualitative research. Furthermore, *triangulation* is a common way to combine quantitative and qualitative approaches, which has been used in social sciences to detect different aspects of the research question, also because the deficiencies of one method are often the strengths of the other approaches.³⁵ Triangulation can be considered as the appropriate methodology for a mixed approach; it is considered as '*gathering data with multiple ways from multiple sources in a research process*'³⁶ and there have been considered four forms of triangulation by Denzin

³² Tzagkarakis, Stylianos Ioannis, and Dimitrios Kritas. "Mixed research methods in political science and governance: approaches and applications." *Quality & quantity* 57, no. Suppl 1 (2023): pp. 540-551.

³³ Creswell, John W., and Vicki L. Plano Clark. *Designing and conducting mixed methods research*. pp. 143-169. Sage Publications, 2017.

³⁴ Johnson, R. Burke, and Anthony J. Onwuegbuzie. "Mixed methods research: A research paradigm whose time has come." *Educational Researcher* 33, no. 7 (2004): pp. 14-26.

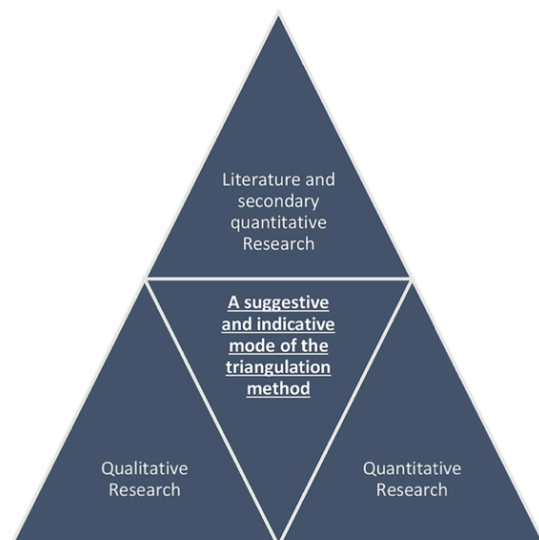
³⁵ Tzagkarakis, Stylianos Ioannis, and Dimitrios Kritas. "Mixed research methods in political science and governance: approaches and applications." *Quality & quantity* 57, no. Suppl 1 (2023): pp. 540-551.

³⁶ *Ibidem*.

(2012)³⁷: *methodological triangulation* (using different methods of data collection or analysis), *data triangulation* (using different sources of data), *theory of triangulation* (using different theoretical frameworks) and *investigator triangulation* (using different researchers).

Firstly, triangulation will be used in the form of *methodological triangulation*, as data and sources will be collected through different methodologies (quantitative and qualitative) to analyse a single phenomenon, the Mercosur economic and political integration processes. Secondly, the project uses different data sources, including economic variables (i.e., per-capita GDP growth rate), demographic (i.e., population) and socio-political factors (i.e., unemployment) both in the Mercosur countries and the other countries outside the Mercosur organisation. Thirdly, the research adopts different theoretical frameworks to obtain estimations of both economic convergence and political integration during the Mercosur evolution process. Logically, for this dissertation, the fourth form of triangulation – the investigator triangulation – is not adopted. The triangulation, in its general form, can be represented graphically as follows:

Figure 1: Triangulation



Source: Tzagkarakis and Kritas (2023).

³⁷ Denzin, Norman K. "Triangulation 2.0." *Journal of mixed methods research* 6, no. 2 (2012): pp. 80-88.

The selected approach for the assessment of the research questions is the mixed method of triangulation, which entails both a qualitative and a quantitative methodology. The research wants to analyse the effect of the spillovers, proposed by the neo-functional theory, in the Mercosur integration process, both from a political (qualitative) and economic (quantitative) side.

At the qualitative level, the dissertation will focus on the political integration processes in the Mercosur founding countries, according to the theories of Lindberg and Scheingold (1970)³⁸ and Börzel (2005)³⁹ and their subdivision of the *level* and *scope* of integration. To account for economic integration, the research refers to the regional integration stages as proposed in Balassa (1961;1976). The dissertation will make comparisons at different institutional *thresholds* as described by Morlino (2018)⁴⁰ – the point where the accumulation of minor non-structural changes leads to a major radical change – in the Mercosur historical evolution (addressed in Chapter III). Consequentially, the qualitative analysis will focus on analysing the impact of changes/thresholds in the Mercosur institutional structure and the political integration of Mercosur Member States within the trade bloc, while the quantitative analysis uses statistical methods to assess whether the real economic convergence was fostered by these institutional changes.

At the quantitative level, the research aims to evaluate whether, along with the formal institutions of Mercosur, its Member Countries, have experienced a more rapid real economic process, assessed in terms of real product per capita. Therefore, it could be helpful to consider the complementarity perspective of the social sciences, understood as *‘the interpretation of*

³⁸ Lindberg, LN Stuart A. Scheingold. *“Europe’s Would-Be Polity.” Patterns of Change in the European Community.* p. 67. Englewood Cliffs 1970.

³⁹ Tanja, A. Börzel. “Mind the gap! European integration between level and scope.” *Journal of European Public Policy*, 12:2, (2005): pp. 217-236.

⁴⁰ Morlino, Leonardo. *Comparison: A methodological introduction for the social sciences.* Verlag Barbara Budrich, p. 57. 2018.

*different aspects of social phenomena through the synthesis of the results of each method*⁴¹.

Both methods (qualitative and quantitative) complement each other by offering a research's broader analyses.

1.5.1 Qualitative method: the Level and the Scope of political integration

The research project aims to qualitatively analyse the evolution of the degree of political integration of the Mercosur founding countries. It is decisive to outline how the concept of political integration can be assessed and classified. First, the research focuses on Lindberg and Scheingold's (1970) division of integration into *scope* and *locus* (level). By *scope*, the research considers the expansion of Mercosur's *competencies* into new areas (such as political and social) from those initially codified in the treaties (such as economic). For instance, the extension that took place after the Buenos Aires Consensus (2003) can be considered as an 'informal extension' rather than a treaty revision. As a *level*, the research considers the *decision-making relationships* between the Mercosur Member States and the Mercosur organisation in the management of the competencies formerly identified by the scope. Furthermore, the concept of *scope* and *level* proposed by Börzel (2005), based on Scharpf's (2001, 2003)⁴² works and recalling the division of integration made by Lindberg and Scheingold (1970) mentioned above, is applied to the Mercosur case.

As far as the concept of *level* is concerned, Börzel's (2005) definition does not substantially change from the one proposed by Lindberg and Scheingold (1970). They will be

⁴¹ Tzagkarakis, Stylianos Ioannis, and Dimitrios Kritas. "Mixed research methods in political science and governance: approaches and applications." *Quality & quantity* 57, no. Suppl 1 (2023): pp. 542.

⁴² Scharpf, F.W. "Notes toward a theory of multilevel governing in Europe." *Scandinavian Political Studies* 24, no. 1 (2001): pp 1–26. See also Scharpf, F.W. "Legitimate diversity: the new challenge of European integration." in T.A. Börzel and R. Cichowski (eds), *The State of the European Union VI: Law, Politics, and Society*, Oxford: Oxford University Press, 2003, pp. 79–104.

similarly used in the research, but if elaborated in Börzel's (2005) definition, reference will be made to a change in competence resulting from a change in the treaties from the Treaty of Asunción (1991) to the inclusion of the Ouro Preto Protocol (1994), but not considering other informal effects, such as legal and policy outputs (Buenos Aires Consensus). However, concerning the definition of the *scope*, Börzel (2005) elaborated a different classification, focusing on the changes in national competencies in the treaties. Börzel (2005) focuses exclusively on changing voting rules, and the intervention of supranational bodies (if any) to exercise supranational powers.

This research will consider both 'informally' and 'formally' the evolution of scope and levels of integration, to observe how the coordination and the competencies between Mercosur's Member States have evolved. It will also investigate whether the regional organisation has maintained its intergovernmental nature or has elaborated features close to a supranational entity. For those reasons, the research adopts the same methodological approach as Börzel (2005), where the constituent treaties of the Mercosur organisation will be used as primary sources. Concomitantly, despite the different institutional structures of the Mercosur organisation and the European Union, the research considers the table used to map the expansion of the European Union tasks (Figure 2) to carry out a similar analysis but applied to the Mercosur case.

Figure 2: Mapping the task expansion of the EU

<i>Level of authority</i>	
breadth (number of issues which fall under EU competence)	
1	= <i>exclusive national competencies</i> (0% EU) competencies for all policy issues at national level
2	= <i>shared competencies "light"</i> competencies for most policy issues at national level
3	= <i>shared competencies "medium"</i> competencies for policy issues split between national and EU level
4	= <i>shared competencies "strong"</i> competencies for most policy issues at EU level
5	= <i>exclusive EU competencies</i> (100% EU) competence for all policy issues at EU level
<i>Scope of authority</i>	
depth (involvement of supranational bodies and Council voting rule)	
0	= <i>no coordination at EU level</i>
1	= <i>intergovernmental coordination</i> (European) Council as executive and legislative body, acts by unanimity no right of initiative of European Commission no involvement of European Parliament no judicial review by European Court of Justice
2	= <i>intergovernmental cooperation</i> Council as main executive and legislative body, acts by unanimity right of initiative of European Commission shared with Council consultation of European Parliament restricted judicial review by European Court of Justice
3	= <i>joint decision-making I</i> exclusive right of initiative of European Commission co-legislation by Council acting by a) unanimity and consultation of European Parliament (3.0) b) unanimity and co-decision procedure OR majority and consultation of European Parliament (3.5) full judicial review by European Court of Justice
4	= <i>joint decision-making II</i> exclusive right of initiative of European Commission co-legislation by Council acting by majority and European Parliament via a) cooperation (4.0) b) co-decision procedure (4.5) full judicial review by European Court of Justice
5	= <i>supranational centralization</i> unilateral decision of European Commission/European Central Bank no involvement of Council and European Parliament full jurisdiction of European Court of Justice

Source: Börzel (2005).

Consequently, the research strictly measures the formal institutional evolution of Mercosur in its *level* and *scope* dimensions on a point scale from 1 to 5. However, to assess an expansion of the theoretical concept of *scope* and *level* of Mercosur integration, it is also appropriate to investigate improvements in political integration as a whole. This issue is addressed by applying the results of Lindberg and Scheingold (1970, 1971)⁴³ and Jensen (2000)⁴⁴, who developed and implemented a measurement scale from 1 to 5 for the different levels of political integration (Figure 3), considered concomitantly with Balassa's (1961;1976) studies on the progression of regional integration (addressed in Chapter II).

⁴³ Lindberg, Leon N., and Stuart A. Scheingold. «Regional integration: Theory and research. » (1971): pp. 3-44.

⁴⁴ Jensen, Carsten Stroy. "Neofunctionalist theories and the development of European social and labour market policy." *J. Common Mkt. Stud.* 38 (2000): p. 78.

Figure 3: Political Integration

<i>Score</i>	
1	All policy decisions by national processes
2	Only the beginning of Community decision processes
3	Policy decisions on both, but national activity predominates
4	Most decisions must be taken jointly, but substantial decisions are still taken autonomously at national level
5	All policy decisions taken by joint Community processes

Source: Jensen (2000), Lindberg and Scheingold (1970; 1971).

Figure 3 allows a quick visualisation of all possible stages of political integration through a regional integration process: from an international organisation (stage 1), where all decisions are taken at the national level and the organisation can only act as a dialogue platform, to a level where all decisions are realised through the decision-making mechanisms of the multi-regional entity (stage 5). In this study, these different scales of measurement of political integration are applied to the major phases of institutional changes of the Mercosur case, to assess whether there have been changes in the degree of political integration from its foundation onwards.

1.5.2 Quantitative method: the Mercosur real economic convergence

The project research question, partly similar to the study of Camarero (2002; 2006)⁴⁵, seeks to verify whether the political and economic integration dynamics provoked since the birth of Mercosur in 1991, led the Member States' economies to converge.

⁴⁵ Camarero, Mariam, Renato Flores, and Cecilio Tamarit. "Multivariate time series evidence of international output convergence in Mercosur." In *Computing in Economics and Finance*, vol. 87. 2002. Camarero, Mariam, Renato G. Flôres Jr, and Cecilio R. Tamarit. "Monetary union and productivity differences in Mercosur countries." *Journal of Policy Modeling* 28, no. 1 (2006): pp. 53-66.

Broadening and updating Camarero's (2006) analysis, a more recent time-period (1980-2007) than Camarero's (1960-1999) will be considered, so the latest political and institutional developments in Mercosur (Chapter III) can be assessed in terms of real economic convergence. Barro and Sala-i-Martin (1997) and Grossman and Helpman (1991)⁴⁶ emphasise that economic integration, at a regional level in the case of Mercosur, can lead to the diffusion of technologies and the advancement of less developed economies towards convergence of per capita GDP levels. Contrarywise, as pointed out by García (2000)⁴⁷, even the use of common technologies may still not reduce economic differences between countries in the long run due to the heterogeneity of other factors, such as social infrastructure, institutions, and government policies. Thus, the empirical analysis proposed in this study is aimed to investigate two core questions. The first issue can be defined as follows: are the initial differences in aggregate economies (Mercosur) transitory over sufficiently long-time horizons? The second issue concerns the identification of the determinants of growth: which factors seem to explain the observed differences in growth?⁴⁸

The quantitative approach used in this research relies on the empirical tool of *economic growth regressions* following the methodology proposed by Barro (1991, 1992, 2004) which allows testing the assumption of both the unconditional and *conditional* convergence across the Mercosur Member States, over a long-time interval and in specific sub-periods of the institutional evolution of the regional organisation. While some technical specifications of the model, such as the selection of variables, will be discussed in Chapter IV, this section introduces the main concepts of economic convergence.

⁴⁶ Grossman, G., and Helpman, E. (1991). *Innovation and growth in the global economy*. Cambridge, MA: MIT Press.

⁴⁷ Garcia Pascual, Antonio I. "Productivity differences in OECD countries." CESifo Working Paper Series no. 318. (2000): pp. 1-14.

⁴⁸ Durlauf, Steven N., Paul A. Johnson, and Jonathan RW Temple. "Growth econometrics." *Handbook of economic growth* 1 (2005): pp 27-28.

The theoretical framework used to investigate the implications of economic growth and of real the major focus points – the economic convergence – is represented by Solow's (1956) growth model, which deals with analysing changes in an economy over time as a result of changes in some of its determining factors, such as technological progress and real output convergence, as underlined by Kevin et al., (1997).⁴⁹ The research is centered on examining the concepts of unconditional and conditional convergence. First, if the differences in per capita incomes are temporary between the observed economies, unconditional or conditional convergence (to a common long-run level) occurs. If the differences in per capita incomes are permanent, mainly because of cross-country structural heterogeneity, then conditional convergence applies. However, if the focus is less on the persistence of initial conditions and more on whether the cross-country dispersion of per capita incomes is decreasing across time, then the analysis is in terms of income distributional dynamics (so-called σ -convergence). An alternative method of distinguishing conditional convergence from unconditional convergence involves incorporating control variables in the growth regression specification with their selection contingent upon the research scope.

In this research, the analysis of conditional convergence is assessed by considering human capital, and the investment ratio as pivotal control variables fostering economic growth, as outlined by Mankiw, Romer, and Weil (MRW, 1992)⁵⁰ and their expanded version of Solow's economic growth model. Moreover, other control variables as outlined by Kunčič (2014) could be incorporated to address the measure of the quality of economic institutions.

⁴⁹ Lee, Kevin, M. Hashem Pesaran, and Ron Smith. "Growth and convergence in a multi-country empirical stochastic Solow model." *Journal of applied Econometrics* 12, no. 4 (1997): pp. 357-392.

⁵⁰ Mankiw, N. Gregory, David Romer, and David N. Weil. "A contribution to the empirics of economic growth." *The quarterly journal of economics* 107, no. 2 (1992): pp. 407- 437.

Chapter II: Theoretical Framework

This section delves into various theories and theoretical terms employed throughout the research project, associating each of them with the topics discussed in the dissertation. Beyond examining regionalism, the section draws parallels with the Latin American context. In addressing the neo-functionalist theory and spillover effects, this section starts to refer to the Latin America integration processes, while the consequent transposition to the Mercosur institutional evolutions will be discussed in the following Chapter.

2.1 Political and Economic Regionalism

The macro-area of the research project is regionalism. This term is bivalent from a semantic point of view: it can be both an *agent within the state* (e.g., regionalist autonomist movements) and *between states* (e.g., European, and Latin American regionalism). While focusing on regionalism between states,⁵¹ the research project will focus also on *regionalism* understood as a political voluntary project aimed at increasing the integration between states.⁵² Specifically, the analysis investigates if the constitutional changes observed within the Mercosur can be related to real economic convergence' changes in the organisation's founding countries.

Consequently, the concept of regional integration can be developed according to four characterising elements. Firstly, it may include a set of public or private actors; secondly, different levels of integration (top-down or bottom-up approaches)⁵³ may be imposed in a diversity of agendas; thirdly, it may occur under a deliberate strategy or as an unexpected

⁵¹ It is appropriate not to associate it with the concept of *regionalisation*, understood as an informal process of regional interaction, in its economic, social, and cultural meanings. See Santos, Sergio Caballero. "Identity in Mercosur: Regionalism and nationalism." *Global Governance* (2015): pp. 43-59.

⁵² Kacowicz, Arie M. "Regional governance and global governance: Links and explanations." *Global Governance* 24 (2018): p. 63.

⁵³ Haddad, Eduardo A., Edson P. Domingues, and Fernando S. Perobelli. "Regional effects of economic integration: the case of Brazil." *Journal of Policy Modeling* 24, no. 5 (2002): p. 460.

consequence by the interactions of the actors involved; finally, it may lead to institution building⁵⁴ – understood as the creation of *ad hoc* institutions to achieve this purpose or reinforcing that already exist.⁵⁵

In regional integration processes, the creation of a collective identity of states – characterising the concept of regionalism – is formed by a progressive increase in interdependence. Interdependence can occur endogenously, given an increased intensity of political and economic interactions (such as trade and capital flows), or through an exogenous shock. In the latter case, it could be caused by external actors - in the Latin American countries by a hegemonic power⁵⁶ such as the United States - or by an indirect threat, such as the current hydrological collapse in the Latin American region.⁵⁷

Through a deductive approach, regionalism could be broken down into political and economic features. Accordingly, it is possible to define the concepts of regionalism in an economic union, based on the removal of administrative and fiscal barriers to trade by promoting mobility factors (capital and labour) and adopting common policies on product regulation; regionalism involving political union envisages the end of autonomous decision-making systems of states in a broad policy area.⁵⁸

⁵⁴ «Institution building | United Nations, InforMEA». <https://www.informea.org/en/terms/institution-building> (Accessed August 2023).

⁵⁵ Santos, Sergio Caballero. "Identity in Mercosur: Regionalism and nationalism." *Global Governance* (2015): pp. 43-59.

⁵⁶ Mazzei, Franco, Raffaele Marchetti, and Fabio Petito. *Manuale di politica internazionale*. pp. 1-327 Egea-Università Bocconi Editore-UBE, 2010.

⁵⁷ Santos, Sergio Caballero. "Identity in Mercosur: Regionalism and nationalism." *Global Governance* (2015): pp. 43-59.

⁵⁸ Haas, Ernst B., and Philippe C. Schmitter. "Economics and differential patterns of political integration: Projections about unity in Latin America." *International Organization* 18, no. 4 (1964): p. 709. See also Mahlknecht, Jürgen, Ramón González-Bravo, and Frank J. Loge. "Water-energy-food security: A Nexus perspective of the current situation in Latin America and the Caribbean." *Energy* 194 (2020): p. 6.

Furthermore, the Latin American regionalism case could be differentiated into two specific and different phases.⁵⁹ The first phase of the expansion of the 'old'⁶⁰ regionalism in the Latin American continent took place with the Inter-American Treaty for Mutual Assistance (in its Spanish acronym, TIAR, 1947) and the Organisation of American States (OAS, 1948). From an economic perspective, the first phase went from the economic integration policies of the 1950s adopted by the United Nations Economic Commission for Latin America and the Caribbean, (in its Spanish acronym, CEPAL, 1948)⁶¹ to the Latin American debt crisis - *La Década Perdida* - of the 1980s. This first stage of Latin American regionalism was based on the economic-commercial model of Import Substitution Industrialisation (ISI),⁶² a process of industrialisation that involved sustaining intra-regional trade, maintaining high tariffs towards trades from third countries and rebuilding the industrial apparatus of Latin American states. The promotion of regionalism, and the ISI model, was seen as a possibility for Latin American countries to get out of the present trading system, in which they exported raw materials to foreign countries at low prices, often having to buy the processed material later at a higher price, lacking an entrenched local manufacturing sector and economies of scale. Despite some initial successes, the 'old' regionalism was not able to create a solid apparatus necessary for massive exports to foreign countries. With the debt crisis of the 1980s in Latin America, there was an abrupt decline in local manufacturing production and intra-extra-regional trade – which marked the downfall of regionalist impulses and the continent's industrialisation processes. Conversely, there was strong opposition from several international financial institutions (IFIs)⁶³ to new

⁵⁹ Bulmer-Thomas, Victor. "Regional integration in Latin America and the Caribbean." *Bulletin of Latin American Research* 20, no. 3 (2001): pp. 360-369.

⁶⁰ Sanahuja, José Antonio. "Post-liberal regionalism in South America: the case of UNASUR." Working Paper, EUI RSCAS, (2012): p 2.

⁶¹ Presided by the Executive Secretary Raúl Prebisch.

⁶² Bulmer-Thomas, Victor. "Regional integration in Latin America and the Caribbean." *Bulletin of Latin American Research* 20, no. 3 (2001): pp. 360 – 361.

⁶³ Mainly, the International Monetary Fund (IMF), the World Bank and the Bank for International Settlements (BIS).

regionalism impulses. In this context, characterised by mistrust towards regionalisms, the 'new regionalism' was established.

This new kind of regionalism started gradually and broke away fiercely from the 'old' regionalism, not wanting to promote the ISI model. The 'new' regionalism, or as it is called by Latin Americanists *'el regionalismo abierto'*⁶⁴ is a specific phase of regionalism that began in the 1990s and is still ongoing. In this new process of regional integration, there was the prospect of a greater enrichment of regional economic and political relations (e.g., the birth of *Unión de Naciones Suramericana* in 2004) as well as the increasing involvement with other non-Latin American countries (e.g., *Foro de Cooperación América Latina-Asia del Est.*, 1999) besides the US partner, which attracted foreign investment and increased trade relations. In this new regional phase, characterised by the massive internal involvement by the non-state actors, such as the local stakeholders and the civil society, and strong relations with state actors outside the Latin American regional bloc, the *Mercado Común del Sur* (Mercosur, 1991) began to grow.⁶⁵

Finally, it is worth recalling the dual tensions that have characterised Latin American regional integration processes, including Mercosur. The image of the *'Patria Grande'*⁶⁶ – the great homeland – in a union of Latin American peoples, but characterized by a strong nationalism, arose during the post-independence process in the nineteenth century, after decades of Iberian domination. These two different perspectives, unified by the ambition of international restoration as global powers, constitute the Latin American trilemma, expertly described in the words of Sanahuja (2012): *'Latin America has three mutually contradictory objectives: first, the defence of the nation-state and national sovereignty; second, its traditional*

⁶⁴ Cruz, Giovanni Molano. "El interregionalismo y sus límites: Interregionalism and its limits." *Estudios Internacionales* (2007): p. 14 -15.

⁶⁵ Desiderá Neto, Walter Antonio. "The evolution of MERCOSUR behaving as an international coalition, 1991-2012." *Contexto internacional* 38 (2016): pp. 593-620.

⁶⁶ Sanahuja, José Antonio. "Post-liberal regionalism in South America: the case of UNASUR." Working Paper, EUI RSCAS, (2012): p. 1.

ambitions for unionism and regional integration; and third, the search for greater autonomy at the international level'.⁶⁷

2.2 Regional Economic Integration

Regional economic integration is described as a process '*in which two or more countries agree to eliminate economic barriers, with the end goal of enhancing productivity and achieving greater economic interdependence*'⁶⁸. The analyses of Mercosur, and its evolution, follow this definition.

Additionally, Béla Alexander Balassa studies (1961;1976)⁶⁹ encapsulate the different steps of regional integration in a perspective of progression, establishing different stages that are gradually implemented following the evolution of regional integration processes: *trade integration* (1), characterised by the removal of trade barriers; *factor integration* (2), consisting in the liberalisation of goods, services, and factors of production; *policy integration* (3), referring to the progressive harmonisation of the different national policies of member states; finally, *total integration* (4), which consists in the full unification of economic and trade policies.

Regional economic integration consists primarily of Regional Integration Agreements (RIAs).⁷⁰ The RIAs currently take more than 35 forms, but for our research purposes, this dissertation refers to the traditional categorisation proposed by Balassa (1961) which identifies

⁶⁷ Ibidem.

⁶⁸ Rillo, Aladdin D., and Valdimir dela Cruz. "Monitoring regional economic integration in Asia." (2016). *Asian Development Bank Institute* (2016): pp. 1-8.

⁶⁹ Balassa, Bela. "Types of economic integration." In *Economic Integration: Worldwide, Regional, Sectoral: Proceedings of the Fourth Congress of the International Economic Association held in Budapest, Hungary*, pp. 17-40. London: Palgrave Macmillan UK, 1976. Balassa, B. (1961a): *The Theory of Economic Integration*. Richard D. Irwin, Inc, p. 2.

⁷⁰ Schiff, Maurice W., and L. Alan Winters. *Regional integration and development*. World Bank Publications, (2003): p. 3.

the following types of RIAs: Free Trade Agreements (FTA), which consists in the removal of tariffs between the member states of the regional bloc but leaves them the autonomy to set tariffs to third countries; Customs Union (CU) in which the tariffs for third states will be codified uniformly for all member states; Common Market (CM), that allows the free movement of goods, services and factors of production between the member States of the regional bloc; Economic Union (EUN), which is characterized by a strong degree of coordination of national economic policies and a possible national law harmonization between the member states; lastly, the Total Economic Integration (TEI).

The Mercosur constituent treaty (Treaty of Asunción, 1991) foresaw the establishment of a Common Market, and the four members of the agreement were required to adopt it by 31st December 1994.⁷¹ In a conceptual framework along the lines of the Treaty for the European Economic Community (EEC), it stipulated the free movement of goods, services, persons, and capital between Member States, eliminating customs duties and non-tariff restrictions – thus reaching the level of FTAs mentioned above. Furthermore, the Mercosur organisation consolidated its nature as a CU by applying a common external tariff and adopting a common trade policy with third countries. Furthermore, the coordination of macroeconomic and sectoral policies between Member States, such as agricultural, industrial, fiscal, foreign, and monetary policies as well as the legislative harmonisation in the areas of services, customs, transport, and communications strengthen the regional integration. Thus, according to Balassa's (1976) classification, the first three stages were, almost formally, established in the Mercosur organisation: trade integration (Article 1, Article 5, a, and Article 7), factor integration (Article

⁷¹ Haines-Ferrari, Marta. "MERCOSUR: A New Model of Latin American Economic Integration." *Case W. Res. J. Int'l L.* 25 (1993): pp. 423 – 424.

1 and Article 5, a) and policy integration, mainly in its macroeconomic aspects (Article 1 and Article 5, b,)⁷².

2.3 Neofunctionalism and Spillover Effects

Qualitatively, the research project is concerned with analysing the institutional evolution of Mercosur through the spillover effects in the neo-functionalist theory, elaborated by Ernst B. Haas (1958)⁷³ in his first work, *Uniting for Europe*. Although it is common practice among political scientists, it is interesting to recall that Haas always insisted that neo-functionalism was not a theory but an approach.⁷⁴ However, for consistency with the literature, the research project refers to neo-functionalism as a theory.

The neo-functionalist theory, which originated between a synthesis of David Mitrany's *functionalism* and Jean Monnet's pragmatism, is contradistinguished by certain axioms that consider states as non-exclusive actors in the international arena.⁷⁵ Nevertheless, mirroring perhaps a realist⁷⁶ view of international relations (although his idea stood in stark contrast to the theories of international relations at the time),⁷⁷ the relations between states in integration processes are based on interests, not on common identity, which may change over time.⁷⁸ Finally, the state's interests are also influenced by interest groups within them and may be based

⁷² SICE-MERCOSUR Treaty of Asunción http://www.sice.oas.org/trade/mrcsr/TreatyAsun_e.asp#CHAPTER_I (Accessed, August 2023), p 424.

⁷³ Haas, Ernst B. *Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*. University of Notre Dame Press, (re-edition 2020; first published in 1958): pp. 1-642.

⁷⁴ Schmitter, Philippe C. "Ernst B. Haas and the legacy of neofunctionalism." In *The Disparity of European Integration*, p. 255. Routledge, 2013.

⁷⁵ Ibidem.

⁷⁶ Mazzei, Franco, Raffaele Marchetti, and Fabio Petito. *Manuale di politica internazionale*. pp. 1-327. Egea-Università Bocconi Editore-UBE, 2010.

⁷⁷ Haas, Ernst B. *Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*. University of Notre Dame Press, (re-edition 2020; first published in 1958): p. 239.

⁷⁸ Schmitter, Philippe C. "Ernst B. Haas and the legacy of neofunctionalism." In *The Disparity of European Integration*, p. 257. Routledge, 2013.

on an imperfect cost-benefit calculation, perhaps recalling the *game theory*,⁷⁹ it elaborates an imaginary bargaining between different actors that pursue different interests and who cooperate or choose to defect according to their exclusive interest in the integration processes.⁸⁰ Continuing the analysis of neo-functionalist theory, Haas (1958) underlines some other factors that should promote regional integration. Stressing the European integration process, he emphasises the importance of the convergence of member states' economic interests, the bureaucratisation of decision-making, and some certain cooperation of pragmatic political and economic interest groups in achieving regional integration.⁸¹ Finally, Haas (1958) highlights the importance of a political, economic, and social substrate in the member states.

Summarising the key points of the neo-functionalist theory, it envisages integration as a gradual process, rather than as a given outcome between countries. It often starts with economic and sectoral factors that are less contested – '*l'engrenage*' – and it is provoked by either state or non-state⁸² actors through a series of 'crises' or pressures triggered by technocratic supranational institutions. These mechanisms provoke spillover effects⁸³, that could increase integration and lead to the growth of interdependence.⁸⁴ Haas (1958) suggests a gradual automatism in the occurrence of spillover phenomena, following Balassa's (1976) stages of economic integration, within a teleological, rational, and self-sustaining integration framework.⁸⁵

⁷⁹ McCarty, Nolan, and Adam Meirowitz. *Political game theory: an introduction*. Cambridge University Press, (2007): pp. 1-415.

⁸⁰ Schmitter, Philippe C. "Ernst B. Haas and the legacy of neofunctionalism." In *The Disparity of European Integration*, p. 257. Routledge, 2013.

⁸¹ Mattli, Walter. "Ernst Haas's evolving thinking on comparative regional integration: of virtues and infelicities." In *The Disparity of European Integration*, p. 330. Routledge, 2013.

⁸² Wiener, Antje. *European integration theory*. pp. 1-329. Oxford University Press, 2019.

⁸³ Dolan, Michael B. "The study of regional integration: A quantitative analysis of the neo-functionalist and systemic approaches." *International Studies Quarterly* 19, no. 3 (1975): p. 286.

⁸⁴ Bergmann, Julian, and Arne Niemann. "From Neo-Functional Peace to a Logic of Spillover in EU External Policy: A Response to Visoka and Doyle." *JCMS: Journal of Common Market Studies* 56, no. 2 (2018): pp. 420-438.

⁸⁵ Rosamond, Ben. "The uniting of Europe and the foundation of EU studies: revisiting the neofunctionalism of Ernst B. Haas." *Journal of European public policy* 12, no. 2 (2005): pp. 21-38.

The neo-functionalist theory provides significant tools to assess the progress of a regional integration process. First, it is paramount to observe the processes of conflict resolution within the organisation and if their resolution is centred on the improvement of the common interest in political and economic matters instead of a lowering of disputes between the parties to the lowest common denominator.⁸⁶ In the first case, the dispute generates a maximization of the spillover effects. Consequently, a successful integration process would show a greater number of intra-regional transactions between the parties involved in a possible convergence of goals, loyalties, and expectations between member states, as well as the gradual acceptance of a supranational system of authority and its ruling on competence management and dispute resolution. Instead, a stagnation, failure, or retreat of integration processes, will be characterised by a predominance of inter-state and inter-governmental relations and opposition to supranational regional governance.

When applying the theory to Latin American regional integration processes, some potential issues can be highlighted. Latin America is characterised by a strong nationalism which could be an obstacle to the processes of integration and political and economic interdependence. Therefore, following the game theory, this transforms a potential positive-sum game into a zero-sum game. Additionally, Latin America is characterised by strong political, social, and economic heterogeneity between countries.⁸⁷ Indeed, in the Mercosur organisation, the differences between Uruguay and Paraguay with macro-regional actors such as Argentina and Brazil, could increase the difficulty of establishing common positions between all countries. Furthermore, it is important to emphasise the decisive influence that the political field has in the Latin American economy; politics tend to prevail in economic decision-making

⁸⁶ Mattli, Walter. "Ernst Haas's evolving thinking on comparative regional integration: of virtues and infelicities." In *The Disparity of European Integration*, Journal of European Public Policy, 12:2 (2005): p. 329.

⁸⁷ Väyrynen, Raimo. "Regionalism: old and new." *International Studies Review* 5, no. 1 (2003): pp. 25-51.

processes, with the result that ideologies more than pragmatism lead the economic choices, contrary to what happened for the European economies' integration process.⁸⁸ This is demonstrated by the ineffective economic policies adopted by both the Latin American Free Trade Association (LAFTA, 1960) and the CEPAL towards most Latin American countries. Moreover, the lack of entities with supranational powers and the presence of intergovernmental entities, which occasionally perform this function, such as the Inter-American Peace Committee (1948-1965) with the subcommittees in the OAS, never seem to go beyond the lowest common denominator and do not provoke a shift in powers and competences in this regard.⁸⁹ It should also be noted that the intensity of regional integration is positively correlated with diversified and industrialised economies, scarcely present during the first phase of Latin American regionalism.

Finally, Haas (1958) wanted to present the *impasse* of integration processes in the first phase of Latin American regionalism as a success of neo-functionalism. This was due to the absence of the factors that he defined as necessary causes for successful regional integration, such as full political mobilisation and a constitutional democratic resolution of disputes at the political level.⁹⁰ Therefore, it is paramount to analyse the second wave of Latin American regionalism, with the case study of Mercosur, through the neo-functionalism framework. Indeed, this research analyses the institutional evolution of Mercosur, not only in its primary mandate featured by greater economic integration but also exploring some possible secondary effects. These include a possible shift towards a supranational political entity, which will give a fundamental stimulus to the Latin American regional integration process and make it possible

⁸⁸ Haas, Ernst B. "The uniting of Europe and the uniting of Latin America." *J. Common Mkt. Stud.* 5 (1966): p. 334.

⁸⁹ Haas, Ernst B. "International integration: The European and the universal process." *International organization* 15, no. 3 (1961): p. 381-382.

⁹⁰ Haas, Ernst B. "Does Constructivism Subsume Neofunctionalism? In *The Social Construction of Europe*, edited by Thomas Christiansen et al., 22–31 London: Sage, (re-edition 2001; first published in 1975): pp. 29-30.

to observe the relationship between the processes of both political and economic integration. According to the neo-functionalist theory, *the primus movens* of political integration is influenced by the economic integration already taking place in a regional organisation.⁹¹ Political integration could be positively stimulated during the process of economic integration, as it is caused by spillover effects. According to neo-functionalism, the concepts of political and economic integration are interdependent, and it is, therefore, logical to observe them in parallel in their evolution through using qualitative perspectives.

2.3.1 Political Spillover

The concept of spillover is certainly one of the most important aspects of Haas's neo-functionalist theory, as it is capable of gradually increasing integration within international organisations. According to Haas (1958;1961), spillovers are divided into different categories: *functional*, *political* and *cultivated*. A fourth category is *external* spillover which was theorised by Bergmann and Niemann (2018)⁹². Concerning the political spillover effect, Haas (1958) emphasizes the role of national elites who push for transnational shifting of domestic issues. In the political spillover, political elites will tend to gradually reorient their political expectations and activities, thus generating a new political stimulus to the integration process.⁹³ More specifically, Haas (1958) focused on the role of non-governmental political interest groups in parallel with the creation of the first European-level organisations in Western Europe. Contrarywise, Lindenberg (1963)⁹⁴ mainly emphasised the role of governmental elites and their

⁹¹ Ilievski, Nikola Lj. "The concept of political integration: the perspectives of neofunctionalist theory." *J. Liberty & Int'l Aff.* 1 (2015): p. 48.

⁹² Bergmann, Julian, and Arne Niemann. "From Neo-Functional Peace to a Logic of Spillover in EU External Policy: A Response to Visoka and Doyle." *JCMS: Journal of Common Market Studies* 56, no. 2 (2018): p. 429.

⁹³ Haas, Ernst B. *Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*. University of Notre Dame Press, (re-edition 2020; first published in 1958): pp. 1-642.

⁹⁴ Lindberg, Leon N. *The political dynamics of European economic integration.* (1963). University of California, p. 163.

rapid growth which stimulated different subcommittees and working groups. This process resulted in a '*bureaucratic inter-penetration*' that would foster continuous interaction (and increased interdependence) between the various governmental staff and apparatuses. In both perspectives, local elites and interest groups realise that their interests cannot be effectively addressed at the national level and decide to shift their political expectations and activities towards a new supranational entity, or a '*European centre*'.⁹⁵ During this spillover process, functional interdependencies between policy areas are brought to light, with particular emphasis on socialisation processes to reorient the expectations of government elites.

2.3.2 Functional Spillover

Functional spillover takes into account a particular situation in which the original goal can only be achieved by expanding the powers and tasks initially delegated so that expanding the powers will consequently also expand the actions taken and stimulate greater integration.⁹⁶ Haas (1958) directly traces this definition of spillover to the concept of economic integration: '*begets its own impetus toward extension of the entire economy*'⁹⁷. However, it must be emphasised that the impact of possible functional pressures always depends on how much the original objective is anticipated by the actors involved and, how open they are to undertake further integrative developments.⁹⁸ These 'functional discrepancies' do not automatically lead to further integration; several neo-functionalists authors have suggested the analysis of political discourse

⁹⁵ Niemann, Arne, and Demosthenes Ioannou. "European economic integration in times of crisis: a case of neofunctionalism?" *Journal of European Public Policy* 22, no. 2 (2015): pp. 198 – 199.

⁹⁶ Niemann, Arne. "The PHARE programme and the concept of spillover: neofunctionalism in the making." *Journal of European Public Policy* 5, no. 3 (1998): p. 430.

⁹⁷ Haas, Ernst B. *Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*. University of Notre Dame Press, (re-edition 2020; first published in 1958): p. 297.

⁹⁸ Bergmann, Julian. "Neofunctionalism and EU external policy integration: The case of capacity building in support of security and development (CBSD)." *Journal of European Public Policy* 26, no. 9 (2019): p. 1256.

as an indicator of possible integrative developments.⁹⁹ Thus, when 'functional dissonances' are not compensated or balanced, they may generate shocks that in their management may move towards greater integration, but this can only occur if the functional structure does not automatically and predictably determine the actors' behaviour, and thus automate the management of internal functional crises. In conclusion, it is possible to summarize certain elements that are indispensable for the success of a functional spillover: a series of functional interdependencies that lead to dysfunctionality or criticality among the actors involved, path dependencies and the impossibility of alternative solutions other than increased independence, and, finally, the involvement of political stakeholders to support the increased functional logic.¹⁰⁰

2.3.3 External Spillover

This type of spillover is configured by its exogenous nature and three characterising factors: the first one concerns the 'externalisation' of the EU's internal policies. For instance, an instrument such as Europol (1998), based on the coordination of European criminal intelligence in the fight against and prevention of terrorism, is replicated in the South American Mercosur countries in the European Programme EL PAcCTO, whose main objectives include the fight against drug trafficking and cooperation in the prevention of terrorism through cooperation processes between its 17 countries (including the four analysed belonging to Mercosur) and 140 institutions.¹⁰¹ The second assumption concerns the presumption that successful regional

⁹⁹ Niemann, A. and Ioannou, D. 'European economic integration in times of crisis: a case of neofunctionalism?', *Journal of European Public Policy* 22(2) (2015): pp. 196–218.

¹⁰⁰ Bergmann, Julian. "Neofunctionalism and EU external policy integration: The case of capacity building in support of security and development (CBSD)." *Journal of European Public Policy* 26, no. 9 (2019): p. 1257.

¹⁰¹ «L'America Latina e l'Unione Europea hanno rafforzato l'alleanza nella lotta al crimine organizzato grazie al Programma EL PAcCTO». IILA, 2022. <https://iila.org/it/lamerica-latina-e-lunione-europea-hanno-rafforzato-lalleanza-nella-lotta-al-crimine-organizzato-grazie-al-programma-el-paccto/> (Accessed August 2023).

integration stimulates further integration. With the success of EL PAcCTO, (2017-2022) ¹⁰² evidenced by the refinancing of the EL PAcCTO, 2.0 in 2023, a progressive greater political integration of Mercosur countries through this programme could be considered. The third and last assumption attaches particular importance to exogenous events in states that can create internal pressures (through the spillover effect), leading to greater integration. These events can be classified into two categories: the first one directly impacts states and leads to their reaction, and their solution would optimally lead to greater integration between states. The second type of event has international relevance and transnational nature, such as terrorism. Thus, the endogenous aspect is motivated by an exogenous problem such as organised crime and drug trafficking within the Mercosur Member States because it is also worth mentioning how it is increasing throughout the South American area.¹⁰³

Thus, if the concept of spillover anticipates an increase both in *level* – the incremental shift of authority in the specific sector – and *scope* – the extension to other sectors and fields of interest – the integration process should be deepened.¹⁰⁴ Finally, to the three types of spillover taken into account (two endogenous and one exogenous) in this research the concepts of *spill-around* (an increase in the scope of integration but an unchanged level of authority) and *spill-back* are also considered as keystones to interpreting Mercosur institutional changes, while the latter – in clear opposition to the concept of spillover – imply a decrease in both level and scope.¹⁰⁵

¹⁰² EL PAcCTO - Programa de Asistencia contra el Crimen Organizado, <https://www.elpaccto.eu/en/about-el-paccto/what-is-el-paccto/>. (Accessed July 2023).

¹⁰³ Sullivan, Mark P. *Latin America: terrorism issues*. DIANE Publishing, (2011): pp. 1-23. See also Báez, Amado Alejandro, Matthew D. Sztajnkrycer, Richard Zane, and Ediza Giráldez. "Twenty-five years of violence: the epidemiology of terrorism in South America." *Prehospital and disaster medicine* 23, no. 2 (2008): pp. 128-132.

¹⁰⁴ See Lindberg, LN Stuart A. Scheingold. "Europe's Would-Be Polity." *Patterns of Change in the European Community*. P. 67. Englewood Cliffs 1970 and Börzel, Tanja A. "Mind the gap! European integration between level and scope." In *The Disparity of European Integration*, Routledge, (2013): p. 219.

¹⁰⁵ Schmitter, Philippe C. "A revised theory of regional integration." *International organization* 24, no. 4. (1970): p. 846.

Additionally, the cultivated spillover concept is also elaborated by the neo-functionalist doctrine. The cornerstone of cultivated spillover is an increased integration driven by supranational institutions.¹⁰⁶ The basic hypothesis is characterised by the willingness of supranational authorities, once they have received an initial delegation of power, to further increase it.¹⁰⁷ However, given the (at least for now) non-supranational nature of Mercosur, it will be left out of the research project and only mentioned for theoretical completeness of the main theories of the spillover concept.

¹⁰⁶ Jensen, Carsten Stroy. "Neofunctionalist theories and the development of European social and labour market policy." *J. Common Mkt. Stud.* 38 (2000): p. 74.

¹⁰⁷ Bergmann, Julian. "Neofunctionalism and EU external policy integration: The case of capacity building in support of security and development (CBSD)." *Journal of European Public Policy* 26, no. 9 (2019): p. 1257.

Chapter III: Mercosur's Institutional process and Spillover effects

In this third Chapter, the research project will analyse the institutional changes in Mercosur. Having previously investigated in Chapter II the essential characteristics of Latin American regionalism, also the historical, cultural, and political Latin American background has been contextualised. Concomitantly, Mercosur's evolution process is considered through the neo-functional theory, particularly in its political, functional and external spillover effects (addressed in Chapter II) and in the change of the *level* and *scope* of the integration (addressed in Chapter I). The aim of this Chapter is to evaluate the Mercosur *thresholds*¹⁰⁸ (already addressed in Chapter I) as spillover effects and evaluate their impact on the level and scope of the regional integration process. Hence, this analysis takes into account the economic regionalism gradual approach elaborated by Balassa (1976).

3.1 The Mercosur framework as a regional economic integration mechanism: historical background and its 'Genesis Years' (1984-1990)

While it is true that Mercosur was established in 1991 through the Treaty of Asunción, it is possible to derive its development from the rapprochement of the regional hegemonic powers of Argentina and Brazil (after both restorations of democracy) in the 1980s.

Indeed, the first embryonic form of Mercosur originated from greater economic integration between Argentina and Brazil under the new presidency of the Argentine Raúl Alfonsín (1983) and the Brazilian José Sarney (1985).¹⁰⁹ These regional powers decided to start on a limited integration project, based on initial cooperation in some sectoral approaches

¹⁰⁸ Morlino, Leonardo. *Comparison: A methodological introduction for the social sciences*. Verlag Barbara Budrich, p. 57. 2018.

¹⁰⁹ Doctor, Mahrukh. "Prospects for deepening Mercosur integration: Economic asymmetry and institutional deficits." *Review of International Political Economy* 20, no. 3 (2013): p. 518.

(nuclear energy field, electricity, taxation, scientific and technological research, and health)¹¹⁰ to increase the complementarity of their economies. Mainly, the two South American states started to achieve greater economic and political cooperation through the Treaty of Iguazu (1985)¹¹¹ and along with the Program for Integration and Economic Cooperation (PICE, 1986).¹¹² This integration process culminated in the Treaty of Integration, Cooperation, and Development, between Argentina and Brazil (TICD, 1988)¹¹³ which aimed to form a common market.

The causes for this new regional economic integration process are diverse. On an exogenous level, it may have been influenced by external events such as the European Single Act (1996) of the European Economic Community and the free trade negotiations between the United States and Canada in the same year. Yet, more prominently, its endogenous socio-political environment likely played a crucial role.¹¹⁴

The primary idea behind the Brazilian-Argentinian agreements was to reinforce their newly established democracies and concomitantly prevent the possibility of new internal conflicts, possibly mirroring the European experience of the European Coal and Steel Community.¹¹⁵ The intergovernmental bilateral integration process arose from a political will to avoid the resurgence of anti-democratic nationalist forces in their respective countries, implemented through sectoral economic policies and liberalization.¹¹⁶ Drawing on Goldstein

¹¹⁰ O'Keefe, Thomas Andrew. "Economic Integration as a Means for Promoting Regional Political Stability: Lessons from the European Union and Mercosur." *Chi.-Kent L. Rev.* 80 (2005): p. 199.

¹¹¹ Caichiolo, C. R. (2017). The Mercosur experience and theories of regional integration. *Contexto Internacional*, 39, pp. 117-134.

¹¹² Kaltenthaler, Karl, and Frank O. Mora. "Explaining Latin American economic integration: the case of Mercosur." *Review of International Political Economy* 9, no. 1 (2002): p. 74.

¹¹³ Stender, Frederik. "MERCOSUR in gravity: an accounting approach to analyzing its trade effects." *International Economics and Economic Policy* 15, no. 2 (2018): p. 504.

¹¹⁴ De Almeida, Paulo Roberto. "Regional integration in Latin America: historical developments, current challenges, especially in Mercosur." *Meridiano 47-Journal of Global Studies* 19 (2018): p. 4.

¹¹⁵ Doctor, Mahrukh. "Prospects for deepening Mercosur integration: Economic asymmetry and institutional deficits." *Review of International Political Economy* 20, no. 3 (2013): p. 518.

¹¹⁶ Ibidem.

and Keohane's *ideational approach*, and the definition of ideas as *road maps* – ideas to guide the actors' perceptions and considerations – bilateral regional integration was one of the main ideas proposed to prevent the possibility of anti-democratic drifts in the two countries.¹¹⁷ Thus, rather than an end goal, bilateral regional integration was seen, at least initially, as a means.¹¹⁸ The outcome of these agreements led to the signing of the Buenos Aires Act between Argentina and Brazil in July 1990, under the institutional framework of the Latin American Integration Association (ALADI, created in 1980)¹¹⁹ as the first step towards greater integration.¹²⁰ Nevertheless, the initial years of the integration agreements faced challenges due to the economic crisis in Argentina and Brazil in 1990 and Argentina's deep trade deficit.¹²¹

Undoubtedly, both Argentina's and Brazilian political environments were characterised by political instability influenced by their national congress, stakeholders, and economic interests. This was reinforced by the top-down integration approach by the PICE. Despite limited initial results and a challenging economic and political environment, the Buenos Aires Act was later joined by Uruguay (in 1990) and Paraguay (which was excluded until the end of the Stroessner dictatorship in 1989). The two new countries decided to draft, along with Brazil and Argentina, the Treaty of Asunción in March 1991.¹²²

The Mercosur's initial successes and expansion were favoured by certain conditions preceding its establishment, linked to the political legitimisation of the organisation, and constitutionally in its Members States. As a matter of fact, Article 4 of Brazil's new Constitution of 1988 included the pursuit and expansion of integration with all Latin American countries: *'to*

¹¹⁷ Caballero Santos, Sergio. "Mercosur, the role of Ideas and a More Comprehensive regionalism." *Colombia Internacional* 78 (2013): p. 136.

¹¹⁸ Ibidem.

¹¹⁹ O'Keefe, Thomas Andrew. "Economic Integration as a Means for Promoting Regional Political Stability: Lessons from the European Union and Mercosur." *Chi.-Kent L. Rev.* 80 (2005): p. 203.

¹²⁰ Ibidem,

¹²¹ Kaltenthaler, Karl, and Frank O. Mora. "Explaining Latin American economic integration: the case of Mercosur." *Review of International Political Economy* 9, no. 1 (2002): p. 75.

¹²² Ibidem.

*seek the economic, political, social and cultural integration of the peoples of Latin-America, viewing the formation of a Latin-American community of nations.*¹²³ Moreover, as the Brazilian diplomat Roberto de Almeida (1998)¹²⁴ pointed out, the creation of Mercosur was the culmination and institutionalisation of an integration process between Argentina and Brazil that had begun many years earlier. However, from the earliest development of the bilateral agreements between Argentina and Brazil, certain deficiencies emerged, which would later be reflected in the Mercosur organisation.

For instance, one of the above factors was the pervasive centralism and personalism approach in the Mercosur integration process.¹²⁵ The personalistic view of politics, coupled with strong presidential centralism in the Argentine and Brazilian cases, resulted, at the level of regional organisations, in the establishment of weak institutions with little autonomy from national executive powers.¹²⁶

The two Southern Cone countries of Argentina and Brazil, starting with the strictly national approach through the TIDC agreement (1988), moved to establish a progressive sectoral integration by deciding to integrate certain types of goods and services.¹²⁷ Furthermore, even at the institutional level, they preferred a '*Benelux-like*'¹²⁸ institutional format, based on an intergovernmentalistic approach, rather than partially delegating their sovereignty to a

¹²³ De Almeida, Paulo Roberto. "Regional integration in Latin America: historical developments, current challenges, especially in Mercosur." *Meridiano 47-Journal of Global Studies* 19 (2018): p. 5.

¹²⁴ Almeida, Paulo Roberto. *Mercosul: fundamentos e perspectivas*. Grande Oriente do Brasil, (1998): p. 43.

¹²⁵ Caichiolo, Carlos Ricardo. "The Mercosur experience and theories of regional integration." *Contexto Internacional* 39 (2017): p.123.

¹²⁶ Ibidem.

¹²⁷ Ibidem.

¹²⁸ Based on the economic integration experiment of the countries of Belgium, the Netherlands and Luxembourg in 1944, the Benelux method refers to a process of gradual economic integration based on respecting and maintaining the sovereignty and competences of the individual states, fostering cooperation through the consolidation of common institutions. De Almeida, Paulo Roberto. "Regional integration in Latin America: historical developments, current challenges, especially in Mercosur." *Meridiano 47-Journal of Global Studies* 19 (2018): p. 4.

supranational authority.¹²⁹ In this political, economic, and social context, the first phase of Mercosur, defined as the 'Genesis Years'¹³⁰ (1984 -1990), came to an end.¹³¹

3.2 The Treaty of Asunción and the rise of Mercosur (1991): a possible Political Spillover?

The birth of the Mercosur organisations marked the institutionalisation of the Buenos Aires Act (1990), establishing a board tariff reduction and abandoning the sectoral integration system of PICE.¹³² The Treaty of Asunción (1991) outlined four main instruments to reach its ultimate goal in 1994: the establishment of the Common Market, as stipulated in Article 1 of the treaty.¹³³ The first instrument was a trade liberalisation programme among its four Members States. The second involved a common tariff for states outside the organisation. The third focused on macroeconomic policy coordination among Member States and the fourth allowed the possibility of sectoral agreements.¹³⁴ To implement these four instruments, two intergovernmental institutions were initially created in this transitional phase of Mercosur (1991-1994), as specified by Articles 3 and 18 of the Asunción Treaty.¹³⁵

The first body, the Common Market Council, (CMC, *Consejo Mercado Común* Articles 9, 10-12 and 16, Chapter II, the decision upper body)¹³⁶ brought together all the ministers of economy and foreign affairs of the Mercosur founding Members States and served as the

¹²⁹ Ibidem.

¹³⁰ Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 686.

¹³¹ Ibidem.

¹³² Mukhametdinov, Mikhail. *MERCOSUR and the European Union: Variation and Limits of Regional Integration*. 2018, Palgrave, p. 151

¹³³ Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 686.

¹³⁴ Kaltenthaler, Karl, and Frank O. Mora. "Explaining Latin American economic integration: the case of Mercosur." *Review of International Political Economy* 9, no. 1 (2002): p. 75.

¹³⁵ Borges, Antonio Carlos Pontes. "O desafio do método intergovernamental no Mercosul." *Revista Jus Navigandi, ISSN* (2013): p. 58.

¹³⁶ De Almeida, Paulo Roberto. "Regional integration in Latin America: historical developments, current challenges, especially in Mercosur." *Meridiano 47-Journal of Global Studies* 19 (2018): p. 6.

highest-ranking institution for political leadership, decision making, and setting the targets and time limits for establishing the Common Market (Art. 10).¹³⁷ The presidency of this body rotated between all Member States every six months, following the alphabetical order (Art. 11-12).¹³⁸ The second Institutional body, the Common Market Group (GMC, *Grupo Mercado Común*, Art. 9 and Articles 13-16, Chapter II, executive organ)¹³⁹, acted as the executive organ with functions of policy oversight. It was coordinated by the national Mercosur's Member States ministers.¹⁴⁰ Within Mercosur's institutional structure, the GMC acted as an executive body with the power of initiative. Its main functions was to monitor the Member State's compliance with the Treaty of Asunción, implement Council decisions, and carry out specific measures such as the establishment of trade liberalisation programmes, macroeconomic coordination, and agreements with third states (Art. 13).¹⁴¹ It was composed of four personalities from each Mercosur country, representing their Central Banks, Foreign Ministers, and Ministers of Economy (Art. 14).¹⁴² However, all these bodies, including subsequently added external commissions, remained non-supranational and maintained consensus voting structures (Art. 16 for both institutions).¹⁴³ Additionally, they demonstrated an iron executive control over integration processes, a preponderant role of Argentina and Brazil to the detriment of Paraguay and Uruguay, and an overall prioritization of economic choices over political ones.¹⁴⁴

¹³⁷ Kaltenthaler, Karl, and Frank O. Mora. "Explaining Latin American economic integration: the case of Mercosur." *Review of International Political Economy* 9, no. 1 (2002): p. 75.

¹³⁸ Ibidem.

¹³⁹ De Almeida, Paulo Roberto. "Regional integration in Latin America: historical developments, current challenges, especially in Mercosur." *Meridiano 47-Journal of Global Studies* 19 (2018): p. 4.

¹⁴⁰ Kaltenthaler, Karl, and Frank O. Mora. "Explaining Latin American economic integration: the case of Mercosur." *Review of International Political Economy* 9, no. 1 (2002): pp. 75; 76.

¹⁴¹ Ibidem

¹⁴² Ibidem

¹⁴³ Ibidem.

¹⁴⁴ Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 687.

At the operational level, numerous problems began to emerge in the implementation of Mercosur's objectives. For instance, the creation of a free trade zone between the four countries did not extend to every sector, with exceptions maintained in the automobile sector (where a bilateral agreement was established between Argentina and Brazil) and in the sugar one (where there were some constraints on Argentine imports from Brazil).¹⁴⁵ These discrepancies were not only intra-regional but also inter-regional, directed towards countries outside the bloc. There were some national deviations, upwards or downwards, to the official Common External Tariff (CET) including around 85% of the tariff lines on Mercosur's harmonised tariff schedule¹⁴⁶, and further sectoral trade restrictions.¹⁴⁷

Despite Mercosur's institutional and economic-operational challenges, the four countries decided to move towards the creation of the customs union. This represented the third progressive step of the Balassa (1976) studies on regional economic integration – but without a substantial increase in the distribution of powers towards greater political integration.¹⁴⁸

A threshold in the institutional structure of Mercosur occurred with the *Ouro Preto Protocol*, (Art. 52 of the Treaty of *Asunción*), approved at the VII meeting of the CMC in Brasilia between December 5th and 7th of 1994.¹⁴⁹ However, the Ouro Preto Protocol did not establish a supranational nature in Mercosur and lacked specific coordination mechanisms, remaining subject to the political changes of the administration in office (the president of the

¹⁴⁵ De Almeida, Paulo Roberto. "Regional integration in Latin America: historical developments, current challenges, especially in Mercosur." *Meridiano 47-Journal of Global Studies* 19 (2018): p. 4.

¹⁴⁶ O'Keefe, Thomas Andrew. "Economic Integration as a Means for Promoting Regional Political Stability: Lessons from the European Union and Mercosur." *Chi.-Kent L. Rev.* 80 (2005): p. 203.

¹⁴⁷ Almeida, Paulo Roberto. "Regional integration in Latin America: historical developments, current challenges, especially in Mercosur." *Meridiano 47-Journal of Global Studies* 19 (2018): p. 4.

¹⁴⁸ Balassa, Bela. "Types of economic integration." In *Economic Integration: Worldwide, Regional, Sectoral: Proceedings of the Fourth Congress of the International Economic Association held in Budapest, Hungary*, pp. 17-40. London: Palgrave Macmillan UK, 1976.

¹⁴⁹ De Klor, Adriana Dreyzin. "The legal-institutional structure of MERCOSUR." *Filho, Marcilio Toscano Franca; Lucas Lixinski; and Maria Belen Olmos Giupponi* (2010): p. 13.

Common Market Council) and the hegemonic will of the Member States of Brazil and Argentina.¹⁵⁰

It is possible to denote some institutional developments since this Protocol. The first one was the addition of the Mercosur Trade Commission (MTC, *Comisión de Comercio del Mercosur*, intergovernmental body, Art. 1, Chapter III)¹⁵¹, with the main purpose of implementing the common external tariff and coordinated and common trade policy. The second one was the Joint Parliamentary Commission (JPC, *Comisión Parlamentar Conjunta*, Art. 1, Chapter IV)¹⁵² which is composed of the representatives of each National Parliament exercising consultative tasks. The third one was the Economic-Social Consultative Forum (ESCF, *Foro Consultivo Económico-Social*, Art 1, Chapter V), which brings together each Member State's labour and business unions and associations of different productive sectors. Lastly, the Mercosur Administrative Secretariat (MAS, *Secretaría Administrativa del Mercosur*, Art 1, Chapter VI) had the responsibility to provide operational support to Mercosur.¹⁵³ These news bodies operated in synergy with the two main Mercosur bodies mentioned above – the Common Market Council and the Common Market Group.¹⁵⁴

Mercosur saw a new phase of expansion with the accession of the countries of Chile and Bolivia in 1996 (despite Bolivia was already a member of the Andean Community of Nations in 1969).¹⁵⁵ Both states were able to participate as observers in Mercosur's decision-making

¹⁵⁰ Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 687.

¹⁵¹ «SICE - MERCOSUR - Protocol of Ouro Preto». http://www.sice.oas.org/trade/mrcsr/ourop/ourop_e.asp Accessed, August 2023.

¹⁵² Ibidem.

¹⁵³ Laird, Sam. *Mercosur: objectives and achievements*. No. TPRD-97-02. WTO Staff Working Paper, (1997): p.5. Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 687.

¹⁵⁴ De Almeida, Paulo Roberto. "Regional integration in Latin America: historical developments, current challenges, especially in Mercosur." *Meridiano 47-Journal of Global Studies* 19 (2018): p. 6.

¹⁵⁵ Art. 20, Chapter IV, of the Treaty of Asunción.

processes – although they remained without voting rights.¹⁵⁶ Even more important was the recognition of Mercosur's legal personality (art 34.)¹⁵⁷, allowing the stipulation of treaties directly by the CMC body, and the increased interaction with the European Union, which led to a joint declaration in 1995 in Madrid. This declaration formally announces a framework agreement to establish interregional economic cooperation with the final goal of furthering political association and, at the same time, liberalising the trade market between those two international regional organisations.¹⁵⁸ Consequently, this framework agreement led to 1997 the establishment of the Permanent Administrative Parliamentary Secretariat of Mercosur under the initiative of the European Commission in 1996, which acted as the negotiating body for cooperation projects between Mercosur and the European Union.¹⁵⁹

3.2.1 Addressing Institutional Changes and Failures in Mercosur's Integration

The first phase of Mercosur's development (1990-1999) is referred to as the '*neoliberal apogee*'¹⁶⁰. This phase solidified the substantial adherence of Mercosur countries to neoliberal values, aligning with the Washington Consensus¹⁶¹, which was becoming the dominant paradigm in the Americas and Europe in the early 1990s.¹⁶²

¹⁵⁶ Ibidem.

¹⁵⁷ Borges, Antonio Carlos Pontes. "O desafio do método intergovernamental no Mercosul." *Revista Jus Navigandi, ISSN* (2013): p. 60.

¹⁵⁸ De Almeida, Paulo Roberto. "Regional integration in Latin America: historical developments, current challenges, especially in Mercosur." *Meridiano 47-Journal of Global Studies* 19 (2018): p. 7.

¹⁵⁹ Dri, Clarissa. "At what point does a legislature become institutionalized? The Mercosur Parliament's path." *Brazilian Political Science Review (Online)* 4, no. SE (2009): n.p.

¹⁶⁰ Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 687.

¹⁶¹ The Washington consensus is considered in a broader sense the acceptance of the neo-liberal economic policy model promoted by the United States, in a narrower view a series of free market economic policies, such as trade liberalisation, privatisation and financial liberalisation together with restrictive fiscal and monetary policies aimed at reducing public spending and inflation in developing countries. For further information see Teichman, Judith. "The Washington Consensus in Latin America." In *Oxford Research Encyclopedia of Politics*. p.10. 2019.

¹⁶² Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 687.

Moreover, recalling Goldstein and Keohane's (1993)¹⁶³ conception of *ideas*, in this new stage, Mercosur's central idea shifts from being a 'road map' for the establishment and consolidation of democracy to acting as 'focal points and glue' between trade integration and economic interdependence. Trade integration is perceived as a means of achieving and linking economic interdependence, stimulating national economies, improving macroeconomic indicators, and enhancing trade flows between countries.¹⁶⁴

Several external events have conditioned this period with two major consequences. Firstly, it created an international climate that was reluctant to cooperate and imitate Mercosur's economic models. Secondly, it pushed the organisation's Members States to embrace the neoliberal economic paradigm to gain international credibility. External events economically destabilised Latin American countries, especially Brazil and Argentina, leading to a ruinous financial crisis in Argentina between 1999 and 2002.¹⁶⁵ Such events included Mexico's insolvency crisis in December 1994 ('the Mexican tequila crisis'),¹⁶⁶ the international Asian crisis in 1997 and 1998, the moratorium against Russia, and the collapse of the US investment company LTCM between July and August 1998.

In addition to external conditions, endogenous conjunctures initially drove Brazil and Argentina, and consequently, Paraguay and Uruguay, to adopt neoliberal economic policies due to low economic growth and high levels of public debt and inflation. This shift towards a neoliberal economic orthodox approach was considered inevitable by the newly elected presidents, Menem of Argentina (1989-1999) and Collor of Brazil, (1990-1992), who saw it as

¹⁶³ Goldstein, Judith, and Robert Owen Keohane, eds. *Ideas and foreign policy: beliefs, institutions, and political change*. Cornell University Press, 1993.

¹⁶⁴ Caballero Santos, Sergio. "Mercosur, the role of Ideas and a More Comprehensive regionalism." *Colombia Internacional* 78 (2013): p. 130.

¹⁶⁵ Ibidem.

¹⁶⁶ Vervaele, John AE. "Mercosur and regional integration in South America." *International & Comparative Law Quarterly* 54, no. 2 (2005): p. 388.

a way to strengthen the Mercosur integration process and make it capable of facing economic competition on a global scale.¹⁶⁷

Considering the genesis of Mercosur up to its realisation, led and expressed by the political elite, it is possible to draw similarities to the type of political spillover. According to the political spillover concept as proposed by Haas (1958)¹⁶⁸, the Mercosur process is characterised by the Brazilian and Argentine political elites which have gradually reoriented their political expectations from years of conflicts to market integration. The sectoral integration approach, starting with economic sectors, such as electricity and technological research, also seems to mirror the teleological, rational, and self-sustaining neo-functional integration process¹⁶⁹, in its gradual and systemic perspective.

However, in the early stage of neo-liberalism, Mercosur lacked a fully developed institutional structure to shape and guide national legislations to guarantee the organisation's objectives. Perhaps, one of the main weaknesses in driving the integration processes goes back to Mercosur's non-autonomous and non-independent integration model.¹⁷⁰ There is no fully developed supranational institution similar to the European Union.¹⁷¹

The Mercosur legal framework, being international and not supranational, abstains from interfering into the sovereignty and competencies of its Member States.¹⁷² The incorporation of Mercosur laws into the domestic legislation law of Member States, if *de jure* it is binding, *de*

¹⁶⁷ Acta de Buenos Aires, 9 July 1990. Ibidem.

¹⁶⁸ Haas, Ernst B. *Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*. University of Notre Dame Press, (re-edition 2020; first published in 1958): p. 390.

¹⁶⁹ Rosamond, Ben. "The uniting of Europe and the foundation of EU studies: revisiting the neofunctionalism of Ernst B. Haas." *Journal of European public policy* 12, no. 2 (2005): p. 244.

¹⁷⁰ Haines-Ferrari, Marta. "MERCOSUR: A New Model of Latin American Economic Integration." *Case W. Res. J. Int'l L.* 25 (1993): p. 425.

¹⁷¹ Indeed, Mercosur lacks certain key elements present in the European Union's integration model, such as its own Community Law that supersedes national laws, and sovereign bodies with authority to issue supranational norms affecting national legal systems.

¹⁷² Mercosur does, however, have a secondary binding law, which includes decisions from the Common Market Council (CMC), resolutions from the Mercosur Trade Commission (GMC), and directives from the Mercosur Administrative Secretariat (CCM), as outlined in the Ouro Preto Protocol.

facto does not entail any obligation or constraint for Member States.¹⁷³ In such a legislative context, the adoption and incorporation of such measures remain at the free political will of the Mercosur's Members.

Some states, such as Paraguay, in Article 145 of its Constitution (1992)¹⁷⁴ make direct reference to the constraints of international law and will accept its supremacy, while other Member States will not. For instance, the Argentine Constitution (1853, Articles 22, 27, 31)¹⁷⁵ grants international law the same constitutional status as domestic law, but without explicit supremacy, and the Supreme Court leans towards the primacy of international law. In contrast, the Uruguayan Constitution (1967, Articles 239 and 256)¹⁷⁶ prioritises its own constitutional order over international law. Finally, the Brazilian Constitution (1988, Art 2)¹⁷⁷ operates under a dualist system¹⁷⁸, where international treaties complement constitutional norms but are subject to strict control by the Supreme Federal Court after ratification and internationalisation by Parliament. Thus, it is possible to observe a split even at the legal-institutional level in the Mercosur Member States in their acceptance of the law produced by the organisation.

Therefore, in a constitutional legal context fragmented in the adoption of acts of international law it is not surprising that only 40% of the acts produced by the Mercosur regulation are incorporated into the domestic legislation of Member States and enjoy legal

¹⁷³ Vervaele, John AE. "Mercosur and regional integration in South America." *International & Comparative Law Quarterly* 54, no. 2 (2005): p. 393.

¹⁷⁴ «Paraguay 1992 (Rev. 2011) Constitution - Constitute». https://www.constituteproject.org/constitution/Paraguay_2011 (Accessed September 2023).

¹⁷⁵ Argentina 1853 (Reinst. 1983, Rev. 1994) Constitution - Constitute https://www.constituteproject.org/constitution/Argentina_1994 (Accessed September 2023).

¹⁷⁶ Refugees, «Refworld | Constitution of the Oriental Republic of Uruguay». <https://www.refworld.org/docid/3ae6b5600.html>, accessed September 2023.

¹⁷⁷ «Brazil 1988 (Rev. 2005) Constitution - Constitute». https://www.constituteproject.org/constitution/Brazil_2005, (Accessed September 2023).

¹⁷⁸ At constitutional level, dualism refers to two distinct and separate legal systems within the same legal system. Medeiros, Antonio Paulo Cachapuz, and Luiz Olavo Baptista. Barbosa, Salomão Almeida. "O poder de celebrar tratados no direito positivo brasileiro: a experiência prática do Brasil." *A&C-Revista de Direito Administrativo & Constitucional* 4, no. 16 (2007): pp. 87-90. See also Gallotti, «Mercosur». *Giuricivile*, 2021, 9 (ISSN 2532-201X), <https://giuricivile.it/mercosur/> (Accessed September 2023).

force.¹⁷⁹ Mercosur is characterised by a further '*constitutional asymmetry*'¹⁸⁰ among its Member States, leading to an uneven application of the organisation's international law.

Additionally, Mercosur lacks a supranational institution dedicated to the oversight and implementation of its laws. There is an arbitration mechanism – the Arbitral Tribunal – for trade disputes between member countries, but it is of intergovernmental nature,¹⁸¹ as enshrined in Article 1 of the 1991 Brazilian Protocol (BP)¹⁸² which manages the interpretation, application, or non-compliance of the disposition in the Treaty of Asunción, the decision of the CMC or the resolutions of the GMC.¹⁸³

3.2.2 The Evolution of Mercosur: Assessing the *Level* and *Scope* of Political and Economic Integration

Through the research methods addressed in Chapter I, the research tries to assess the first institutional change in Mercosur, from the Asunción treaty to the Protocol of Ouro Preto (1994) onwards. Focusing on changes outside the treaties, (*level* and *scope* proposed by Lindberg and Scheingold, 1970)¹⁸⁴, the expansion of Mercosur's areas of competence from those initially defined by the treaties and before the Ouro Preto Protocol remains incomplete.

¹⁷⁹ Ivi. p. 394.

¹⁸⁰ Giupponi, Belen Olmos. "International law and sources of law in MERCOSUR: an analysis of a 20-year relationship." *Leiden Journal of International Law* 25, no. 3 (2012): p. 710.

¹⁸¹ The arbitration has a binding nature (Articles 8 and 21, Chapter IV, Arbitral Procedure, of the PB) and if not applied the states can request an economic compensation. However, looking at the characteristics of the disputes, (Articles 25-32, Chapter V, Private Party Complaints, of the PB) they had a clear economic and not political nature, due to the restrictive possibility to trigger the Tribunal merely on cases of unfair competition, discrimination, and commercial restriction between the Member States' trade relations. «SICE: MERCOSUR: Protocol of Brasilia for the Solution of Controversies». http://www.sice.oas.org/trade/mrcsr/brasilialpbrasilialpText_e.asp#Preamble, (Accessed September 2023).

¹⁸² Vervaele, John AE. "Mercosur and regional integration in South America." *International & Comparative Law Quarterly* 54, no. 2 (2005): p. 393.

¹⁸³ Ibidem.

¹⁸⁴ Lindberg, LN Stuart A. Scheingold. "*Europe's Would-Be Polity.*" *Patterns of Change in the European Community*. P. 67. Englewood Cliffs 1970.

Considering the ‘formal’ definition of *scope* proposed by Börzel (2005)¹⁸⁵ which relies on treaty modification, the initial phase of Mercosur (1991-1994) cannot be formally considered as having undergone major treaty revisions before the Ouro Preto Protocol. In both definitions, considering the *level* of integration – understood as the level at which decisions are made – there has been no informal shift towards a supranational character in the Mercosur organisations, which remains unchanged. Applying the scale of 1 to 5 of level and scope in the authority expansion of EU competencies, as studied by Börzel (2005) it is possible to assign the following values.

Under this definition, the *level* of authority (breadth), understood as the level at which decisions are made, or the number of issues that are divided between the Member States and the international body, can be given a value of (2) – *shared competencies 'light'* – because only the economic components are 'shared', leaving most other competencies at the national level.

Regarding the *scope* of authority, understood as the decision-making processes and involvement of supranational bodies, could be close to the value of (1) – *intergovernmental coordination*. While there are the macroeconomic coordination and sectoral policies (Article 1 of the Treaty of Asunción), there are no bodies with judicial review capabilities, akin to the European Court of Justice or a European Parliament in Mercosur, or any form of supranational powers. The intergovernmental nature of Mercosur is affirmed, and no substantial changes are established in this aspect. Moreover, the legislative initiative capacity remains strictly within the exclusive competence of the Member States.¹⁸⁶

Additionally, in terms of *political integration*, considering the dialogue at the decision-making level for macroeconomic coordination and trade tariffs according to Lindberg and

¹⁸⁵ Tanja, A. Börzel. “Mind the gap! European integration between level and scope.” *Journal of European Public Policy*, 12:2, (2005): p. 219.

¹⁸⁶ Vervaele, John AE. "Mercosur and regional integration in South America." *International & Comparative Law Quarterly* 54, no. 2 (2005): p. 388.

Scheingold's (1970; 1971)¹⁸⁷ measure of political integration, a value of (2) – *only the beginning of the Community decision process* – can be given, as merely economic competencies are discussed. Thus, following the gradual definition of regional economic integration elaborated by Balassa (1976), the Mercosur organisation may be placed at stage (1) – *trade integration* – with the birth of Mercosur.

By contrast, since the implementation of the Ouro Preto Protocol (1994-1999), substantial changes in *scope* and *level* can be observed in Mercosur. The Ouro Preto Protocol is an annexation to the constituent treaty and falls under the definition of level and scope made by Börzel (2005). Undeniably, the *scope* – the changes in the area of competencies – expands substantially following the creation of institutional bodies (with purely advisory powers) such as the Economic-Social Consultative Forum (ESCF) and the Joint Parliamentary Commission (JPC), extending Mercosur's interest also in the social issues. Furthermore, the Mercosur Administrative Secretariat (MAS), introduced with the Ouro Preto Protocol, increases Mercosur's competencies, despite being configured for a mere supportive role, lacking executive powers, and remaining without any form of legislative initiative. Thus, there is a formal increase in Börzel's (2005) definition of *level* – understood as an extension of the competencies attributed to Mercosur from those initially attributed.

The Ouro Preto Protocol marks a notable increase in Mercosur's areas of competence and interest. However, in terms of *scope*, considering the purely advisory nature of the ESCF and the JPC, and the lack of legislative and executive powers of the MAS, it cannot be considered increased, as the Mercosur organisation remains anchored to its intergovernmental nature.

¹⁸⁷ Lindberg, LN Stuart A. Scheingold. "Europe's Would-Be Polity." *Patterns of Change in the European Community*. P. 67 Englewood Cliffs 1970. and Lindberg, Leon N., and Stuart A. Scheingold. «Regional integration: Theory and research. » (1971): pp. 3-44.

In the political integration scale of measurement, it is now possible to consider a level of type (3) – *shared competencies 'medium'* – given the inclusion of social issues. Moreover, the increase in the Mercosur level could also be attributed to the new interest in the democratic limit (introduced with the democracy clause in the 1998 Ushuaia Protocol, following the fear of the attempt at a *coup d'etat* in Paraguay in 1996), prescribed as a fundamental element for joining Mercosur.¹⁸⁸ However, Mercosur remains at the level of scope (1) – *intergovernmental coordination* – since the new institutions do not include the figure of a parliament or any kind of judicial review.

Ultimately, following Schmitter's (1970)¹⁸⁹ definition of *spillover*, understood as an increase in the competencies and tasks of the international organisation without any change in authority and its power in front of the Member States, this spillover phenomenon could occur after the Ouro Preto Protocol, whereas as mentioned earlier, it begins through a political spillover. Hence, by adopting the spillover theory one can deduce that there will be no change in Lindberg and Scheingold's (1970) level of Mercosur political integration after the Ouro Preto Protocol, remaining at (2) – *only the beginning of the Community decision process*.

Instead, following the gradual definition of regional economic integration elaborated by Balassa (1976) the Mercosur organisation may reach stage (2) – *factor integration* – after the Protocol Ouro Preto, having it (formally) achieved the liberalisation of goods, services, and factors of production and reach the level of the Customs Union (CU).¹⁹⁰ However, considering stage (3) – *policy integration*, although formally established as a final goal since the Treaty of Asunción, it is difficult to consider its achievement complete at this stage of Mercosur.

¹⁸⁸ Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 687.

¹⁸⁹ Philippe C. Schmitter, 'Central American Integration: Spill-Over, Spill-Around or Encapsulation?', *Journal of Common Market Studies*, 9:1, 1970, p. 39.

¹⁹⁰ Schiff, Maurice W., and L. Alan Winters. *Regional integration and development*. World Bank Publications, (2003): p. 3.

Indeed, some Mercosur Member States, during periods of crisis, such as economic turbulence, continue in a logic of 'defection' from the Mercosur economic integration system. For instance, since the Asian economic crisis of 1999, which soon spread to Latin America, Brazil unilaterally decided to devalue its national currency, the *real*, to offset the crisis in its export sector. However, this caused several issues for the other Mercosur countries and underlined the low level of political integration and coordination during times of crisis and instability.¹⁹¹

3.3 The Consensus of Buenos Aires (2003): A Possible Functional Spillover?

After the 'neo-liberal apogee' phase from 1990 to 1999, Mercosur experienced the '*Dark Years*'¹⁹², a challenging *passé* from 1999 to 2003, marked by a profound and destabilizing economic crisis.

The financial turbulences from Russia and East Asia, coupled with the deflationary effects of its Member States, led to a significant setback in the Mercosur regional integration process. This retreat, termed as *spillback effect*, resulted from unilateral responses by Member States to the external economic turmoil.¹⁹³ The dark years period not only revealed the inadequacy of one of Mercosur's key features – ensuring economic stability – but also highlighted the ineffectiveness and lack of cooperation among its Member States at the political level. The contradictions of the liberal economic model on which Mercosur was based became

¹⁹¹ The unilateral measure exacerbated trade imbalances with Brazil and harmed other Member States' export capacity to countries outside the regional bloc. This action contradicted the principles of the Treaty of Asunción, which included common external tariffs, joint coordination of macroeconomic policies, and prohibitions against unfair trade practices with third countries. Articles. 1, and Art. 5, (C), (B), and Art 4 Chapter I. Haines-Ferrari, Marta. "MERCOSUR: A New Model of Latin American Economic Integration." *Case W. Res. J. Int'l L.* 25 (1993): pp. 424-429. SICE-MERCOSUR Treaty of Asunción [«SICE: MERCOSUR: Protocol of Brasilia for the Solution of Controversies»](#). (Accessed, August 2023).

¹⁹² Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 688.

¹⁹³ Ibidem. And Schmitter, Philippe C. "A revised theory of regional integration." *International organization* 24, no. 4. 1970: p. 846.

evident, and measures adopted to counter financial turbulence proved ineffective in addressing inequalities and poverty.¹⁹⁴

Amid growing mistrust towards both Mercosur and the neoliberal paradigm, the '*pink tide*'¹⁹⁵, a wave of progressive and reformist politics in Latin America, gained momentum. This political shift, characterised by socio-economic changes, began around 2003 and sought a '*search for a new identity*'¹⁹⁶ for Mercosur. A few months after the Presidential summit in Asunción in 2003, led by the left-wing presidents of Brazil - Lula - and Argentina – Kirchner – they drew up a document called the *Buenos Aires Consensus*, a new Mercosur institutional threshold.¹⁹⁷ The Buenos Aires Consensus marked a departure from the Washington Consensus of the 1990s.

The Buenos Aires Consensus redefined Mercosur as more than just a trade bloc, emphasizing its role as a catalyst for shared values, traditions, and a common future (*'El Mercosur no es solo un bloque comercial sino que constituye un espacio catalizador de valores, tradiciones y futuro compartido'*).¹⁹⁸ After this statement, the radical change in the Mercosur will be announced. This led to immediate changes, such as the inclusion of social issues on the Mercosur agenda, structural reforms such as the creation of the Structural Convergence Fund, (FOCEM, CMC decision N° 45/04, 2004)¹⁹⁹, the Mercosur Permanent Tribunal of Revision

¹⁹⁴ Ibidem.

¹⁹⁵ Vervaele, John AE. "Mercosur and regional integration in South America." *International & Comparative Law Quarterly* 54, no. 2 (2005): p. 388.

¹⁹⁶ Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 689.

¹⁹⁷ Ibidem.

¹⁹⁸ 'Geneyro, Ruben Alberto, and Mariana Vázquez. "La ampliación de la agenda política y social para el Mercosur actual." *Aldea Mundo* 11, no. 20 (2006): p. 8.

¹⁹⁹ www.areaw3.com, «Qué es FOCEM». <https://focem.mercosur.int/es/que-es-focem/>, (Accessed September 2023).

(PCR, *Tribunal Permanente de Revision*)²⁰⁰ and the establishment of Parlasur (CMC Decision No 23/05, 2005).²⁰¹

The period immediately following the ‘Dark Years’ (1999-2003) must be seen as a new structural phase characterized by a ‘*socio-political redefinition*’²⁰² (2003-2007) with the Buenos Aires Consensus as its beginning. For this purpose, FOCEM, born and consolidated under Paraguay’s initiative, allowed smaller Mercosur states – Paraguay, and Uruguay – to receive funds for economic-industrial growth.²⁰³ The programme ‘*somos Mercosur*’, initiated by the Uruguay’s president Tabaré Vazquez, aimed to engage civil society and build a Mercosur identity based on citizens’ needs.²⁰⁴ Though this new phase was shaped by a wide range of political initiatives and declarations, some of Mercosur’s structural issues remain unaltered. The implementation of Mercosur decisions in national law faced difficulties, and some structural issues remained unchanged. Coupled with the lack of effectiveness of initiatives such as social summits, an acute gap began to emerge between the political declarations towards new social initiatives, increased regional integration, and their concrete implementation.

Regarding economic interdependence and the achievement of a common market among its Member States, Mercosur in this new phase departed from the previous neo-liberal model.

²⁰⁰ Estoup, Luis Alejandro. "Society and Solving Controversies: The Originality of Mercosur's Permanent Court of Review." *Droit et société* 59 (2005): p. 65.

²⁰¹ Dri, Clarissa F. "Limits of the institutional mimesis of the European Union: The case of the Mercosur Parliament." *Latin American Policy* 1, no. 1 (2010): p. 53. For further information see Barral, Welber. "Southern Common Market (Mercosur): The Olivos Protocol." *International Legal Materials* 42, no. 1 (2003): pp. 1-18.

²⁰² Moreover, with the new Brazilian initiative ‘*Objective 2006*’ targets, five new points of interest for Mercosur were configured: the institutional structure and socio-cultural components within Mercosur; the complete realisation of the Customs Union; the Common Market; the integration of borders and the complete annulment of internal borders, and new impetus for integration Vervaele, John AE. "Mercosur and regional integration in South America." *International & Comparative Law Quarterly* 54, no. 2 (2005): p. 388. See also Caballero Santos, Sergio. "Mercosur, the role of Ideas and a More Comprehensive regionalism." *Colombia Internacional* 78 (2013): p. 130.

²⁰³ Botelho, João Carlos Amoroso. "The reduction of asymmetries in MERCOSUR as a way of development aid and south-south cooperation: The case of Focem." *Geopolítica (s)* 4, no. 1 (2013): pp. 45; 50.

²⁰⁴ Geneyro, Ruben Alberto, and Mariana Vázquez. "La ampliación de la agenda política y social para el Mercosur actual." *Aldea Mundo* 11, no. 20 (2006): p. 8.

Along with the establishment of a common market²⁰⁵, a more inclusive strategy to address economic disparities among Member States was also implemented. Faced with these partial contradictions, Mercosur, since the Buenos Aires Consensus, has been able to reconcile the market access of its Member States and mitigate, through structural fund investments such as FOCEM, the large economic disparities between its Member States.

3.3.1 Challenges in the Mercosur Economic Area: the Double Duty Paradox

The Mercosur free trade area has faced obstacles, except in some sectors (sugar and cars) due to a series of bilateral agreements between Member States, non-tariff barriers and intra – and extra – regional export duties (imposed by Argentina). Nevertheless, the biggest issue with the realisation of a single market is probably due to the presence of a 'double duty' within the Mercosur area.

The free trade area's Mercosur regulations apply to domestically produced goods sold intra or inter-regionally between its Member States. In contrast, there is no tariff harmonisation for products imported from outside the regional bloc. Thus, a foreign product pays a tax when it enters the regional trading bloc, and when it must cross borders between its Member States. Consequently, the lack of a common customs code (together with the limitations of setting a common external tariff) further exacerbates the asymmetries between Mercosur countries. Countries such as Paraguay are severely restricted because they cannot, for structural reasons, have maritime tariffs, but do not receive compensatory tariffs from other states.

There are two models of customs-trade regulation that could be applied to the Mercosur case.²⁰⁶ The first one is implemented in the European Union and consists of a centralised model

²⁰⁵ Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): pp. 695-696.

²⁰⁶ Ivi. p. 696.

in which all governments collect the external duty on foreign products, but the Member States cannot use such funds as their own resources. The second scheme is adopted by the African Union: it represents a decentralised process of inter-governmental nature, where each nation-state collects its own duties, but they are redistributed among the other Member States, according to a fixed percentage.

Mercosur tried to address the 'double duty' issue through the historic San Juan summit in August 2010.²⁰⁷ Indeed, the CMC saw progress in the adoption of a common customs code, but challenges in Mercosur's governance persisted.²⁰⁸

3.3.2 Shifting Institutional Landscapes: The Parlasur (2006)

One significant institutional change influenced by the Buenos Aires Consensus was the creation of the Permanent Court of Review (PCR). Although the PCR asserted the primacy of Mercosur law over national law, 'the Mercosur law' lacks the legal principle of 'direct effect'²⁰⁹ and 'uniform applicability'²¹⁰ and requires internalisation by its Member States, deviating from the experience of the European Court of Justice (ECJ).²¹¹

²⁰⁷ CMC, Decision 10/10, San Juan, 2 August 2010.

²⁰⁸ The Common Customs Code must be incorporated into the national law of the Member States, and the research has already focused on the different problems to depend on each will of the Members States, as observed in the implementation of the Mercosur decision at the national level.

²⁰⁹ Direct effect' is a principle of European Union law that states that certain provisions of EU law can be invoked directly by individuals or companies before national courts, without the need for a national implementing rule. Robin-Olivier, Sophie. "The evolution of direct effect in the EU: Stocktaking, problems, projections." *International Journal of Constitutional Law* 12, no. 1 (2014): pp. 168-169.

²¹⁰ The law produced by the international organisation must be applied uniformly and consistently in all its member states. For further information see Borchardt, Klaus-Dieter. *The ABC of European Union Law*. (2010) Vol. 1. Publications Office of the European Union, pp. 66; 115.

²¹¹ The European Court of Justice (ECJ) was able to provoke a gradual process through a repeated series of decisions (*Case 26/62, Van Gend & Loos 1963 and Case 6/64, Flaminio Costa v. E.N.E.L*). These rulings introduced the doctrines of direct effect and uniform applicability, which allowed European law to be applied directly without needing to be incorporated into national law. This process gradually shifted legal authority towards the European level. See Kwiecień, Roman. "The primacy of European Union law over national law under the Constitutional Treaty." *German Law Journal* 6, no. 11 (2005): pp. 1479-1495. And Robin-Olivier, Sophie. "The evolution of direct effect in the EU: Stocktaking, problems, projections." *International Journal of Constitutional Law* 12, no. 1 (2014): pp. 165-188.

However, PCR activism²¹² could potentially trigger a shift from an intergovernmental to a supranational nature of the Mercosur organisation similar to the ECJ. The prospect of a Mercosur court of justice, with nullity action and the infringement powers could further solidify the possibility of supranational integration.

One of the most important developments in Mercosur's institutional structure and concerning the expansion of its competencies after the Buenos Aires Consensus is the CMC Decision No. 23/05, 2005. This decision, approved by all Mercosur Member States, signed the Parliament (Parlasur) Constitutive Mercosur Protocol in December 2005, marking an evolution from the previous Joint Parliamentary Commission (JPC).²¹³ Entering into force in May 2007, Parlasur represented a decisive shift for Mercosur towards direct democracy. It is directly elected by the citizens of the Mercosur countries, replacing the parliamentary commission composed of representatives of the national parliaments.²¹⁴ Parlasur, in its unicameral chamber, introduces new elements such as the election of the Parliament's members²¹⁵, proportionate to the population of each Member State, but ensuring minimum representation for less populous states (CMC Decision 28/2010).²¹⁶ Another notable feature is the composition of parliamentarian working groups by theme-subject rather than nationality, fostering interdependence and dialogue among members of the parliaments of Member States. The parliament meets monthly, with open sessions from February to December, and its decisions

²¹² The PCR's affirmation of the primacy of Mercosur-produced law over national law could trigger a chain process like the ECJ, following a scope modification of the relations between the Mercosur bodies and its Member States (in Börzel's definition).

²¹³ Dri, Clarissa F. "Limits of the institutional mimesis of the European Union: The case of the Mercosur Parliament." *Latin American Policy* 1, no. 1 (2010): p. 53.

²¹⁴ Ibidem.

²¹⁵ Distributed according to the same proportion: Brazil 75 MPs, Argentina 43, Paraguay 18, Uruguay 18, and Venezuela 31, once it becomes a full member. Malamud, Andrés, and Clarissa Dri. "Spillover effects and supranational parliaments: The case of MERCOSUR." *Journal of Iberian and Latin American Research* 19, no. 2 (2013): p. 232.

²¹⁶ Dri, Clarissa F. "Limits of the institutional mimesis of the European Union: The case of the Mercosur Parliament." *Latin American Policy* 1, no. 1 (2010): p. 53.

are voted by various types of majorities, replacing the previous unanimity method.²¹⁷ The composition of the Mercosur Bureau, the leading organ, consists of a president and vice-president for each Member State elected every two years with no possibility of re-election. To prevent national interference, a four-year time limit is set, along with incompatibility with a concurrent national mandate of a political nature.²¹⁸

The powers of the Mercosur Parliament go beyond representation and deliberation; Parlasur can exercise partial accountability and legislative powers. At the active accountability level, it can request specific information in writing from the Mercosur institutions (Art. 4 paragraph, 4 of the Constitutive Protocol of the Mercosur Parliament, (*Protocolo Constitutivo del Parlamento del Mercosur*, PCPM)²¹⁹. In a more passive way, the Parlasur receives the annual budget report from the Mercosur Secretariat and produces an annual report on human rights compliance in the region (Art. 4, paragraph 3, PCPM). Additionally, the Parliament is responsible for preserving the democratic regime in the Member States, following Mercosur principles (Art. 4 paragraph 2, PCPM). At the legislative level, Parlasur can provide opinions, make suggestions on the CMC's legislative projects (Art. 4 paragraph 11, PCPM), propose Mercosur rules drafts to the Common Market Council (Art. 4 paragraph 13, PCPM), create reports on specific issues through its committees, evaluate and route petitions from any individual of the Member States concerning Mercosur body's acts or omissions (Art. 4 paragraph 10, PCPM). It can also promote legislative draft projects presented to the national parliaments to harmonise legislation among Member States (Art. 4 paragraph 14, PCPM).

²¹⁷ Malamud, Andrés, and Clarissa Dri. "Spillover effects and supranational parliaments: The case of MERCOSUR." *Journal of Iberian and Latin American Research* 19, no. 2 (2013): p. 224.

²¹⁸ Dri, Clarissa F. "Limits of the institutional mimesis of the European Union: The case of the Mercosur Parliament." *Latin American Policy* 1, no. 1 (2010): p. 66.

²¹⁹ https://www.parlamentomercosur.org/innovaportal/file/7308/1/protocolo_es.pdf (Accessed September 2023)

Despite these powers, as Mercosur has no authority beyond its consultative role and relative accountability to other institutions, its intergovernmental nature remains unchanged.²²⁰ Subsequently, the influence Parlasur can exert on national presidents is limited. Nonetheless, even without accountability to other Mercosur institutions, there is a renewed process of collaboration between the various Members of national parliaments in the exercise of their new functions and competencies. This parliamentary structure gains relevance in possible future integration processes.²²¹ Drawing parallels with the European Parliament evolution, Malamud & Sousa (2007)²²² highlight three factors that can transform an international parliamentary assembly into a supranational parliament central to subsequent integration processes: extraordinary leadership, direct election, and early supranationalism.

As mentioned earlier, the strong role of national presidents in the Mercosur Member States is a key element in favouring new integration processes. Direct elections, a key innovation in the creation of Parlasur, play a significant role. Nevertheless, the early supranationalism is not contemplated by the Mercosur organisation. The current Mercosur institutional environment could be considered a 'Monnet-method'²²³ proper to the European integration process, favouring an incrementalist approach based on small advances in the process of supranationalism.

A notable limitation in the creation of Parlasur, as argued by Jean Grugel (2007),²²⁴ is the lack of involvement by social movements from Mercosur Member Countries. This

²²⁰ Malamud, Andrés, and Clarissa Dri. "Spillover effects and supranational parliaments: The case of MERCOSUR." *Journal of Iberian and Latin American Research* 19, no. 2 (2013): p. 230.

²²¹ Ivi. p. 234

²²² André's Malamud and Luís de Sousa, 'Regional Parliaments in Europe and Latin America: Between Empowerment and Irrelevance', in Andrea Ribeiro Hoffmann and Anna van der Vleuten (eds), *Closing or Widening the Gap? Legitimacy and Democracy in Regional International Organizations*, Aldershot, Ashgate, (2007): p. 89.

²²³ Laughland, John. "European Integration: A Marxist Utopia?" *The Monist* 92, no. 2 (2009): p. 215.

²²⁴ Jean Grugel. "Democratization and Ideational Diffusion: Europe, Mercosur and Social Citizenship." *Journal of Common Market Studies* 45, no.1, (2007): p. 47.

deficiency accelerates a top-down rather than bottom-up integration process which relies on technicians and officials from Member States and international organisations while avoiding social associations. This leads to a democratic deficit in the Mercosur institutional context, as defined by Álvarez (2008).²²⁵ Additionally, the four committees that assist the parliamentary work – Administrative, Parliamentary, International Relations and Communication – rely heavily on president’s ability due to the lack of expertise.²²⁶

Two structural limitations in Parlasur are evident. Firstly, demographic asymmetries in the national Mercosur Member States significantly affect parliament composition. With Brazil having around 80% of the regional bloc population, it should have at least 50% of the parliament’s seats, potentially threatening the decision-making capacities of the other Member States.²²⁷ Secondly, the Parlasur faces limitations given the national characteristics of its Member States. MPs, reflecting the will of their Members States, are wary of any limitation of sovereignty towards the creation of supranational organisation, while the Mercosur elites promote further integration as long as it does not affect the sovereignty of their national states, reflecting a sort of ‘*schizophrenia*’²²⁸. Indeed, this political perspective hampers the formation of transnational parties and ‘social cohesion.’²²⁹ Ideally, through the trans-national parties the Parlasur’s MPs can promote political ideals outside their national context and create a pool of international consensus among the Mercosur Member States.

Despite these limitations, the new Mercosur Parliament, since its first meeting in 2007, has effectively addressed issues of high relevance to the regional organisation, including human

²²⁵ María Victoria Álvarez, ‘El Parlamento del Mercosur: ¿hacia un proceso de integración más democrático?’, *Temas y debates*, 16, (2008): p. 54.

²²⁶ Malamud, Andrés, and Clarissa Dri. "Spillover effects and supranational parliaments: The case of MERCOSUR." *Journal of Iberian and Latin American Research* 19, no. 2 (2013): p. 230.

²²⁷ Therefore, one solution could be an absolute majority in all Parlasur votes.

²²⁸ Interview with the Brazilian Ministry of Foreign Affairs, Brasilia, 6 April 2009, *Ibidem*.

²²⁹ Jean Grugel. “Democratization and Ideational Diffusion: Europe, Mercosur and Social Citizenship.” *Journal of Common Market Studies* 45, no.1, (2007): p. 49.

rights protection, the accession of Venezuela to Mercosur, and the financial crises in the 2000s.²³⁰ The Parlasur serves as a concrete example of Mercosur Member States' wish to institutionalise themselves: '*la institucionalización es la manifestación jurídica de la voluntad política de integrarse*'²³¹ signifies a new stage in the integration process, going beyond the economic and social fields to integrate deeply in the political dimension. This aligns with gradualism envisaged in the constituent treaties of Mercosur, adapting to the new needs and expectations – similar to the functional spillover phenomenon analysed in Chapter II.²³²

Tracing back to the analysis of political integration in terms of level and scope as developed by Scheingold and Lindberg (1970), enlarging Mercosur's *scope* by creating new institutions or addressing new competencies does not automatically lead to a greater *level* of influence or increased decision-making power for the regional organisation over its Member States, moving towards supranationalism. Indeed, the relations between Parlasur and the other Mercosur institutions are fragmented. In comparison to the decision-making bodies of Mercosur, such as the Common Market Council, Parlasur reflects the passivity typical of the national parliaments of the presidential Member States *vis-à-vis* the executive. The Parlasur relies on the legislative initiative of the executive and a strong majority in the voting system, instead of making legislative proposals and exerting pressure on the executive.²³³ In contrast, regarding the Mercosur's non-decision-making bodies, such as the Economic and Social Consultative Forum, considering their institutional agreement, the relations with the Parlasur

²³⁰ Malamud, Andrés, and Clarissa Dri. "Spillover effects and supranational parliaments: The case of MERCOSUR." *Journal of Iberian and Latin American Research* 19, no. 2 (2013): p. 230.

²³¹ 'The institutionalization is the legal manifestation of the political will to integrate', author's own traduction. Institutionalization del MERCOSUR, Raúl Bernal-Meza. "en MERCOSUR: desafío político." *Konrad Adenauer Stiftung-CIEDLA, Buenos Aires* (2001): p. 39.

²³² Pena, Celina, and Ricardo Rozemberg. *Una aproximación al desarrollo institucional del MERCOSUR: sus fortalezas y debilidades (Occasional Paper ITD= Documento de Divulgación ITD)*. Vol. 31. BID-INTAL, (2005): p. 2.

²³³ Dri, Clarissa. "At what point does a legislature become institutionalized? The Mercosur Parliament's path." *Brazilian Political Science Review (Online)* 4, no. SE (2009): n.p.

are closer. This agreement envisages at least a six-monthly meeting between the two institutions to update and exchange views on the current state of the Mercosur integration process. The Forum can theoretically intervene through the Parlasur in the Mercosur's decision-making process.

The Parlasur has consolidated its interest in social issues over time, signing the *Programa Mercosur Social y Solidario* (PMSS) in 2009, composed of different non-governmental organisations from Mercosur Member States.²³⁴ Nonetheless, observing the issues in the Parlasur's functions *vis-à-vis* other institutions, and in the activities of its parliamentarians, it is important to focus on the problems arising from the citizens' perceptions of it. After the creation of Parlasur, the citizens of Mercosur Member States have shown little interest in the objectives and functions of Parlasur and, overall, in the Mercosur and its integration process, which lacks media attention.²³⁵ As the only directly elected body in Mercosur, it is of vital importance that Parlasur can exercise a strong linkage with its citizens. For this reason, Parlasur has increased its public hearings with civil society and collects petitions from citizens to point out faults or omissions of other Mercosur institutions.²³⁶ Despite this, citizens' interest in Parlasur and on the integration process remains circumscribed and limited. To sum up the incidence of the creation of Parlasur on the integration process within the new phase of Mercosur integration, marked by the Buenos Aires Consensus's thresholds, it is possible to adopt the classifications used to estimate the effect of the Ouro Preto Protocol in the previous pages.

²³⁴ Buono, Richard A. Dello, and Ximena de la Barra. "La Integración Regional Solidaria y Emancipatoria." *América Latina: dependencia y alternativas de desarrollo* (2020): p. 112.

²³⁵ Dri, Clarissa. "At what point does a legislature become institutionalized? The Mercosur Parliament's path." *Brazilian Political Science Review (Online)* 4, no. SE (2009): n.p.

²³⁶ *Ibidem*.

In this new phase of Mercosur's development, attributing a specific spillover effect to the new integrative thrusts is challenging. If the birth of Mercosur through the Asunción Treaty is characterised by a political spillover, given the fundamental interference of political elites in pushing the domestic issues to a transnational level (the desires of Brazilian and Argentine presidents to affirm their democracies). Defining the (possible) spillover effect provoked by the Buenos Aires Consensus is not effortless. Primarily, it could also take the form of political spillover, although it might be reductive to consider the Buenos Aires Consensus as a type of purely political spillover. Without acknowledging the active role of Brazilian and Argentine presidents,²³⁷ broadening the scope of analysis at certain characteristics might recall a functional type of spillover.

As pointed out in Chapter II, functional spillover is triggered by moments of crisis, also called 'functional dissonance', which, if they are to be overcome, may require a change towards greater integration in the process of regional integration.²³⁸ It is possible to contextualise the birth of the Buenos Aires Consensus as a functional spillover to overcome the period of crisis known as the 'Dark Years' (1999-2003). In order to overcome the crisis, exacerbated by the incompleteness of internal economic policies that had left the Member States vulnerable to external economic crises and reach the original Mercosur's goal – the creation of a common market – it was decided to relaunch and increase the integration process.

²³⁷ In this case, the political leaders of Brazil's President Lula and Argentina's President Kirchner played a significant and active role in initiating a new phase of integration within Mercosur. The institutional framework and integration process of Mercosur are heavily influenced by presidential or dominant political interest groups. Indeed, the structural conditions and characteristics of Latin American governments limit the effectiveness of gradual and incremental approaches to promoting Mercosur's supranational nature.

²³⁸ Niemann, A. and Ioannou, D. 'European economic integration in times of crisis: a case of neofunctionalism?', *Journal of European Public Policy* 22(2) (2015): pp. 196–218.

3.3.3. Gauging the Mercosur Socio-Political Redefinition

The integration process was relaunched mainly through the establishment of new institutions created by the Olivos Protocol in 2004, which favoured greater integration in specific spheres such as the social one. The initiative was relaunched as *somos Mercosur* in 2004 and Parlasur was introduced in 2005. Speculatively advancing the analysis of political integration in terms of *level* and *scope* as observed in the Ouro Preto Protocol, some changes occurred after the implementation of the Buenos Aires Consensus. Similar to the Ouro Preto Protocol, there was a consolidation and partial expansion of Mercosur's scope and level. New initiatives such as *somos Mercosur*, the Parlasur, the creation of the FOCEM and the PCR realised new goals, strengthening the economic and social integration, and adding a new parliamentary dimension. The actual implementation of many of the proposals of the new Mercosur social summit faced challenges due to the divergent will of the Member States, and the FOCEM experienced the issue of 'double duty', not impacting the decision-making structures between the Member States and Mercosur. Despite ensuring the primacy of 'Mercosur law' over national law, the PCR still depends on the willingness of individual Member States to internalise it.

The Parlasur has proved to be partially ineffective. Nonetheless, it is one of the greatest examples of change of scope according to Lindberg and Scheingold's (1970) definition, increasing Mercosur's competencies and institutions beyond those established in the earlier treaties or exercised by the Joint Parliamentary Commission (JPC).²³⁹ Börzel's (2005) definition of *scope* and *level* should tend to be glossed over as the Parlasur was a policy and legal output without any form of treaty revision, established following a CMC decision.

²³⁹ Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 686. See Protocol of Ouro Preto, section IV, Articles 22–27. See also the 1991 Treaty of Asunción, Article 24.

However, the appearance of a parliamentary consultation and a non-consensus voting procedure, combined with the PCR as the primary body, could potentially shift the scope of the nature of Mercosur to (2) – *intergovernmental cooperation* on Börzel’s (2005) scale. Despite adding new elements, such as the parliamentary and legal ones, Mercosur maintains a medium level (3) of integration. Effective legal integration, or advanced forms of political and military integration, remain excluded.

Article 9 of the PCPM considers the Parlasur as an independent and autonomous body and its parliamentarians not ‘*estarán sujetos a mandato imperativo y actuarán con independencia en el ejercicio de sus funciones*’.²⁴⁰ Additionally, the envisaged possibility of organising itself into transnational groups by political orientation supersedes typical voting method of an intergovernmental institution (consensus). Instead, each state retains the possibility of a veto by switching to different forms of envisaged majority (absolute, special, simple, or qualified, Art.15, PCPM). Nonetheless, the decisions of the parliaments do not have a legal value superior to the rules of the nation-states, as a supranational institution would have.

The establishment of Parlasur and other consultative bodies may have resulted from a possible functional spillover during Mercosur deep crisis. These bodies increased Mercosur's competencies without modifying its authority, which remains bound to the will of Member States. Therefore, as suggested by Malamud & and Clarissa (2013)²⁴¹, another spillover phenomenon may have occurred. The spillover, as elaborated by Schmitter (1970), may

²⁴⁰ Shall be subject to a binding mandate and shall act independently in the exercise of their functions’, author’s own traduction. María Victoria Álvarez, ‘El Parlamento del Mercosur: ¿hacia un proceso de integración más democrático?’, *Temas y debates*, 16, (2008): p. 52.

²⁴¹ Malamud, Andrés, and Clarissa Dri. "Spillover effects and supranational parliaments: The case of MERCOSUR." *Journal of Iberian and Latin American Research* 19, no. 2 (2013): p. 235.

recall this new integrative phase of the Mercosur organisation.²⁴² Yet, the solution could be a strengthening of Parlasur's decision-making authority, a challenging prospect.

Concluding the application of the theoretical approaches in this new integrative phase of Mercosur, one can consider the scale of political integration as proposed by Lindberg and Scheingold, (1970) as a type (3) – a structure where *political decisions are made respectively between the states and Mercosur, but the national component predominates the final decision*. Considering the definition of regionalism proposed by Balassa (1976) (stressing the economic component) Mercosur is a limited free trade area (FTA) unable to achieve the character of a customs union (CU), due to tariff and customs inconsistencies, still based on a (formal) *factor integration* (2).

Determining whether Mercosur is a prosperous or failed regional integration process depends on the perspective. From an ethnocentric viewpoint in comparison with European integration, it may be deemed partly or wholly ineffective. Nonetheless, within the region and considering the outcomes of other regional organisations (such as the Latin American Free Trade Association and the Latin American Integration Association) it could be considered an extraordinary triumph, the most successful example of regional integration in Latin America.²⁴³ There is no concordant literature to draw conclusions from the Mercosur organisation. A more pessimistic perspective labelled 'Mercorealists'²⁴⁴ or 'sceptics', focuses on incomplete economic integration and limited political achievements, emphasizing an insufficient and deeply intergovernmental institutional structure. On the opposite, the 'Mercoenthusiasts'²⁴⁵ or

²⁴² Philippe C. Schmitter, 'Central American Integration: Spill-Over, Spill-Around or Encapsulation?', *Journal of Common Market Studies*, 9:1, (1970), p. 39.

²⁴³ Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 695.

²⁴⁴ Carranza, Mario E. "Clinging together: Mercosur's ambitious external agenda, its internal crisis, and the future of regional economic integration in South America." *Review of International Political Economy* 13, no. 5 (2006): p. 807.

²⁴⁵ *Ibidem*.

'optimists' claim political and social successes, blaming economic issues for overshadowing achievements. A third way may be that of 'Mercoevolutionists'²⁴⁶ or 'transformists' who consider Mercosur as a fragmented process, with periods of strengths and weaknesses.

The research aims to reformulate the Mercosur evolution process through the functionalist theory characterised by elements of spillover in *political* and *functional* definitions. The stationary *spillaround effect* transformed competencies but not decision-making processes. Integrative reduction phenomena (*spillback effect*), possibly experienced during the 'Dark Years' and the Brazil's unilateral devaluation, further complicated the integrative process.²⁴⁷

A historical-institutionalist perspective²⁴⁸ considers the institutional apparatus as reflecting the political and historical wills, potentially promoting further integration processes. Throughout the history of European integration, the process of integration was enhanced through the ratification of international treaties. The unforeseen, exogenous, or endogenous, transformations that might occur during the treaties could lead to updates of the integrative scheme over time. In Mercosur's case, anchored in the *status quo* logic of nation-states and strong presidentialism, the progressive institutionalisation of ideologically oriented transnational groups within Parlasur could challenge this perspective. A new international (if not yet supranational) political reasoning could shift the focus of political debate from national delegations to new political groups in Parlasur. Indeed, Parlasur has the potential to change

²⁴⁶ Gardini, Gian Luca, MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): p. 684.

²⁴⁷ Schmitter, Philippe C. "A revised theory of regional integration." *International organization* 24, no. 4. 1970: p. 846.

²⁴⁸ Thelen, Kathleen. "Historical institutionalism in comparative politics." *Annual review of political science* 2, no. 1 (1999): pp. 373; 374; 375.

national governments' domination over the integration process, explaining the chancelleries' aversion to it and its extension of powers and competencies.²⁴⁹

3.4 EL PAcCTO Programme (2017-2022): an external EU spillover?

The purpose of this section is to assess whether the implementation of the European El PAcCTO programme in Latin America meets the conditions for the *external* spillover and might trigger the regional integration between Mercosur's founding Members States. The external spillover effect is characterised by *exogeneity* (1), as it is evident that El PAcCTO programme was initiated by the European Union rather than by the Mercosur or its Member States. As mentioned in Chapter II, another central element of external spillover is based on the *externalisation of internal policies* (2). In the case of El PAcCTO, this could result in the externalisation of a project similar to Europol in Latin America, concerning the fight and prevention of terrorism and drug trafficking. Another premise described by the external spillover theory is that *effective regional integration encourages further integration* (3). Considering the achievement of El PAcCTO (2017-2022) and the current refinancing of the El PAcCTO 2.0 programme starting in 2023, ongoing deeper political integration of Mercosur countries within this initiative could be taken into account.²⁵⁰ The final assumption for the external spillover effect emphasises the relevance of external events provoking in the states *internal pressures* that might lead to further integration. The research focuses on events indirectly provoking an integrative response across the states and have a transnational impact, such as international terrorism and drug trafficking, which may require a cohesive response by all the Mercosur Members States. Thus, the endogenous phenomenon (El PAcCTO

²⁴⁹ Gardini, Gian Luca, MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): pp. 684; 695.

²⁵⁰ IILA, 2022. <https://iila.org/it/lamerica-latina-e-lunione-europea-hanno-rafforzato-lalleanza-nella-lotta-al-crimine-organizzato-grazie-al-programma-el-paccto/> (Accessed September 2023).

programme) is driven by external issues – organised crime and drug trafficking – within the Mercosur Member States, which are rising phenomena across all South America.²⁵¹

The essential assumption is that non-military threats such as transnational organised crime and narco-trafficking can provoke centripetal effects in sub-regional cooperation, as in the case of the El PAcCTO programme.²⁵² As argued by Hurrell (1998)²⁵³, domestic and transnational security threats to individual states pose a threat to the regional order as a whole and require a cohesive response. This expands the regional security agenda to include potential threats such as migration and refugee flows, drugs and arms trafficking, environmental degradation and the worsening of law and order in the state's internal landscape. Moreover, regional powers have become increasingly relevant in the areas of counterterrorism, countering nuclear proliferation and peacekeeping activities.²⁵⁴

To analyse possible changes, the research focuses on the definition of *level* and *scope* provided by Lindberg and Scheingold, (1970), as El PAcCTO is a type of security and intelligence cooperation agreement outside the Mercosur's treaties falling under political agreements and policy output. Firstly, it must be emphasised that regional groups like South America tend to adopt a common set of rules, and Mercosur has preliminary political agreements for security integration, such as the Forum for Political Consultation and Concertation (1996) and the declaration of the Mercosur sub-region as a peace zone (*Zona de*

²⁵¹ Sullivan, Mark P. *Latin America: terrorism issues*. DIANE Publishing, 2011. See also Báez, Amado Alejandro, Matthew D. Sztajnkrzyer, Richard Zane, and Ediza Giráldez. "Twenty-five years of violence: the epidemiology of terrorism in South America." *Prehospital and disaster medicine* 23, no. 2 (2008): pp. 128-132.

²⁵² Flandes, Daniel. "Creating a regional security community in Southern Latin America: The institutionalisation of the regional defence and security policies." German Institute for Global and Area Studies (GIGA), no. 13 (2005): p. 32.

²⁵³ Hurrell, Andrew. "Security in Latin America." *International Affairs* 74, no. 3 (1998): p. 530.

²⁵⁴ Kacowicz, Arie M. "Regional governance and global governance: Links and explanations." *Global Governance* 24 (2018): p. 64.

Paz) following the Ushuaia Protocol (1998).²⁵⁵ Secondly, the research assesses whether there are prerequisites among Mercosur States for creating a security and defence cooperation zone. Recalling Karl W. Deutsch's (1961)²⁵⁶ concept of a pluralistic security community, it is possible to observe that many of them are already present in the Mercosur organisation.

First and foremost, Deutsch (1961) defines a security community as follows: *'a security community is a group that has become integrated, where integration is defined as the attainment of a sense of community, accompanied by formal or informal institutions or practices, sufficiently strong and widespread to assure peaceful change among members of a group with reasonable certainty over a long period of time'*²⁵⁷.

Deutsch (1961) identifies different prerequisites for its creation and maintenance, focusing on *a mutual interdependence in their intra-regional relations* (1), *a high degree of shared values and a common identity* (2), and *a deep network of common institutions that can resolve potential conflicts between Member States* (3). Recalling the analysis of Mercosur on the previous pages, it is possible to observe how these prerequisites are met by the Mercosur organisation from its establishment to its evolution. While Deutsch (1961) saw points (1) and (2) already fulfilled in the subregion of South America, Mercosur is potentially able to offer the vast institutional apparatus (3) that was lacking.

Proceeding to address all the three points proposed by Deutsch (1961), the Mercosur, through its purely intergovernmental organs (such as the Common Market Council and the Common Market Group), has irremediably bound the Mercosur Member States' relations to

²⁵⁵ Flandes, Daniel. "Creating a regional security community in Southern Latin America: The institutionalisation of the regional defence and security policies." German Institute for Global and Area Studies (GIGA), no. 13 (2005): p. 7.

²⁵⁶ Deutsch, Karl W. (1961): *Security Communities*, in: Rosenau, James (ed.), *International Politics and Foreign Policy*, New York, p. 98.

²⁵⁷ Flandes, Daniel. "Creating a regional security community in Southern Latin America: The institutionalisation of the regional defence and security policies." German Institute for Global and Area Studies (GIGA), no. 13 (2005): p. 8.

each other. Moreover, adopting a voting system mainly based on consensus has made the mutual agreements between states (and a shared interdependence) an essential prerequisite.

As mentioned above, Mercosur has been able to provide an international shared forum for dispute resolution with its Forum for Political Consultation and Concertation, as well as establishing the essential democratic requirements for Member States after the Ushuaia Agreement, reinforcing the democratic Mercosur identity. Moreover, with the implementation of social issues with the Ouro Preto Protocol (1994) and the creation of Parlasur (2006) the Mercosur has irremediably increased the organisation's social role by fostering the creation of norms and shared values.

The interdependence among the Mercosur countries is not only political, but also economic. Mercosur stands as the third largest market²⁵⁸ after the European Union and NAFTA²⁵⁹, absorbing about 70% of all foreign trade and direct investment in Latin America. Mercosur is characterised by trade and capital flows, indicative of profound economic integration and mutual interdependence between its Member States. Thus, Mercosur fulfils all three prerequisites set by Deutsch (1961) for the creation of a security community. Currently, several internal and transnational threats necessitate the creation of a security framework within Mercosur, with the dual purpose of avoiding turbulence in economic and trade cooperation and the possibility of conflict escalation. Furthermore, the Mercosur founding countries have embraced the European security cooperation programme (El PAcCTO).

Despite this, the institutionalisation of a political system for security cooperation among the Mercosur partner states is pivotal yet often overlooked in existing literature.

²⁵⁸ Gratius, Susanne, and Horacio Coronado. "Zehn Jahre MERCOSUR: Der Anfang vom Ende einer Erfolgsgeschichte?." in: Brennpunkt Lateinamerika, No. 4, Hamburg: Institut für Iberoamerika-Kunde (2001): p. 41.

²⁵⁹ The North American Free Trade Agreement (NAFTA) has been effective since 1994 and created a free trade zone between United States, Mexico, and Canada. For further information see Villareal, M., and Ian F. Fergusson. "The North American Free Trade Agreement (NAFTA)." Congressional Research Service (2017): pp. 1-32.

As supported by Fledes (2005)²⁶⁰ the increase in security cooperation should consider both multilateral and bilateral channels of interaction between Member States. Emphasis is placed on the forums run within the Mercosur organisation, where cooperation systems are formalised and institutionalised among Member States, leading to the strengthening of relations between its Member States.

The Mercosur's integrative process in the security field started primarily in 1996 with the Treaty of Fortaleza and the establishment of the Conferences of the Home Secretaries of the Mercosur, initiating limited practices of security cooperation among the Mercosur's Member States. Subsequently, various cooperation mechanisms were developed, including The General Plan for Regional Security (1999), the Mercosur Centre for Police Training (2000), the operational police cooperation (2001), and the security data bank SISME (2003). These systems of cooperation are based on a mutual exchange of critical information between the Member States. At the operational level, they focus on the implementation of cooperative and simultaneous measures for crime repression and border control, as well as the exchange of joint equipment and training between their police forces to fight transnational threats. This has streamlined and expedited operations between neighbouring countries, eliminating the need for an international arrest warrant from the International Criminal Police Organisation (Interpol) to cross borders for arrests, now requiring only the consent of the partner state where the subject resides.

As a result of the new agreements, special Mercosur institutions such as the Conference of Secretaries of the Interior and Justice Ministers, the Foreign Policy Consultation Mechanism (FCCP), the Anti-Drug Committee (RED) and the Counterterrorism Working Groups

²⁶⁰ Fledes, Daniel. "Creating a regional security community in Southern Latin America: The institutionalisation of the regional defence and security policies." German Institute for Global and Area Studies (GIGA), no. 13 (2005): p. 11.

(GTP/GTE) operate jointly.²⁶¹ Notwithstanding, Frenkel (2019)²⁶² argues that the Mercosur integration process has been neglected especially in the field of defence. This neglect is attributed firstly to the predominance of economic and commercial objectives of the Mercosur organisation and secondly, due to different levels of civil and military control over the armed forces in the Mercosur countries. The greater the extent of direct military control over their armed forces, the more reluctant countries are to share force management to civilian-led sub-regional defense systems within Mercosur.

Analysing the possible effects of one of the first agreements of this magnitude, such as the EL PAcCTO Programme, which, despite being a European initiative, has been accepted by all four Mercosur founding countries considered in the research, is paramount.

3.4.1 EL (im)PAcCTO: Implications for Mercosur's Integration Trajectory

Given the recent implementation of the EL PAcCTO Programme (2017-2022), most documents used in its analysis are primary sources based on its institutional website and government agencies. However, the sensibility of the sources involved may sometimes limit the information available.

EL PAcCTO (Europe Latin America Programme of Assistance against Transnational Organised Crime) is an international cooperation programme sponsored and funded by the European Union, which aims to enhance security and justice in Latin America, preventing and fighting transnational organised crime.²⁶³ It adopts a holistic approach, addressing the entire criminal chain across three aspects: police, justice, and penitentiary.²⁶⁴ This technical assistance

²⁶¹ Ivi p. 30.

²⁶² Frenkel, Alejandro. "Regionalism and security: the case of Mercosur and the absence of defense issues." *Brazilian Journal of Strategy & International Relations*, v.8, n.15, (2019): pp. 213-240.

²⁶³ «¿Qué es EL PAcCTO?» http://elpaccto.eu/?page_id=6 (Accessed October 2023).

²⁶⁴ «Europe steps up cooperation with Latin American to combat Transnational Organised Crime | EEAS». https://www.eeas.europa.eu/node/414372_fr?s=43 (Accessed October 2023).

programme between the EU and Latin America has its foundation in the sharing of experience and good practices between Latin American and the EU Member States; its objective is not only to fight crime and prevent it but also to facilitate and strengthen international cooperation on security issues, responding to the needs of Latin American states addressing the whole criminal justice system.

The Programme prioritises five different cross-cutting areas: the fight against corruption, money laundering, cybercrime, and the protection and enforcement of human rights, with a special focus on gender rights. Operated by Interpol and the Police Community of the Americas (Ameripol),²⁶⁵ El PAcCTO is the first programme with such a regional scope and such a broad objective: it involves 18 Latin American partners²⁶⁶ around 140 institutions promoting 7 Specialised Multidisciplinary Teams (SMTs) and 3 Inter-Institutional Technical Committees (ITCs), through a budget of €19 millions.²⁶⁷ However, the results will be limited and analysed only in the four Mercosur founding countries, focusing on their bilateral and multilateral relations between them and through the Mercosur organisation.

Through the El PAcCTO Programme, Argentina was able to initiate and implement the REDCOPEN (Mercosur Penitentiary Cooperation Network) during its presidency of Mercosur.²⁶⁸ This network between Mercosur member countries plays a vital role as a platform for the exchange of information between Mercosur members and partners, collaborating in

²⁶⁵ «Folletos». http://elpaccto.eu/?page_id=2415 (Accessed October 2023).

²⁶⁶ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Honduras, México, Nicaragua, Panamá, Paraguay, Perú, Uruguay and Venezuela.

²⁶⁷ «Our projects | Civipol». <https://www.civipol.fr/en/missions-and-projects/projects?themes=75> (accessed October 2023) See also «L'America Latina e l'Unione Europea hanno rafforzato l'alleanza nella lotta al crimine organizzato grazie al Programma EL PAcCTO». IILA, 2022. <https://iila.org/it/lamerica-latina-e-lunione-europea-hanno-rafforzato-lalleanza-nella-lotta-al-crimine-organizzato-grazie-al-programma-el-paccto/> (accessed October 2023). «EL PAcCTO - Programa de Asistencia Contra El Crimen Organizado». https://www.fiiapp.org/en/proyectos_fiiapp/el-paccto-assistance-programme-against-transnational-organised-crime/ (accessed October 2023).

²⁶⁸ «La cooperación penitenciaria entre UE y AL». Lorenzo Tordelli and Elisa Maggiore <http://elpaccto.eu/?p=5010> (Accessed October 2023).

different areas of their penitentiary system. REDCOPEN is based on the development of infrastructure and the promotion of international cooperation. Additionally, Argentina's Ministry of Justice and Human Rights played a crucial role in safeguarding women witnesses involved in organised crime cases within the Mercosur framework, actively participating in regional activities.²⁶⁹ These initiatives underscore Argentina's unwavering commitment to strengthening cooperation and combating organised crime within the framework of Mercosur. Following Brazil's accession to El PAcCTO, it actively supports the protection of women witnesses in cases of organised crime, mirroring Argentina's efforts.²⁷⁰ However, the most important development in possible future intra-regional integration is the development of bilateral joint teams with Paraguay, one specialised in countering drug trafficking and one fighting people trafficking.²⁷¹ Following Flandes' (2005) theory, the Brazilian case, through the interaction between the *Procuradoria-General da República* and Paraguay's government, can be considered a potentially successful start. Concerning Paraguay and the cooperation between penitentiary systems, it is worth noting that the Paraguayan state, specifically the Ministry of Justice, is a valuable partner of the El PAcCTO Programme, collaborating with Brazil and Argentina to enhance coordination on the penitentiary level.²⁷² The Memorandum of Understanding for the establishment of an Inter-Institutional Technical Committee (*Comité Técnico Interinstitucional* - CTI) on prison intelligence, ensures that prison police and national police are permanently present, operating in coordination with the prosecutor's office specialized in organised crime, to address criminal groups that operate from the prison's network in a comprehensive and integrated manner.²⁷³ This outcome has enhanced regional

²⁶⁹ «Países». <https://elpaccto.eu/wp-content/uploads/2021/07/FP-Argentina-JUL21.pdf> (Accessed October 2023).

²⁷⁰ «Países». <https://elpaccto.eu/wp-content/uploads/2021/07/FP-Brasil-JUL21.pdf> (Accessed October 2023).

²⁷¹ Ibidem.

²⁷² «Países». <https://elpaccto.eu/wp-content/uploads/2021/09/FP-Paraguay-FEB21.pdf> (Accessed October 2023).

²⁷³ Ibidem.

cooperation dynamics within Mercosur. As a result, following the implementation of the first European security and intelligence cooperation project, Paraguay's cooperation with some of the other Mercosur Member States has increased. Concerning Uruguay's involvement in the El PAcCTO, during the XLVII conference of MERCOSUR Ministers of Justice on 8th June 2018, El PAcCTO put forward a proposal to convert the ad hoc group - Project Development and Improvement of the Mercosur Penitentiary System - into a permanent group named '*Specialised Group on Penitentiary Affairs*' which was approved.²⁷⁴ However, despite the formalisation of the Mercosur Joint Working Group on the Penitentiary System, there have been no noteworthy joint operations with specific Mercosur members, and it can be considered as perhaps one of the states where El PAcCTO has had the least effect on increasing multilateral relations with other Mercosur Member States.

The effects of regional programmes such as El PAcCTO, added to the other programmes, such as EUROsociAL+ (Programme to promote social cohesion) and EUROCLIMA+ (fight against climate change) are evident. Their aim is to generate common and cohesive responses to shared regional problems, to adhere to joint policies, principles, and standards, and to foster a deep interconnection and massive multilateral and regional relationships between the actors involved.²⁷⁵ Following an indirect integration process based on specific and technical issues, these programmes promote greater integration at the regional level with the aim of establishing a EURO-Latin American political agenda.²⁷⁶

Indeed, the regional interaction is an explicit element of the El PAcCTO programme, further reaffirmed during a workshop held in November 2019 in Mexico City. This event reiterated the objective of promoting inter-institutional coordination between Latin American

²⁷⁴«Países». <https://elpaccto.eu/wp-content/uploads/2020/03/FP-Uruguay.pdf> (Accessed October 2023).

²⁷⁵ Altrogge, T. "A new cycle in Euro-Latin American cooperation." *Documento de trabajo* 47, fundación carolina (2021): p. 11.

²⁷⁶ Ivi, p.12.

countries in the fight against organised crime.²⁷⁷ Nevertheless, the El PAcCTO Programme is dominated by inter-governmental and presidential characteristics and, unless political leaders choose to implement integration in the field of security and defence, there will hardly be any other way to increase integration.²⁷⁸ Otherwise, if the level of cooperation were inter-parliamentary, then the above considerations could be applied to a possible role for Parlasur in increasing integration. However, inter-governmental dialogues through Mercosur have dominated the El PAcCTO Programme.

The Programme was concluded in 2022 and El PAcCTO 2.0²⁷⁹ is already planned for the next 4 years, so there could be a potential new phase of intra-regional integration. However, some peculiarities in South American states must be emphasized. Generally, the defence issue is absent in the Latin American political debate, as the armed forces have historically dominated this political field.²⁸⁰ It is substantial that these kinds of issues are dealt with within Mercosur, albeit at an intergovernmental and consensus-based level, but to avoid one-sided and individualised responses from each Member State. Conversely, in a diametrically opposed manner, it is paramount to take into account the multitude of governmental actors that must be involved in responding to threats of a transnational nature as they cannot be responded to merely by military actions. Therefore, in a system of international security cooperation, in addition to the traditional involvement of the Presidents and ministers of Foreign Affairs, there is a need

²⁷⁷ Escanero, Mauricio, and Noel González Segura. "Collaboration between Mexico and the European Union to Fight Illicit Firearms Trafficking: A Strategic Perspective." *Revista Mexicana de Política Exterior Especial* (2020): p. 150.

²⁷⁸ Martins, Maria. "Interregional Human Rights Cooperation Between the European Union and Latin America and the Caribbean: Challenges and Opportunities." United Nations University, Institute on Comparative Regional Integration Studies, Policy Brief No. 07, (2023): p. 4.

²⁷⁹ «EL PAcCTO - Programa de Asistencia Contra El Crimen Organizado». (Accessed October 2023).

²⁸⁰ Frenkel, Alejandro. "Regionalism and security: the case of Mercosur and the absence of defense issues." *Brazilian Journal of Strategy & International Relations*, v.8, n.15, (2019): p. 209. And Fledes, Daniel. "Creating a regional security community in Southern Latin America: The institutionalisation of the regional defence and security policies." *German Institute for Global and Area Studies (GIGA)*, no. 13 (2005): p. 19.

for a holistic response through the participation of a multitude of state personalities such as the Home Offices, the Ministries of Justice, Defence, Finance and Economic Affairs.

In conclusion, in order to make an adequate assessment of the intra-regional consequences of El PACCTO, it would be necessary to be able to analyse the effects in the long term, and thus is beyond the analysis. However, in the short term, there is an increase in interinstitutional relays through bilateral agreements, mainly between Brazil and Paraguay. This occurs in a context characterised by the enormous impetus provided by Argentina through the El PACCTO's patronage of the Mercosur REDCOPEN network.

As theorized by Mitrany and recalled by Hass (1958) in his neo-functionalist theory, certain political fields, such as security and defence, are considered 'high politics' and are intrinsically controversial fields in the integration process.²⁸¹ The high politics are the last to be regionally integrated, conversely their counterpart, the 'low politics', such as trade and economy, are less controversial and more easily to integrate, as exemplified by the European integration process.²⁸² Perhaps, effective cooperation between the Mercosur's Member States cannot originate from the political sphere (such as the security field) but rather from the economic and technical domains. Any political framework (high politics) would lead to disputes, whereas gradual functional developments and the peaceful provision of common services will lay the necessary foundation for stronger political agreements.²⁸³

However, *'The Latin American case might challenge the working assumption that it is easier to cooperate in economic issues than in security ones. There seems to be a larger compatibility, cooperation, and overlap among different subregional, regional, and*

²⁸¹ Mitrany divides the possible integration process into 'high politics' such as defence and security, where cooperation and integration are more difficult and 'low politics', mainly of an economic nature, and simpler to integrate. See Mattli, Walter. "Ernst Haas's evolving thinking on comparative regional integration: of virtues and infelicities." In *The Disparity of European Integration*, Journal of European Public Policy, 12:2 (2005): p. 334

²⁸² Ibidem.

²⁸³ Ibidem.

*hemispheric security mechanisms of regional group, ..., than in issues related to trade, finance, and economic development.*²⁸⁴ One explanation could be due to the centripetal effects on regional integration security issues within Latin American states, that are currently facing both intrastate and transnational threats, which stand in contrast to the situation of progressive peace in their international relations. Indeed, after the Cold War and the resolution of the conflict in Central America the Latin American region can be considered a 'zone of peace'.²⁸⁵ Integrative factors are associated with democratic cooperation in the region, where the Mercosur stands as one of the most prominent examples. The democratic spread facilitates a productive political dialogue between Latin America and other parts of the world, particularly with the European Union, as evidenced by the summits held since 1999. Additionally, the stabilization of the region promotes transnational integration, increased investments, and widespread endorsement of multilateralism.²⁸⁶ Indeed, *'the explanation for this peculiar empirical observation is the fact that in Latin America, issues of economic concern are considered more difficult to tackle in a cooperative or harmonic way, even more than traditional international security issues because of the prevalence of regional interstate peace, especially in South America'*²⁸⁷.

Therefore, programmes such as El PAcCTO and PAcCTO 2.0 could represent a small step in this direction. It is possible to evaluate the implementation of the El PAcCTO Programme and its outcomes in the short term through the *level* and *scope* of integration as proposed by Lindberg and Scheingold (1970). There is an extension in scope, understood as an increase in Mercosur's areas of competence, because the REDCOPEN penitentiary cooperation

²⁸⁴ Kacowicz, Arie M. "Regional governance and global governance: Links and explanations." *Global Governance* 24 (2018): p. 72.

²⁸⁵ Kacowicz, Arie. "Latin America and the world: globalization, regionalization, and fragmentation." *Nueva Sociedad* 214 (2008): n.p.

²⁸⁶ Ibidem.

²⁸⁷ Kacowicz, Arie M. "Regional governance and global governance: Links and explanations." *Global Governance* 24 (2018): p. 72.

system, promoted by El PAcCTO, goes beyond the previous cooperation agreements concerning the policing training (2000) and joint operations (2001), as reforms and reorganises the entire prison system of the Mercosur countries. The REDCOPEN system fosters a wide network of cooperation and intelligence exchange to prevent criminal infiltration in a penitentiary system. For those reasons is considered that: *'there is no precedent for prison cooperation at this level'*²⁸⁸.

However, observing the preponderant role that the Mercosur's ministries played in the approval and launching of EL PAcCTO Programme it is not possible to trace a substantial change in the *level* – i.e., the decision-making relations between the national states and the regional organisation – as exemplified in the *III reunión del Grupo Especializado en Asuntos Penitenciarios del Mercosur*, a multilateral meeting of the Ministries of the sector, within the Mercosur framework, where an intergovernmental approach was followed.²⁸⁹

Regarding the stage of political integration, as established by Lindberg and Scheingold (1970) it can be affirmed the level (4) – *most decisions must be taken jointly, but substantial decisions are still taken autonomously at national level*. Indeed, with the creation of the Mercosur REDCOPEN network, even a primordial form of cooperation in the security field was carried out by the organisation. This development complements existing cooperation in economic, political, social, and parliamentary domains.

To conclude, EL PAcCTO enjoys a particular degree of integrative and transformative power that cannot be underestimated, and it could go beyond the goals initially set, as stated by

²⁸⁸ Author's own traduction. «Dichiarazione della Riunione dei Ministri di Giustizia, dell'Interno e Sicurezza del MERCOSUR e degli stati associati sulla creazione di una Rete di Cooperazione Penitenziaria (REDCOPEN). 31 maggio 2019». <https://iila.org/it/dichiarazione-della-riunione-dei-ministri-di-giustizia-dellinterno-e-sicurezza-del-mercosur-e-degli-stati-associati-sulla-creazione-di-una-rete-di-cooperazione-penitenziaria-redcopen-31-m/> (Accessed October 2023).

²⁸⁹ «III riunione del Grupo Especializado en Asuntos Penitenciarios del MERCOSUR. 4-7 novembre 2019». <https://iila.org/it/iii-riunione-del-grupo-especializado-en-asuntos-penitenciarios-del-mercosur-4-7-novembre-2019/> (Accessed October 2023).

Jorge de la Caballería, representative of the European Commission's Directorate General for International Partnerships: *'since 2017, the EL PAcCTO Programme has built pioneering cooperation, we have built bridges between the two regions and between Latin American countries through institutional strengthening. What started as a technical programme has turned into a political instrument. Unity is the best formula'*²⁹⁰. Therefore, the distinction between high politics and low politics is beginning to blur, looking at the integrative results of the El PAcCTO Programme.²⁹¹

3.5 Mercosur's political and economic integration process: peculiarities of the Neo-Functionalist Theory in South America?

The Mercosur organisation emerges as an anomaly in regional integration theories. A *liberal inter-governmental* approach would have emphasised a deep economic interdependence among its Member States as a pre-condition for the regional integration, as intra-industry trade and economic/commercial dependence among the states would have laid the foundations for greater political integration based on a strong common institutional apparatus to achieve this purpose.²⁹² The history of the birth of Mercosur seems to defy this assumption, as it was born out of political will, and based on political reasons (avoiding the rise of dictatorships in Brazil and Argentina and consolidating their democracy) rather than economic or social ones. Even the institutional apparatus, as evidenced by its many shortcomings, cannot be considered a strong and decisive element in Mercosur as it is still strictly dependent on the will of its

²⁹⁰ Author's own traduction, IILA, 2022. <https://iila.org/it/lamerica-latina-e-lunione-europea-hanno-rafforzato-lalleanza-nella-lotta-al-crimine-organizzato-grazie-al-programma-el-paccto/> (Accessed October 2023).

²⁹¹ Olsen, Nathan. "Blurring the distinction between "high" and "low" politics in international relations theory: drifting players in the logic of two-level games." *International Relations and Diplomacy* 5, no. 10 (2017): pp. 637-642.

²⁹² Malamud, Andrés. "Presidential diplomacy and the institutional underpinnings of Mercosur: an empirical examination." *Latin American Research Review* 40, no. 1 (2005): p. 139.

Members States. Contrarywise, another regional integration approach, belonging to the *supranational governmental theory*, would seem to indicate fundamental actors in the integration process, that are not present in Mercosur.²⁹³ Indeed, the *supranational governmental theory* emphasises the role of national and transnational actors and institutions like – in the European Integration process – the Court of Justice and the European Commission. The last two bodies are not present in Mercosur, so having to rely mainly on national and transnational actors, many authors have defined the development of Mercosur's integration process within the theory of *presidential diplomacy*, attributing a key role to the presidentialism of the Mercosur Member States in their integration process.²⁹⁴

This theory could be observed both in the Mercosur's birth, under Argentinian Raúl Alfonsín (1983) and the Brazilian José Sarney (1985) presidents, but also in the affirmation of the neoliberal political and economic model with the presidents Menem of Argentina (1989-1999) and Collor of Brazil, (1990-1992), as the new socialist phase led by the left-wing presidents of Brazil - Lula and Argentina – Kirchner in 2003. Moreover, the lack of interest from social actors or economic interest groups gives up the possibility for the presidents to act and become preeminent actors.

The non-preponderant interference of economic interest groups and transnational actors in the integration process is a further anomaly of neo-liberal intergovernmental or supranational governance, which envisages state action as the result of pressure or expectations of certain sectors or functional demands.²⁹⁵ Thus, the limited participation of private actors in the construction of Mercosur's institutional apparatus has left the possibility for lobbying by individual governments rather than regional meetings and trade associations.

²⁹³ Ibidem.

²⁹⁴ Ivi. p.140.

²⁹⁵ Ivi p. 139.

There are also some anomalies in the birth of the Mercosur integration process through the neo-functional theory. This theory would have required the intervention of economic and political interest groups in its creation, a component that only partially appeared in Mercosur.²⁹⁶ At the same time, a successful integration process would have led to the gradual acceptance of a supranational authority, such as a supranational system of conflict resolution and management. The latter is present in Mercosur, but the organisation lacks supranational nature and remains anchored in an intergovernmental decision-making system. Hence, the intergovernmental character is considered by neo-functional theory as a failure of the integration process.²⁹⁷

Simultaneously, numerous similarities were found with this integrative process, which is why it was favoured in this analysis. As neo-functional theory predicts, Mercosur's integration process stems from the convergence of interests towards a common goal (the will of the states to consolidate their democratic systems). However, this process is not linear but is characterised by continuous criticism and turbulence, which, as analysed, concatenate different spillover processes. Moreover, it follows a certain gradualness in the competencies expansions (scope), starting from the economic field to reach the political, social, legal, parliamentary and (partial) security domains; despite this not change the decision-making nature concerning its member states (level). Nevertheless, another discrepancy with the neo-functional theory seems to come from the integrative speed of the security field, despite the slow and tortuous process concerning the level of economic integration (still incomplete) and social and parliamentary components not affirmed in the Mercosur electorate. Additionally, the Parlasur lacks binding powers, and the Mercosur's legal nature still depends on the internalisation of its

²⁹⁶ Rosamond, Ben. "The uniting of Europe and the foundation of EU studies: revisiting the neofunctionalism of Ernst B. Haas." *Journal of European public policy* 12, no. 2 (2005): pp. 241; 242; 246.

²⁹⁷ Mattli, Walter. "Ernst Haas's evolving thinking on comparative regional integration: of virtues and infelicities." In *The Disparity of European Integration*, *Journal of European Public Policy*, 12:2 (2005): p. 330.

Member States. The political system is based on the willingness of Member States to find a point of acceptance. To conclude, the neo-functional theory grants particular importance to state actors, who could resist and change the pressures they receive from interest groups and is certainly a particularly active feature in Mercosur.²⁹⁸ However, as claimed by Mukhametdinov (2018)²⁹⁹, it is impossible to apply a European theory of integration - neo-functionalism - in its entirety to a group of states like Mercosur, that are structurally different in their integration processes from the European states with which neo-functionalism has been formulated.

²⁹⁸ Mukhametdinov, Mikhail. *MERCOSUR and the European Union: Variation and Limits of Regional Integration*. 2018, Palgrave, p. 12.

²⁹⁹ Ibidem.

Chapter IV: The Mercosur's Economic Convergence

The purpose of this Chapter is to provide empirical evidence on the process of economic convergence of the four founding countries of Mercosur plus other Member States (namely, Venezuela). The study presented in this Chapter relies on the theories of both unconditional and conditional real economic convergence, as developed by Barro (1991) and Barro and Sala-i-Martin (1992) and the empirical approach implemented by Mankiw-Romer-Weil (MRW, 1992). In the following, the main characteristics of the dataset are provided, along with a description of the dependent and control variables selected for the empirical analysis of real economic convergence. The reference variable for the assessment is the rate of growth of real GDP per capita; as for the investigation of conditional convergence, additional control variables that may affect output growth are considered, such as population growth, investment, and human capital. As a distinctive feature of the analysis, the results on real convergence are obtained for the different time intervals linked to the evolution of the institutional process of Mercosur. Indeed, the findings discussed in the following sections allow us to observe the convergence process of the Mercosur economies in parallel with the political-institutional development of the organisation, addressed in Chapter III.

4.1 Scope of the analysis

The aim of this analysis is to provide empirical evidence on the process of both unconditional and conditional real convergence among the economies of Mercosur, considering a wide time interval (1980-2007); the objective is to investigate both the existence and, if any, the significance of the relationship between Mercosur membership and the convergence process of organisation's Member countries. The research is closely related to the changes arising from the institutional and political phases of significant transformation within Mercosur, and it aims

to provide statistical evidence regarding the economic convergence of Mercosur's economies in such specific sub-periods.

As reported in Chapter III, several factors specific to each time interval over a period of about 40 years starting in 1980 affected the Mercosur economies, such as economic, geopolitical and social changes, and the transformations concerning structural political, legal, and institutional issues. Testing the conditional and beta convergence of Mercosur's economies allows us to draw crucial considerations more than twenty years after the birth of the regional system.

According to the theoretical assumptions, a way to test the convergence hypothesis applied to Mercosur economies is to check whether countries with similar observable characteristics, such as educational or technology levels, are likely to converge to the same steady state (converge in an unconditional sense or unconditional). Or, otherwise, despite belonging to the same regional organisation, the presence of heterogeneity in the most relevant factors affecting economic growth (labour input, capital stock and technical progress) is such that leads each economy to converge to its own steady state (convergence in conditional sense). The topic of interest of the study is to provide reliable statistical evidence on both concepts of convergence as applied to Mercosur economies. The analysis is carried out by sub-periods, so that the empirical findings also allow us to determine whether a type of convergence has been achieved within a specific time period, i.e., to explore whether during the so-called evolutionary period of Mercosur – the affirmation of the neo-liberal model in the 1990s or the socialist wave from 2003 onwards – economic convergence has eventually occurred.

The structure of the Chapter is the following: a description of the theoretical framework is presented in Section 4.2; Section 4.3 describes the main characteristics of the data; Section

4.4 deals with the empirical approach adopted in the analysis. Main findings are discussed in Section 4.5 and Section 4.6 concludes the Chapter.

4.2 Economic Convergence's Theoretical Framework

This Section introduces a discussion on traditional model of economic growth proposed by Solow (1956).³⁰⁰ It represents a simple and abstract representation of a complex economy but provides the relevant theoretical framework for the development of the concepts of both real unconditional (beta) and conditional convergence.

4.2.1 Solow model of economic growth

The Solow model of economic growth represents the theoretical framework used to analyse the determinants of a nation's economic growth over time. The economy represented by the Solow model assumes that all households are identical so that demand and labour supply can be represented as if it resulted from the behaviour of a single household (representative household). As for firms, the assumption is that all firms in this economy have the same production function for the final good; it results that the economy is a one-good economy that admits a representative firm, with an aggregate production function,

$$Y = F(K, AL) \tag{1}$$

where Y will be the total amount of production of the final good, K the capital stock and L the total employment. A represents the level of technology. According to this model, the process towards the steady state of an economy depends on three main factors: rate of saving, population

³⁰⁰ Solow, Robert M. "A contribution to the theory of economic growth." *The quarterly journal of economics* 70, no. 1 (1956): pp. 65-94.

growth and technological progress. The process of economic growth depends on the shape of this neoclassical production function.³⁰¹

Mankiw, Romer, and Weil (MRW, 1992) develop an extended version of the Solow economic growth model, which takes into account other factors that can potentially support economic growth, such as the accumulation of *human capital*. Indeed, human capital accumulation can lead to higher incomes. Following the MRW model, the aggregate production function of the economy will be as follows:

$$Y = F(K, H, AL) \tag{2}$$

where H represents human capital, which is separated from labour (L) as factor of production. The MRW model, when considering the variables of human capital accumulation, refers to education levels, which are approximated as the average percentage of a country's working-age population in secondary school.

To effectively compare poor and rich countries using this theoretical framework, it is convenient to consider output per capita. This is because the comparison of very different economies, i.e., India and the Netherlands, is more reliable in per capita terms, even though India shows the higher absolute level of GDP. When dividing by population level (or active population or employment levels), the average income per person is significantly smaller in India than in the Netherlands.

³⁰¹ It implies, among other conditions, constant returns to scale (doubling capital and labor also the output is doubled), diminishing marginal product of capital and labor (each additional unit of a labor or capital positively affects output, but output rises at a decreasing rate).

4.2.2 Unconditional and conditional economic convergence

The Solow model is the reference theoretical framework for the development of the main concepts of convergence as developed by Barro and Sala-i-Martin, (1992; 2004) and Acemoglu, (2009).³⁰²

According to the unconditional convergence hypothesis, poorer economies, i.e., characterised by lower initial values of the capital-labour ratio, tend to show higher per capita output growth rates than richer ones. Therefore, considering two economies with equal economic and structural conditions, the economy with a low level of initial income per capita and lower capital-labour ratio shows relatively higher output per capita growth rates and will tend to converge towards the other economy to reach a common steady state.

Barro and Sala-i-Martin (2004) defined the steady state as a specific economic condition wherein a country has attained a long-term equilibrium, characterised by minimal change over time (the quantities grow at constant, likely zero, rates). In this state, the economy oscillates around a constant value of per capita GDP growth rate, without exhibiting a tendency towards divergence. Assuming that a common steady state occurs, and the economies are converging towards a common growth path, the country that initially has a relatively lower level of income per capita will benefit from a higher marginal product of capital. In this way, the poorer economies will grow faster than the richer ones. Indeed, Durlauf et al., (2004)³⁰³ argue that the speed of convergence is inversely proportional to the initial distance between the economies; thus, the lower the initial value of real per capita income, the higher the growth rate of output per capita.

³⁰² Acemoglu, Daron. *Introduction to modern economic growth*. pp: 82-84 Princeton university press, (2009).

³⁰³ Durlauf, Steven N., Paul A. Johnson, and Jonathan RW Temple. "Growth econometrics." *Handbook of economic growth* 1 (2004): p. 42.

The underlying assumption for unconditional beta convergence is that, if all economies have common steady-state output levels, they are similar in the main structural economic factors. These factors may include demographics, capital stock, educational levels, and the quality of institutions as stated by Mathur et al., (2015).³⁰⁴ Therefore, if the assumption of unconditional convergence holds, the convergence rate is not affected by the above variables and, therefore, it is not necessary to account for them in the empirical applications.

The empirical literature underlines that the unconditional convergence assumption is more likely to be confirmed when the states or regions considered exhibit a high degree of *homogeneity*. In this context, homogeneity refers to a set of social, political, legal, and technological factors that lead to similar economic parameters between regions within the same state or interconnected states, such as belonging to the same international or regional organisation, as stated by Barro and Sala-i-Martin (2004).³⁰⁵

Statistical evidence on unconditional convergence in the applied literature, as highlighted by Acemoglu (2009), is usually obtained by estimating the following linear relationship:

$$y_{i,t,t+T} = \alpha + b \log(y_{i,t}) + \varepsilon_{i,t} \quad (3)$$

where $y_{i,t,t+T}$ represents the cumulated growth rate of real GDP per capita for a selected economy i between the time t and $t+T$, $\log(y_{i,t})$ is the logarithm for the GDP per capita of economy i at initial time t , b is the parameter that relates the growth rate of per capita output

³⁰⁴ Mathur, Somesh K. (2015) "Absolute and Conditional Convergence: Its Speed for Selected Countries for 1961-2001." p.5.

³⁰⁵ Moreover, Mathur (2015) provides evidence supporting the assumptions of unconditional convergence for the Member States of the Organisation for Economic Cooperation and Development (OECD), and even further in confederated states, as in the case of the United States or Brazil.

and its initial level and will prove to play a key role in empirical growth analysis. This parameter measures growth in terms of the gap between initial output per capita and the steady-state value, which is one source of economic growth in the neoclassical Solow (1956) model (technological progress is the second source of growth). It represents what is usually meant by ‘catching up’ in the literature on economic growth.

The empirical implications drawn from equation (3) highlight a crucial aspect. In examining a cross-section of countries, to validate the theoretical premise of unconditional real convergence, one should anticipate identifying a negative relationship ($b < 0$) between average growth rates and initial output levels over any given period. Consequently, countries starting below their balanced growth path are expected to undergo a relatively rapid growth trajectory to narrow the gap to catch the other nations displaying similar levels of steady-state output and initial efficiency. Furthermore, it is relevant to consider that the b can be expressed in terms of a specific parameter, denoted β :

$$b = -\frac{\log(1+\beta)}{T} \quad (4)$$

where β is expected to be positive and measures the rate of convergence of the economy to its long-term balanced growth path (steady-state). Therefore, the condition satisfying the assumption of unconditional convergence is that $b < 0$. On the empirical side, the statistical evidence of unconditional convergence relies on the properties of a linear regression model, as underlined by Durlauf et al. (2004).³⁰⁶

³⁰⁶ Durlauf, Steven N., Paul A. Johnson, and Jonathan RW Temple. (2004) "Growth econometrics." *Handbook of economic growth*.

It will be easier to observe unconditional convergence at the intra-state level than at the inter-state level since there should be a higher level of homogeneity in the former than compared to other partner states. However, it is possible to observe beta convergence even in countries with a relative degree of homogeneity, as those that are part of the same regional integration system. In the latter case, the speed of convergence can be also influenced by changes in migration flows or capital mobility as underlined by Barro and Sala-i-Martin, (2004).

Nevertheless, the concept of unconditional convergence might be overly stringent. Evaluating and gauging economic convergence in states characterized by heterogeneity poses challenges, as heterogeneity in economic fundamentals specific to each economy can result in different steady states, thereby not meeting the precondition of beta convergence. The latter, as stated by Acemoglu (2009), necessitates a tendency for the income gap between any two countries to diminish, irrespective of technological opportunities, investment behaviour, policies, institutions, and other structural factors specific to these countries. If variations exist in these factors, the Solow model does not anticipate unconditional convergence in income levels.

For this purpose, the conditional convergence hypothesis was developed by Barro and Sala-i-Martin, (1991; 1992; 2004) which employs the same neoclassical framework, is based on two theoretical premises: first, in the case of heterogeneous economies, economic growth is still determined by the distance between the level of per capita income of the economies under consideration and the long-run level of output per capita; second, in this framework the steady state is country-specific. Thus, as the economic structural conditions usually differ from country to country, then each economy converges to a different and distinct long-run growth path, as explained by Mathur (2015). In a case where the steady state of economies is different,

investigating convergence requires reference to the conditional convergence framework, because an economy grows faster the further it is from its own steady state.

As for the empirics of conditional convergence, its statistical assessment differs from unconditional convergence as it requires the inclusion of a set of control variables – country - specific factors – in the model specification. The choice of these variables is contingent upon the research scope.³⁰⁷ As observed by Acemoglu (2009), the constant term, α , in equation (3) could be expressed as a function of various country characteristics. These include, among other factors, the schooling rate, fertility rate, investment rate, government-consumption ratio, inflation rate, changes in terms of trade, openness, and certain institutional variables such as the rule of law and democracy. Therefore, when the constant term α is permitted to vary among countries, the convergence effects highlighted by the Solow model should manifest as negative estimates for parameter b .

The extended equation framework for investigating the conditional real convergence hypothesis is represented by the following relationship,

$$y_{i,t,t+T} = \alpha + \varphi X_{i,t} + b \log(y_{i,t}) + \pi Z_{i,t} + \varepsilon_{i,t} \quad (5)$$

where $X_{i,t}$ encompasses the growth determinants proposed by the Solow growth model (gap in the initial output per-capita from the steady state, technical progress), whereas $Z_{i,t}$ denotes the growth determinants beyond the scope of Solow's original theory (control variables), φ and π are the corresponding vectors of parameters and $\varepsilon_{i,t}$ is an error term with the usual assumptions (errors are normal independently and identically distributed with finite variance). To support

³⁰⁷ Sondermann, David. "Productivity in the euro area: any evidence of convergence?" *Empirical Economics* 47 (2014): p. 1003.

the hypothesis of conditional convergence, the parameter b in equation (5) is expected to be negative ($b < 0$).

While the Solow variables consistently appear in the majority of empirical studies, the selection of $Z_{i,t}$ variables differ considerably among studies. In addition to the four variables suggested by MRW (1992) for the augmented Solow model (initial per capita income, rate of human capital, rate of physical capital investment, population growth), the empirical literature has adopted a wide number of additional predictors, including variables that relate to institutional factors, as summarized in Durlauf et al., (2004) and Durlauf and Quah (1999).³⁰⁸

4.2.3 Reduction of cross-sectional income dispersion (σ -convergence)

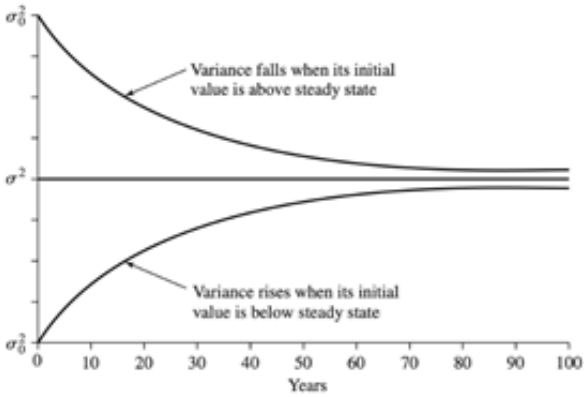
Part of the importance of the convergence-rate estimates lies in their capacity to capture whether and how rapidly poorer economies are catching up with the richer ones. Barro and Sala-i-Martin (2004) attempt to analyse this question considering the cross-sectional per capita income dispersion of a sample of countries. Thus, convergence refers to a reduction in income dispersion among a group of countries or regions over time. The income dispersion is typically measured by observing a decrease in the standard deviation of the logarithm of per capita output across the specified set of countries or regions.

A further concept of convergence therefore arises, and this process is denoted σ -convergence, where σ represents the standard deviation of per capita output across the sample of countries considered at each point in time. Convergence of the first kind (beta convergence, poor countries tending to grow faster than rich ones) tends to generate convergence of the second kind, that is a reduced dispersion of per capita income through time ($\sigma_{t+T} < \sigma_t$); but

³⁰⁸ Durlauf, Steven N., Paul A. Johnson, and Jonathan RW Temple. "Growth econometrics." *Handbook of economic growth* 1 (2004): Appendix 3; Durlauf, Steven N. and Danny T. Quah (1999), *The New Empirics of Economic Growth*, in *Handbook of Macroeconomics*, Vol. 1, Elsevier Science B.V.

this process can be offset by other disturbances that tend to increase dispersion. However, as expressed by the following Figure (4), unconditional beta convergence, even if it is a necessary condition, does not mean that it is sufficient to cause σ -convergence, which may remain constant, rise, or even decline as influenced by the dispersion of output per capita.

Figure 4: Theoretical behaviour of GDP per capita dispersion



Source: Barro and Sala-i-Martin, (2004).

Thus, Figure (4) represents possible steady states, as the behaviour of the steady state in the long run is influenced by its initial point: it depends on whether the starting point of the real GDP per capita will be above (and the growth will be slower) or below (the growth will be faster) their own steady-state level. The cross-sectional dispersion of the GDP per capita may be sensitive to various economic imbalances that may impact the same group or subgroup of states, as stressed by Coutinho and Turrini (2019).³⁰⁹

³⁰⁹ Coutinho and Turrini, (2019), Convergence and macroeconomic imbalances, Quarterly Report on Euro Area, Vol.18 No.1, 37-51.

4.3 Data source

The data source used in this research is represented by the Penn World Tables (PWT), release 10.0.³¹⁰ The PWT dataset, renowned for its widespread use (among others, MRW, 1992; Bernanke et al., 2001),³¹¹ is a rich source of macroeconomic data collected from several economies (183) on an annual basis covering the 1950-2019 time framework.

The variables in the PWT dataset are converted into a common currency using purchasing power parities (PPPs), which is a method based on the measurement of the relative price level of an economy; it differs from market exchange rates because PPPs cover the price of both traded and non-traded goods and services.³¹² PPPs-converted real GDP per capita allows to control for price differences between countries, so to make reliable comparisons across a large group of economies. Output per capita in PPPs terms for low-income countries tends to be higher than exchange-rate-converted GDP per capita, because the prices of non-traded products tend to be lower; the opposite applies for high-income countries. To this aim, PWT entails the results of detailed price surveys from the International Comparison Program and other sources.

The other variables of the PWT database used for the empirical investigation are represented by the population level, the number of employed persons, the average annual hours worked by employed persons, the share of gross capital formation (at current PPPs) and the human capital index, based on years of schooling and returns to education. As it is common in

³¹⁰ The Penn World Tables is a multi-country data set constructed by Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2015), "The Next Generation of the Penn World Table" *American Economic Review*, 105(10), 3150-3182, available for download at www.ggd.net/pwt.

³¹¹ Bernanke, Ben S Crkaynak, Refet S. 'Is Growth Exogenous? Taking Mankiw, Romer, and Weil Seriously' *NBER Macroeconomics Annual* 16 (2001).

³¹² Sondermann, David. "Productivity in the euro area: any evidence of convergence?" *Empirical Economics* 47 (2014): p. 1007. Franks, Mr Jeffrey R., Ms Bergljot B. Barkbu, Mr Rodolphe Blavy, William Oman, and Hanni Schoelermann (2018). *Economic convergence in the Euro area: coming together or drifting apart?* International Monetary Fund.

the majority of economic convergence empirical studies, real GDP per capita PPPs-adjusted is the reference variable to assess whether the convergence process has eventually occurred.

The research focuses primarily on the four founding members of Mercosur (Argentina, Brazil, Uruguay, and Paraguay; Figure 5). Other countries (e.g., Bolivia, Chile, Colombia, Ecuador, Guyana, Peru, and Suriname) joined Mercosur as *associate* states in subsequent time periods and with different membership in the organisation.

Figure 5: The Mercosur Countries



Source: Authors' own elaboration through MapChart programme.

Venezuela became a full member of Mercosur in 2012 after initiating its accession negotiations in 2006. This country was suspended from the Mercosur in 2016 due to the democratic deficit of the country after the 'estado de emergencia' promulgated by the Nicolas

Maduro's government.³¹³ In this research Venezuela is considered as part of Mercosur in the latest timeframe of analysis, the socio-political redefinition of Mercosur (2003-2007).

Concerning the time intervals, the empirical analysis is carried out considering specific sub-periods outlined in Chapter III, which corresponds to economic and/or political thresholds, such as economic crises or institutional changes in the Mercosur organisation. This approach re-elaborates the Mercosur phases delineated by Gardini (2011).³¹⁴

The research takes into account four specific sub-periods: a) the Mercosur's precursor phase (1980-1990; a) the neoliberal full institutionalization with the Ouro Preto Protocol (1990-1996; b) the declining phase (1996-2003; c) the paradigm shift, from a neoliberal economic model to a socialist one following the Buenos Aires Consensus (2003-2007; d).

Table (1) reports the average growth rate of PPPs-adjusted real output per capita for Mercosur member countries and some groups of countries (Central and Latin American countries, Emerging economies, Industrialized countries, European Union, World), classified according to International Monetary Fund definitions.³¹⁵ In the following, a brief description of the main macroeconomic developments occurred in each time interval is provided.

In the period 1980-1990, the majority of Mercosur countries (Argentina, Brazil, and Uruguay) faced the Latin American debt crisis, marked by hyperinflation, high external debt and currency devaluations, and adopted structural adjustment programs. In the same period,

³¹³ The 'state of emergency' declared by the Maduro government was deemed unconstitutional by the Venezuelan Supreme Court itself, triggering a profound political, social, and institutional crisis in the country. Consequently, this led to the suspension of Venezuela by the Mercosur, as it violated the democratic commitment safeguarded by the second paragraph of Article 5 of the Ushuaia Protocol—a prerequisite for Member States of the Mercosur. Arredondo, Ricardo, and Leopoldo Godio. "La suspensión y terminación de los tratados: el caso de Venezuela y el Mercosur." *Revista Electrónica Instituto de Investigaciones Jurídicas y Sociales AL Gioja* 18 (2017): pp. 101-144. See also «Decision Regarding the Suspension of the Bolivarian Republic of Venezuela from MERCOSUR through Application of the Ushuaia Protocol on Democratic Commitment in MERCOSUR». <https://cancilleria.gob.ar/en/news/releases/decision-regarding-suspension-bolivarian-republic-venezuela-mercursosur-through> (accessed January 2024).

³¹⁴ Gardini, Gian Luca. "MERCOSUR: What you see is not (always) what you get." *European Law Journal* 17, no. 5 (2011): pp. 683-700.

³¹⁵ «World Economic Outlook Database». See <https://www.imf.org/en/Publications/WEO/weo-database/2023/October/select-aggr-data>. (accessed February).

trade liberalization policies were implemented, which represented the premise for the establishment of the Mercosur trade bloc in the early 1990s.

This decade was also characterized by the political reconciliation of the two main economies of Mercosur, Argentina, and Brazil, which peaked with the signing of the Treaty of Integration, Cooperation, and Development (TICD) in 1988. Regarding Paraguay and Uruguay, their participation in regional integration processes was limited until 1990, when they joined the Buenos Aires Acts promoted by the two countries. In this period some economies experienced a relatively stable economic expansion (Argentina and Paraguay), while others faced modest growth (Brazil) if not recession and volatility (Uruguay). Overall, real output per capita in Mercosur grew by 1.3 per cent on an annual basis, which was higher than that of Central and Latin American countries (CLA, which rose by 0.9 per cent), but rather distant from the average growth rate in the group of advanced economies (AE).

Table 1: GDP per capita by country groups and sub-periods (1)

(average growth rates, %)

<i>Country groups</i>	Precursor phase (1980-1990)	Neoliberal phase (1990-1996)	Declining phase (1996-2003)	Paradigm shift (2003-2007)
Mercosur	1.30%	6.81%	0.14%	4.74%
CLA	0.86%	2.80%	1.99%	5.004%
AE	2.31%	1.58%	3.15%	4.1%
World	0.73%	0.70%	2.72%	5.54%

(1): **Mercosur**: Argentina, Brazil, Uruguay, Paraguay; **CLA** (Central and Latin American countries): Antigua and Barbuda, Argentina, Aruba, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Suriname, Trinidad and Tobago, Uruguay, Venezuela; **AE** (Advanced economies): Australia, Austria, Belgium, Canada, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Taiwan, United Kingdom, United States.

Source: Author's calculations.

The period 1990-1996 was characterized by the establishment of the Mercosur organisation in 1991. Challenges were posed by significant external shocks (the Mexican peso crisis of 1994, which led to financial contagion). During this time, several Mercosur countries implemented privatization and financial liberalization programs, while some others (Argentina and Brazil) undertook stabilization measures to address hyperinflation. Throughout the period, the Mercosur experienced significant growth, with the yearly growth rate of real GDP per capita reaching 6.8%, more than double compared to that observed in the CLA area and even higher than that of the advanced economies.

In the 1996-2003 period, Mercosur Member States faced financial crises (Asian financial crisis of 1997-1998, Russian debt crisis of 1998), leading to a notable setback of the Mercosur regional integration process. The foreign economic turmoil highlighted the lack of cooperation among Mercosur Member States at the political level. Such external shocks destabilised the heavily indebted countries; Brazil and Argentina experienced a deep financial crisis between 1999 and 2002. The rate of growth of Mercosur economies therefore stagnated in this period (the yearly increase of output per capita was slightly above zero), with some countries in recession (especially Uruguay); this subdued growth was in sharp contrast to the positive development of the CLA countries and the AE group.

In the period 2003-2007 Mercosur countries, particularly Argentina and Brazil, underwent economic recovery, driven by strong global demand for agricultural and mineral commodities. Improved political stability facilitated the realization of social programs aimed at reducing poverty, inequality, and social exclusion. Investments were made in transportation, energy, and telecommunications infrastructure. In this period, the average growth rate of Mercosur (4.7% on a yearly basis) was close to that of CLA economies and slightly higher than the group of advanced countries. It is also relevant to consider some economic indicators which

allow to account for some structural heterogeneities across Mercosur economies. Table (2) reports data on population levels, land size and real GDP levels for the Mercosur founding Member States.

Table 2: Mercosur size asymmetries

<i>Countries</i>	Land size (sq km)	Population (2019, millions)	GDP at chained PPPs (mil. 2017US\$)	Real GDP per capita (mil. 2017US\$)
Brazil	8.514.877	211.1	3.089.273.5	14.637.67
Argentina	2.780.400	44.7	991.646.31	22.144.51
Uruguay	176.215	3.5	53.101.43	21.217.83
Paraguay	406.752	7.1	85.487.359	12.135.1

Source: Author's calculations on PWT dataset, v.10.0.

It results that Brazil emerges as a regional hegemon power, having 75% of the population and 75% of GDP of the South American area. Conversely, Paraguay and Uruguay register a low level of population and GDP, if compared to Brazil and Argentina. Nevertheless, Uruguay's real GDP per capita proves to be higher than that of Brazil, and similar to that of Argentina, entering into the cohort of upper-middle-income countries. In contrast, Brazil, and Paraguay's income per capita seems to be relatively close and on the low side compared to the other Mercosur Member States. As considered above, population and GDP per capita represent pivotal variables for real convergence; but structural asymmetries could curb such process. According to the neo-functional theory, broader asymmetries could undermine the economic

ties and the relationship among countries within the same regional organisation, as stated by Walter (2005) and Doctor (2013).³¹⁶

4.4 Empirical methodology

The empirical findings on real convergence are obtained through the estimation of the model.

$$y_{i,t,t+T} = (\alpha + \rho D_{MERCOSUR}) + b \log(y_{i,t}) + \delta \log(y_{i,t}) \times D_{MERCOSUR} + \pi Z_{i,t} + \varepsilon_{i,t} \quad (6)$$

where the dependent variable $y_{i,t,t+T}$ is the cumulated growth rate of real GDP per capita, PPPs-adjusted, in the time period $(t, t+T)$, $y_{i,t}$ is the level of real output per capita in the initial year of the estimation period, $D_{MERCOSUR}$ is the indicator variable ($I=1$) for the Mercosur Member States, $Z_{i,t}$ is a vector of control variables considered for the investigations on conditional convergence. The subscript i refers to the set of countries considered for the estimates, which consists of a panel of Central and South American countries (CLA).³¹⁷ These countries share similarities in structural factors with Mercosur economies, making the overall sample relatively homogenous. Despite a broader panel of countries being available, the estimates are performed using the CLA group of economies, to mitigate the potential bias which could arise from significant heterogeneities in the structural characteristics of the panel of countries.

³¹⁶ Mattli, Walter. "Ernst Haas's evolving thinking on comparative regional integration: of virtues and infelicities." In *The Disparity of European Integration*, Journal of European Public Policy, 12:2 (2005): p. 330. Doctor, M. (2013). Prospects for deepening Mercosur integration: Economic asymmetry and institutional deficits. Review of International Political Economy, 20(3) pp. 515–540.

³¹⁷ See footnote (1) of Table 1. As a sensitivity analysis, the estimates have also been performed using a wider set of countries.

Indeed, the assessment of the assumption of economic convergence for Mercosur as a whole is obtained through the inference on parameter δ for the interaction between the level of real GDP per capita in the initial year of the estimation period and the indicator variable identifying Mercosur membership. This approach follows the method implemented by Armstrong (1995)³¹⁸, and the indicator variable for Mercosur accounts for the differential effects both in steady state levels of GDP per capita and growth rates of GDP per capita of the countries which joined the organisation compared to the other Central and South American economies of the sample.

As for the inference on *conditional* convergence, equation (6) is estimated considering the set of control variables $Z_{i,t}$ which, in this specific analysis, are represented by the human capital index, based on years of schooling, returns to education, and the investment to GDP ratio (at current prices). Both variables are expected to positively impact output growth (respectively, through capital and skill accumulation) and therefore to have a positive estimated coefficient. Following standard practice in the estimation of growth regressions, control variables are included in the model as averages over the time sample considered for the estimates, as proposed by MRW (1992), to avoid short-term disturbances affecting the results, as Barro Sala-i-Martin, (2004) stated.³¹⁹

The linear model (6) is estimated using the Ordinary Least Squares (OLS) estimator applied to a cross-section of data, with robust standard errors. As for the endogeneity issue,

³¹⁸ Armstrong, H. W. (1995), *Convergence Among Regions of the European Union, 1950-1990*, Papers in Regional Science.

³¹⁹ Among the additional control variables proposed in the literature to test the conditional convergence hypothesis are the measures of macroeconomic stability and trade openness. There is also increasing evidence of the importance of quality of institutions and of the development of the financial system in fostering economic growth. Yet, controlling for human capital and investment to GDP ratio is not sufficient to consistently control for cross-country technological differences, as most of them are unobserved. This can lead to omitted variable bias and inconsistent estimates. In order to achieve consistency, MRW (1992) introduced the crucial theoretical assumption that technology differences across countries are independent compared to all other variables. However this hypothesis is rarely verified by the data.

which potentially affects all of the control variables (especially investment, since this variable affects output growth, but also depends on growth expectations) and is one the main sources of bias in the growth regressions outcomes; this problem is addressed by considering a different specification of equation (6), where the averages of the control variables are computed over a time span lagged by five periods, similar to the studies of Coutinho and Turrini, (2019) and Borys et al., (2008).³²⁰

The longitudinal dimension of the original dataset enables the computation of the rate of changes of the variables, allowing for the estimation of convergence paths across different time periods. Specifically, the empirical analysis presented in this research is initially carried out over a long time-period (1980-2007) and, subsequently, it is also further performed over specific sub-periods, similar to those identified in Chapter III. This approach aims to provide evidence about the economic convergence process both before the establishment of Mercosur (pre-1991) and nearly two decades after its implementation (post-1991).

4.5 Unconditional and Conditional convergence in Mercosur economies

This paragraph discusses the findings regarding real convergence paths (unconditional and conditional) for the Mercosur organisation, across several time intervals, and in comparison, to CLA countries. This implies that evidence concerning the convergence process that occurred within Mercosur – whether Mercosur economies with lower GDP per capita caught up to the richer Mercosur ones, as suggested by the unconditional convergence theory – can be indirectly inferred. The growth regressions used to test the assumption of both unconditional and conditional convergence are first estimated considering the longer time span of the data (1980-

³²⁰ Borys ,M. M., Polgár, E. K. and Zlate, A. (2008), Real Convergence and the Determinants of Growth in EU Candidate and Potential Candidate Countries. A Panel Data Approach, ECB WP No. 86/2008.

2007); additionally, the regressions are performed over four specific sub-periods, as outlined in Paragraph 4.3 and Table (1) respectively (1980-1990; 1990-1996; 1996-2003; 2003-2007).

The main results for the test of unconditional convergence are reported in Table (3) and those for the assumption of conditional convergence are presented in Table (4). Both Tables include estimation of the parameters for the real GDP per capita in the initial year, the Mercosur membership indicator variable, the control variables of human capital index and investment to GDP ratio, along with their eventual interactions with the dichotomous variable of Mercosur membership. Robust standard errors are reported in parenthesis.

To identify a convergence path for Mercosur economies, the focus is on the sign of the coefficient of the interaction term (δ in terms of equation 6), which represents the product of the initial level of GDP per capita and the Mercosur dummy variable. A negative and significant coefficient is expected, indicating evidence of a more sustained convergence process across Mercosur countries compared to the other LCA economies. The inference on the speed of convergence to steady state, that is the estimation of parameter β in equation (4), hinges on estimating the overall parameter for the initial GDP per capita for Mercosur countries, calculated as the sum of coefficients ($d + \delta$) (equation 6).

Table 3: Tests for Unconditional Convergence (1)

TIME PERIODS	1980-2007	1980-1990	1990-1996	1996-2003	2003-2007
VARIABLES	(T)	(T1)	(T2)	(T3)	(T4)
LN(GDP/POP)_{T0}	-0.205 (0.15)	0.008 (0.12)	-0.092 (0.04)	-0.045 (0.04)	-0.002 (0.04)
MERCOSUR	4.162 (2.97)	2.532 (1.25)	-0.385 (5.14)	3.324 (0.64)	0.511 (0.3)
MERCOSUR*LN(GDP /POP)_{T0}	-0.444 (0.32)	-0.287 (0.14)	0.0819 (0.57)	-0.385 (0.07)	-0.053 (0.004)
INTERCEPT	2.41 (1.43)	-0.013 (1.03)	0.952 (0.35)	0.56 (0.39)	0.224 (0.37)
OBSERVATIONS	31	31	31	31	31
R2	0.18	0.10	0.33	0.36	0.36

(1): $\ln(\text{GDP}/\text{POP})$ denotes real output per capita in the initial year of each estimation sample; Mercosur is the indicator variable ($I=1$) for Mercosur membership, $\text{Mercosur} \times \ln(\text{GDP}/\text{POP})$ represents the interaction term for initial output per capita. Robust standard errors in parenthesis.

Source: Author's calculations on PWT dataset, v.10.0.

Table 4: Tests for Conditional Convergence (1)

TIME PERIODS	1980-2007	1980-1990	1990-1996	1996-2003	2003-2007
VARIABLES	(T)	(T1)	(T2)	(T3)	(T4)
LN(GDP/POP)_{T0}	-0.209 (0.16)	0.010 (0.12)	-0.167 (0.77)	-0.187 (0.07)	0.009 (0.11)
MERCOSUR	2.381 (1.69)	1.911 (1.15)	3.275 (1.62)	2.938 (0.55)	0.934 (1.24)
HC (AVG, 5 LAGS)			0.138 (0.154)	0.517 (0.271)	0.207 (0.279)
I/GDP (AVG, 5 LAGS)	0.084 (0.31)	-0.028 (0.31)	-0.197 (0.14)		0.204 (0.31)
MERCOSUR*LN(GDP/POP)_{T0}	-0.468 (0.16)	-0.253 (0.12)	-0.480 (0.17)	-0.335 (0.06)	-0.319 (0.13)
MERCOSUR*I/GDP	-1.226 (0.61)	-0.219 (0.31)	-0.753 (0.39)		-1.145 (0.54)
INTERCEPT	2.595 (1.69)	-0.082 (1.14)	0.929 (0.69)	1.209 (0.53)	-0.291 (0.60)
OBSERVATIONS	31	31	31	23	23
R2	0.23	0.20	0.63	0.51	0.50

(1): ln(GDP/POP) denotes real output per capita in the initial year of each estimation sample; Mercosur is the indicator variable (I=1) for Mercosur membership, HC is the human capital index averaged over the full sample and lagged by five years, I/GDP is the investment to GDP ratio, averaged over the full sample and lagged by five years, Mercosur×ln(GDP/POP) represents the interaction term of initial output per capita, Mercosur×(I/GDP) represents the interaction term of investment ratio. Robust standard errors in parenthesis.

Source: Author's calculations on PWT dataset, v.10.0.

4.5.1 Full sample estimates: 1980-2007

Full-sample estimates do not support the assumption of unconditional (beta) convergence, as the coefficient on the logarithm of the initial real GDP per capita is negative but not statistically significant (Table 3, column T). Growth regressions conducted to test for conditional convergence in output per capita growth (Table 4, column T) include the investment to GDP ratio (sample average lagged by five years) as a control variable. Initial GDP is expected to be negatively associated with (cumulated) output growth, as laggard countries are projected to grow out of the adoption of up-to-date technologies. Parameters estimation for initial GDP per capita regarding both the groups of CLA and Mercosur countries yields negative coefficients, but the coefficient is statistically significant for Mercosur economies only. Results provide evidence that conditional convergence exists for the Mercosur countries over this longer time span and that their convergence path was, on average, more sustained compared to the other Central and American countries. The above findings of a convergence path allow us to infer the rate at which convergence to a steady state occurs. The implied values of β , the parameter governing the speed of convergence, result in a convergence rate of about 0.038 (3.8%), which implies that the Mercosur economies move halfway to steady state in about 20 years.

Based on these significant findings, the analysis focuses on the presence of convergence paths in each of the four sub-periods in which the entire time interval has been divided, according to the results discussed in Chapter III. This analysis conducted in sub-periods mirrors the study carried out by Borys et al., (2008) for the determinants of real convergence in EU candidate countries.

4.5.2 The Mercosur Precursor Phase: 1980-1990

Examining the estimates for both unconditional (Table 3, column T1) and conditional (Table 4, column T1) real convergence, the coefficients of GDP per capita in the initial year are not significant for the whole sample of countries; by contrast, they exhibit a significant negative sign for the interaction term of per capita output and the Mercosur membership variable. The corresponding parameter estimates, in both unconditional and conditional growth regressions, are rather similar, indicating that the contribution of the control variables in the estimates of conditional convergence is negligible; indeed, the coefficient for investment ratio is not statistically significant. According to the findings, it seems that the Mercosur economies underwent a convergence process even before the establishment of Mercosur. Presumably, the economic agreements during the 1980s may have played a role. Another relevant result is that the convergence path observed before the establishment of Mercosur exhibits lower intensity compared to the one estimated for the longer sample period: the convergence rate to the steady state is about 0.027 (2.7%) for the time interval T1, lower than 3.8% for the extended sample. This indicates that a stronger speed of convergence may have been realised along with the establishment of Mercosur.

4.5.3 The Mercosur Institutionalization: 1990-1996

During Mercosur's full implementation phase since its inception in 1991, the estimates do not provide any significant evidence of real unconditional convergence among the Mercosur economies (Table 3, column T2); yet the findings regarding conditional convergence are strongly significant (Table 4, column T2). Compared to the previous timeframe, it seems that the progress towards the steady state of the four economies kept speed by the establishment of the Mercosur regional organisation and its institutionalization. It should be noted that evidence

of a convergence path (both unconditional and conditional) is observed also for the group of CLA countries. This favourable environment may have supported the convergence process against some factors that could have negatively influenced the convergence path (such as the 'Tequila' Mexican crisis).

4.5.4 The Mercosur Dak Years: 1996-2003

Despite the financial crisis that severely impacted Latin American economies (especially those heavily indebted), estimates still provide evidence of a convergence path for the Mercosur economies. However, based on conditional real convergence estimations, the convergence process within Mercosur slowed down compared to the previous sub-period (Table 3 and Table 4, column T3). A convergence path is also found for the larger group of CLA countries, and the control variable (human capital index) is found to positively contribute (with a significance level of 10%) to this process. Overall, it appears that real convergence was not interrupted, despite the challenging recessionary (and partially disintegrating) Mercosur phase. However, it should be noted that the number of observations used to obtain these findings is considerably smaller in this subsample, leaving only a few degrees of freedom for the estimation.

4.5.5 The Mercosur Socio-Political Redefinition: 2003-2007

In this time interval, the Mercosur economies experienced a recovery from the preceding recessionary period, also because a transformative wave and a new political phase unfolded. As for the empirical findings, both unconditional and conditional real convergence (Table 3 and Table 4, column T4) occurred, albeit at a slower rate compared to previous subperiods. According to the unconditional estimates, the convergence rate is estimated to be about 0.015 (1.5% on a yearly basis), which is less than half of the rate estimated for the whole time period.

A similar result is found for the conditional estimates. It should be noted that these findings are obtained for a broader definition of Mercosur, which includes Venezuela alongside the four founding economies. Venezuela signed the accession protocol to Mercosur in 2006, establishing a four-year timeline for full incorporation into the economic bloc, and gained official membership in 2012. The results could suggest that a diffusion of the convergence process to Venezuela may have occurred even before its formal entry into the Mercosur organisation. Excluding this enlargement, the empirical findings tend to support the assumption of a convergence process that stalled in the 2000s or even slightly diverged.

4.5.6 Discussion

Overall, conditional real convergence results appear to be achieved in all four sub-periods spanning the 1980-2007 timeframe. Examining the estimated parameters, they seem to align with the evolutionary phases analysed in Chapter III. The economic integration process was initiated before the formal establishment of the regional organisation (1980-1990), intensified during its institution (1990-1996), but subsequently slowed down, both during the organisation's waning phase (1996-2003) and the new socialist wave (2003-2007).

It is crucial to underline that models' specifications used to test the assumption of conditional convergence do not encompass all the relevant factors that could affect such a process. Despite the analytical efforts, possible biases in the estimates due to the omitted variables issue cannot be excluded. The potential endogeneity of the control variables, especially investment to GDP ratio, also poses a significant econometric challenge. To address this issue, averages of the control variables computed over a time interval shifted ahead by 5 years compared to the estimation sample have been considered to mitigate the simultaneity bias. Indeed, the negative sign of the coefficient of the investment ratio in some sub-sample estimates, despite not

statistically significant, suggests conducting a sensitivity analysis considering estimation methods robust to the potential endogeneity of the predictors (instrumental variables).

Focusing on unconditional convergence, the estimates present ambivalent results. The findings show that real convergence was not achieved during the Mercosur establishment (1990-1996), whereas significant evidence is found in the other three phases. Overall, these results could imply that the Mercosur economies experienced a convergence process. However, there is no clear evidence of a 'catching up' effect within the Mercosur organisation, with the poorer economies growing faster than the wealthier ones.

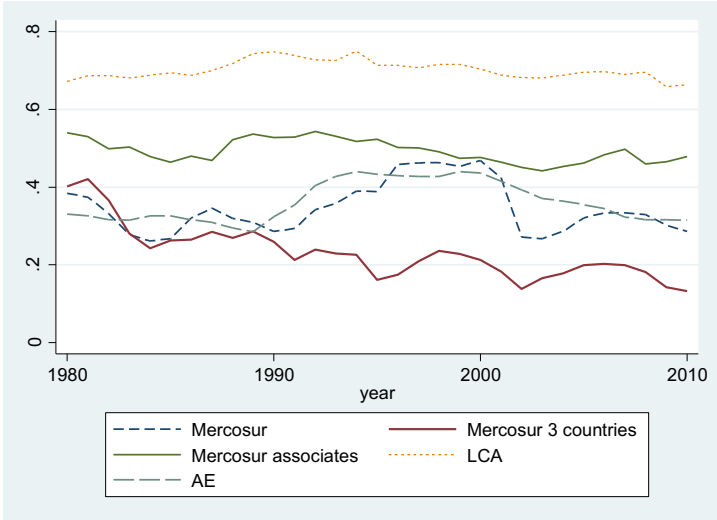
Establishing a relationship with the establishment of Mercosur is challenging, as unconditional real convergence is not met during its institutional peak, but it may not seem as anomalous as it seems. Barkbu et al., (2016)³²¹ find that as the eurozone countries became more integrated, the unconditional (beta) convergence between their economies decreased until it diverged. They found statistically significant beta convergence pre-Maastricht (1970-1992), then this tendency slowed down during the intermediate period (1993-1998), between Maastricht and the economic and monetary union (EMU), and subsequently reversed in a divergence economic process with the realization of the EMU (1999-2014). Another reason for the weakening of the real convergence process within the Mercosur organisation could be related to a gradual reduction of per capita income dispersion, that may have occurred during the considered time intervals, as the rate of convergence is expected to be faster the higher the initial degree of dispersion in income conditions. A similar result is in Coutinho and Turrini's (2019) analysis of sigma convergence for the European Union and Eastern Europe accession countries.

³²¹ Barkbu, Bergljot, Barry Eichengreen, and Ashoka Mody. "The euro's twin challenges." *The political and economic dynamics of the eurozone crisis* (2016): p.1

The results of the analysis of sigma convergence indeed provide evidence of a gradual decline in cross-country variation of real GDP per capita over time for Mercosur economies (Figure 6). The results also underscore significant heterogeneity in the macroeconomic development of each Mercosur Members State. Specifically, when considering the results obtained for all founding economies of Mercosur, it emerges that the reduction in the cross-country variability of output per capita occurred during the 1980s, but this process diverged significantly in the successive decade, coinciding with the establishment of Mercosur as an institution.

Figure 6: Sigma convergence: Mercosur vs other country groups (1)

(standard deviation of log GDP per capita)



(1): **Mercosur**: Argentina, Brazil, Paraguay, Uruguay; **Mercosur 3 countries**: Argentina, Brazil, Uruguay; **Mercosur associates**: Bolivia, Chile, Colombia, Ecuador, Guyana, Peru, Suriname; **LCA** (Central and Latin American countries): Antigua and Barbuda, Argentina, Aruba, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Suriname, Trinidad and Tobago, Uruguay, Venezuela; **AE** (Advanced economies): Australia, Austria, Belgium, Canada, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Taiwan, United Kingdom, United States.
 Source: Author’s calculations.

When examining the development of individual economies, it appears that the economic performance of Paraguay during that decade significantly diverged from the pattern exhibited by the remaining Mercosur founding members and represents a significant factor for the stalling of the sigma convergence process. During the 1990s, the increase in cross-country variability of output per capita for Mercosur countries became even more pronounced, and the evidence of an abrupt interruption of the sigma convergence process from the previous period overlapped with the formal establishment of the Mercosur organisation. However, focusing on the cross-country variability of output per capita for Argentina, Brazil, and Uruguay, shows that the convergence process continued during that decade, albeit at a more moderate pace. This indicates the presence of a bulk of Mercosur economies moving together towards the country-specific long-run growth rate. Moreover, the reduction in cross-country variability seems to have weakened since the 2000s, which aligns with the findings of a slowdown in the real convergence process discussed earlier. In the same period, the sigma convergence process for the Mercosur economies kept slowing down, resembling the development found in advanced economies. Regarding the Mercosur associate countries, there is also a slight reduction in cross-country variability starting in the 1990s, the period of Mercosur formal institution, but it stops and then reversed at the beginning of the 2000s. The descriptive analysis does not provide evidence of a significant reduction in cross-country variability of income per capita for the broader group of Central and South American economies. It is paramount to compare the results in terms of convergence with those obtained from the study by Camarero et al., (2002; 2006)³²² utilizing the PWT dataset (covering the time period 1960-1999), examines the theory of unconditional convergence and the deviation of the logarithm of per capita income in the

³²² Camarero, Mariam, Renato Flores, and Cecilio Tamarit. "Multivariate time series evidence of international output convergence in Mercosur." In *Computing in Economics and Finance*, vol. 87. (2002). Camarero, Mariam, Renato G. Flôres Jr, and Cecilio R. Tamarit. "Monetary union and productivity differences in Mercosur countries." *Journal of Policy Modeling* 28, no. 1 (2006): pp. 53-66.

Mercosur founding countries, as well as the associated states of Bolivia, Chile, and Peru. His findings underscore a stronger process of unconditional convergence in the Mercosur founding countries compared to the associated states. Additionally, he highlights a partial economic catching-up effect within Mercosur, observed between the smaller and larger economies, with Brazil emerging as the leading area among the countries considered. Lastly, he emphasizes the importance and impact of the regional integration process initiated in Mercosur on economic convergence processes. Furthermore, although Camarero's study (2006) focuses on convergence in terms of aggregate labor productivity, it is worth noting that in the decade preceding the establishment of Mercosur (1991), evidence of unconditional convergence among the Mercosur economies was discovered, particularly with a noticeable increase in the economies belonging to the Southern Cone geographical area (Argentina, Brazil, Paraguay, Uruguay), as observed in our analysis.

Finally, several studies have found that institutions and, specifically, variables related to the quality of government, may be relevant in explaining differences in the growth performance of countries. According to Putnam (1993),³²³ a multitude of factors, including informal societal elements such as regional rates of civic engagement, volunteerism, and generalized trust, significantly influence institutional quality. Kaidi et al., (2019)³²⁴ noted that measuring institutional quality presents different challenges, due to the multi-faceted nature of several variables, which span domains like ownership rights, rule of law, governmental corruption, and bureaucratic efficiency.

A subject closer to the focus of this Chapter, which pertains to investigating sources of income differences across countries, is represented by economic institutions, which essentially

³²³ Putnam, R. (1993). *Making democracy work: Civic traditions in modern Italy*. Princeton: Princeton University Press.

³²⁴ Kaidi, Nasreddine, Sami Mensi, and Mehdi Ben Amor. "Financial development, institutional quality and poverty reduction: worldwide evidence." *Social Indicators Research* 141 (2019): p. 133.

involve the structure and functioning of markets, the regulations of contracts and transactions, and the structure of property rights. Economic institutions affect the structure of economic incentives in society and, therefore, the choices of the economic agents (consumption, investment and saving decisions, labour supply, educational choices), ultimately shaping the long-run growth path of an economy. In principle, different sets of rules of games within a society may lead to distinct economic developments and different steady-state levels of income per capita.

To effectively contribute to this discussion, the research aim of this section is to investigate the contribution of economic institutions to the real convergence process of Mercosur economies. In this view, the empirical framework implemented in the previous sections (equation 6) is augmented with an additional control variable, representing a measure of the quality of economic institutions. This indicator is provided by the Fraser Index of Economic Freedom, which measures *‘the extent to which the institutions and policies of a nation are consistent with this protective function and the freedom of individuals to make their own economic decisions’*³²⁵.

The model estimated over the full sample (1980-2007) provides evidence of a positive and significant contribution of the quality of institution to the conditional convergence process for the sample as a whole (Central and South American countries), while the effect estimated for Mercosur economies is still positive but marginal. Overall, the quality of institutions seems to play an important role in growth, but in an indirect way. Indeed, controlling for institutional quality strengthens the effects of the other explanatory variables, leading to a marginally higher rate of convergence to a steady state compared to the one consistent with the estimates reported

³²⁵ «Economic Freedom». Cf. <https://www.fraserinstitute.org/studies/economic-freedom>. (Accessed February 2024).

in Table (4). This result is in line with the findings reported in Borys et al., (2008), especially regarding transition countries. However, these results can be considered preliminary and represent a primary goal for future research.

Conclusions: the Political Integration and Economic Convergence in the Mercosur organisation

Assessing over 25 years of political-institutional, social, and economic development within a regional organisation presents considerable challenges. The research suggests that the evolution of Mercosur's institutions has been marked by *thresholds*, which can be assessed through the neo-functionalism's concept of spillover. The genesis of Mercosur stemmed from a *political* spillover, as the shift to solve a domestic issue (the consolidation of democracy in Argentina and Brazil) within a transnational framework (the establishment of Mercosur) was promoted by the Brazilian and Argentinian presidents. Moreover, functional spillover became evident through the Buenos Aires Consensus (2003), fostering Mercosur's competencies evolutions to address the defies of the 'functional dissonance', such as those experienced during the 'Dark Years' crisis.

Subsequently, the El PAcCTO program could be understood as an external spillover effect characterized by three premises. Firstly, by *exogeneity*, as it was initiated by the European Union rather than by Mercosur or its Member States. Secondly, it could be seen as an *externalization of internal policies*, as El PAcCTO resembles European projects like Europol, fighting terrorism and drug trafficking. Lastly, *effective regional integration encourages further integration*, as evidenced by the ongoing multilateral relations between the founding countries within Mercosur's diplomatic framework after their participation in the El PAcCTO program. Mercosur has been found as a regional organisation capable of being influenced by both internal and external spillover phenomena, which contributed to its complex nature. This adaptability stems from both the shifting priorities of Member States leadership and the organisation's evolving institutional framework, which can also be subject to external interference from other state actors or international organisations.

While there are numerous potential threats for Mercosur, including economic shocks and *Caudilismo*³²⁶ tendencies (authoritarian patterns) in the Latin American governments, the concept of polycrisis (a situation where multiple crises intertwine) could be a catalyst for unexpected advances in the integration process that might otherwise have been protracted or absent.

Focusing on the possible real effects on Mercosur economies, the research finds evidence of real conditional convergence across the Member economies in all of the sub-periods analysed. This indicates the presence of structural heterogeneities in the economies of the founding countries that impact the convergence process. Indeed, the unconditional convergence does not occur in the sub-period 1990-1996, concomitantly with the establishment of Mercosur. Examining also similar results in the sigma convergence analysis, it can be inferred that a process of real convergence began in the 1980s, eleven years before the birth of Mercosur, and that it persisted, albeit at a slower pace, during its establishment, mirroring the European case, as underlined by Barkbu et al., (2016).

During periods of financial turmoil and economic crises, the decision-making processes within Mercosur appear fragmented, with Member States pursuing individual strategies to mitigate economic downturns rather than adhering to cohesive macroeconomic policies. Projecting the future trajectory of Mercosur's political institutional framework is complex, as it defies easy categorization within intergovernmentalism or neo-functionalism paradigms. Although a supranational shift in decision-making processes has yet to materialize, the organisation's competencies have gradually expanded beyond economic realms to encompass political and social domains. Cooperative endeavours, such as parliamentary initiatives through

³²⁶ A cultural-historical trend toward the centralisation of power and authoritarian tendencies in Latin American governments. Castro, Pedro. "El caudillismo en América Latina, ayer y hoy." *Política y cultura* 27 (2007): pp. 9-29.

Parlasur (2006) and security programs like El PAcCTO 2.0 (2023), hold the potential to bolster Mercosur's evolution, following an incremental approach. Should Mercosur successfully transition into a supranational entity, leveraging its macroeconomic and geopolitical capabilities, it could emerge as a pivotal actor not only in the Latin American region but also on the global landscape.

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