

# The Unasur-Mercosur Project, the European Crisis, and the Pacific Consensus

Written by Javier Vadell

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<https://www.e-ir.info/2012/08/25/the-unasur-mercursosur-project-the-european-crisis-and-the-pacific-consensus/>

JAVIER VADELL, AUG 25 2012

How will the European Union's (EU) economic crisis and social struggles, especially in the Eurozone affect the South American integration process? Is the trajectory of UNASUR and Mercosur subject to EU's current crisis? To answer these questions we have to understand the broader changes in the global economic system: the rise of China, Brazilian leadership in South America and the economic integration process. My hypothesis is that the European crisis and the probable restructuring of the Eurozone will have little impact on the evolution of the South American integration process. The failure of the Washington Consensus (WC)[1] and the consolidation of the Pacific Consensus led by China (Vadell, 2011), the sociopolitical weaknesses of South American countries, and the role of Brazil are the main elements necessary to understand the development of the UNASUR and Mercosur integration projects.

From 2002 to 2010, South American countries have witnessed remarkable economic growth after the poor performance of liberalizing economic reform implemented in the region in the 1990s. The WC, as a liberal economic program for Latin America, failed on three fundamental points. First, to achieve higher rates of growth and to improve social indicators. On the contrary, it consolidated historically present social inequalities in the region. Second, the failure is evident in the institutional and fiscal collapse as a consequence of the implementation of an extensive program of privatizations of state-owned companies and unilateral trade and financial liberalization, that weakened and indebted the countries that were unable to respond to the crisis of late 1990s. The Latin American countries had few policy options because they were dependent on international financial organizations— especially the International Monetary Fund (IMF) and World Bank (WB) – to obtain loans. Third, the failure of the WC also manifests in the ideational realm, underpinned by the neoliberal ideology.

In this complex scenario of crises in the beginning of the 21<sup>st</sup> century, the Latin American countries, particularly South American, were favored by an external factor: the growing economic presence of the Peoples Republic of China (PRC) in the region (Vadell). Related to the geo-economic realm, the growth and outward expansion of China as a new dynamic center of global capitalism fostered the valorization of commodities produced in the periphery of the international economic system. In fact, this process increased the bargaining power of Latin America and Africa in the international division of labor (Hung 2009) and gave them a larger margin of maneuver to conduct their own regional matters.

On the other hand, for some regional and global powers, the rise of PRC has created new sources of concern. The dynamics of conflict-cooperation are also connected to the supply of natural resources and energy, especially oil. The dispute of natural resources is at stake. These changes have provoked responses from China in order to form new alliances that aim at bringing the international system to a multipolar order (Hung), modifying the balance of power between center and periphery and creating a set of consequences, for example, new forms of cooperation, new geoeconomic networks and sources of tensions and geopolitical conflicts.

At the same time, it also creates new, complementary and asymmetric center-periphery relationship in the post WC era between PRC and some less development regions – particularly Africa and Latin America – that I call the Pacific Consensus (PC). This concept does not define a specific development model, but tries to elucidate a kind of network

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power relationship in a particular Chinese commercial and financial stage in global capitalism characterized by a North-South-mode of relations more than a South-South cooperation model. This growing interdependence is a consequence of the global economic changes, the expansion and growth of Chinese economy and the particular characteristics of Chinese economic model (Vadell). For developing countries, it could mean new possibilities of integration to the global economy based on a complimentary trade with PRC that could crystallize center-periphery patterns of specialization. That is, a renewed commodity-export-oriented model of development.

In this sense, the most important South American integration projects – Mercosur and UNASUR – are directly influenced by two main variables. One external factor is the growing South American dependence on Pacific-centered capitalism led by China. Internally, we should consider the socio-political changes of Brazilian leadership in the region.

The engine of South American integration originates in the Argentina-Brazil axis and was consolidated under the leadership of Brazil in alliance with Argentina. The course of events, especially after the economic crisis of the late 90's, was more complex than the schedules and political aspirations of the presidents, foreign affairs and finance ministers. Therefore, as we can say that there was a relative success in expanding the Mercosur and Unasur integration projects led by Brazil, in the same way, under a more critical perspective, we can conclude that there was a relative failure in regard to the institutionalization processes for two reasons. One, Mercosur was paralyzed as an imperfect custom union, being the target of criticism from state actors and specific socio-economic groups. On one hand, the smaller countries, Uruguay and Paraguay, claimed that Mercosur did not result in increased revenues for them. On the other hand, there were repeated criticisms by Brazilian entrepreneurs of unfair advantages offered to smaller states. Second, the Union of South American Nations – Unasur – is an intergovernmental union incorporating two existing imperfect custom unions (Mercosur and the Andean Community of Nations (CAN)) that became legally effective on March 11, 2011.[2] This institution was active in some cases, such as during the crisis in Bolivia in 2008, the conflicts between Ecuador and Colombia, Venezuela and Colombia, and the unsuccessful coup d'état attempt in Ecuador. More recently, all members condemned the civil coup in Paraguay. Unasur is increasingly positioned as a regional body for defense issues focused on conflict resolution, rather than an economic platform to facilitate the expansion of Mercosur. Furthermore, Unasur's action exposed the weaknesses of the Organization of America States (Serbin 2010). Brazil is the leader of both Unasur and Mercosur initiatives and claims that both projects are not conflictive, but complementary.

In the past, the sociopolitical impact of an economic crisis in the heart of the West-centered capitalism was dramatic in the periphery. Today, the 2007/2008 financial crises and the current European economic crisis affect the global economy in another way. I claim that the current transformation of the global capitalist system involves: first, the displacement of the dynamic engine of capitalism from the 'West-Atlantic' to the 'Pacific' region. Second, we observe a kind of bifurcation of the center of capitalism, with the United States and China as main poles.

The current economic crisis reinforces the growing presence of China within international economic institutions, like the G20 and the IMF. The accelerated Chinese integration into the global economy as the new center of the capitalist system involves increasing commercial and financial relations with other regions, which configures a sort of network center-periphery power, which in turn is shaping another geography of global political economy. The Pacific Consensus is in its initial stages and implies that the PRC will be the center – not of the global economy as a whole where the preeminence of the U.S. remains – but of a new global power in a financial and commercial network involving diverse 'south' regions, in which South America is a prominent player. The South American integration processes, Unasur and Mercosur, are most directly affected by these geopolitical and geoeconomic transformations with a crucial role for Brazil as an new emerging country in this complex scenario.

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[1] Williamson (1990) recommended ten policies that are known as the Washington Consensus: 1) fiscal superavits; 2) Public expenditures priorities; 3) tax reforms; 4) market-determinate interest rates; 5) market-determinate exchange rates; 6) liberalization of trade; 7) liberalization of investments; 8) privatizations; 9) deregulations; and 10) importance of property rights.

[2] The Unasur's Secretariat headquarters is located in Quito, Ecuador.

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