

Introduction

Some theoretical approaches which attempt to explain the nature of European integration highlight the role of national leaders in order to understand the innovative process, while others point to interest groups as actors which, in conjunction with others, formed part of that process, giving them varying degrees of importance.¹ Among the different analyses of South American regional integration, it is also possible to identify those who focus on governmental players² and those who pay attention to interest groups. Among the latter, some analysts study the “spaces” in which those actors present their demands (illustrating the fact that, due to the lack of institutional structures, this is primarily carried out on the national stage),³ while others refer strictly to their economic activity (they measure their efficiency before and after integration, their adaptation to the new context, etc.)⁴. Far from denying the relevance of these studies which, in fact, have come to form a part of the bibliography and arguments laid out in this paper, this analysis aims to observe interest groups from another perspective: focusing on their relationship with the government.

Even when some groups were obviously benefiting from integration, it was difficult to identify positive initiative within the private sector in relation to the integration process. Available reports about the beginnings of the process tell us, on the contrary, about the cautious and suspicious attitude adopted by certain groups as they “went along with” - when that was the case - government decisions, especially concerning the lowering of trade barriers; this, indeed, being the case when they were not actually trying to place obstructions in the way of those very changes. The stance adopted and attitudes held by the private sector regarding regional integration were expressed in different ways in each country and this can be seen as a reflection of the historic dynamic of relations between the government and the private sector.

Therefore, the line of approach proposed here will not retain actors as the point of focus of the analysis, but rather the emphasis will be put on the dynamics of the relationship

¹ In this sense, historical analysis views interest groups simply as a secondary element, ignored as relevant actors in a process which is more dependent on the political will of governing elites (see, for example, Urwin or Mammarella and Cacace); neofunctionalism considered them as the driving force of the process (see Haas and Sweet and Sandholtz); and liberal intergovernmentalism presented them as actors who, from within the domestic arena of each state, exercised influence on intergovernmental negotiations (see Moravcsick).

² The most well-known is that of Andrés Malamud, *Presidential Democracies and Regional Integration. An Institutional Approach to Mercosur (1985-2000)*, Ph.D. dissertation, European University Institute, Florence, 2003.

³ Jorge Grandi, “Déficit democrático y social en los procesos de integración”, *Integración y Comercio*, N°6, Instituto para la Integración de América Latina y el Caribe, September-December, 1998; Jorge Grandi and Lincoln Bizzózero, “Towards a Mercosur Civil society. Old and new actors in the sub-regional fabric”, *Integration and Trade*, N°3, Buenos Aires, Institute for the Integration of Latin America and the Caribbean, September-December 1997; Noemí Mellado (comp.), *Los actores empresariales argentinos frente al Mercosur*, La Plata, Edulp, 2006.

⁴ See sectorial analysis mentioned in the bibliography.

that exists between them. A step will be taken back from the intergovernmental level to the domestic arena with reference to the Argentine case. It is hoped that this test case will aid us in developing a useful analytic framework for the study of other countries. Commercial and economic structural characteristics, the heterogeneity of interests, the history of private sector organisations, the role played by political parties, the characteristics of the state and its institutions and the political culture will be some of the aspects analysed. These elements will be analysed in two ways: on the one hand, through a historical perspective, that will allow for the tagging of certain factors which have shown continuity along the course of time and which have transformed themselves into characteristics of government – private sector relations; on the other hand, focusing on a particular period of time, that will allow for the correlation of these characteristics with the context of structural reform into which the integration process was introduced. Taking all of these factors into account, the article will concentrate on the relationship between the private sector and the government of Argentina during the first half of the 1990's, the context in which the South American Common Market (Mercosur) had its origins and that, in terms of regional integration, can be identified as the “transition period to a customs union”, which came into being in 1995.

The relationship between the private sector and the government forms part of the internal political process which is played out along with a foreign policy, in this case that of regional integration. This relationship is analysed on the basis of two basic premises: firstly, it is assumed that, in the initial years, the central aspect of integration –that which mobilised the private sector in general, and more specifically the industrial sector– was trade liberalisation. Secondly, it is considered that, to understand the relationship with the government, it is insufficient to embark from a position of the logic of simple economic rationality, given its limitations: those actors involved are neither in possession of a perfect set of data, nor do they base their actions simply and solely on economic cost / benefit calculations. Political factors also count, so that a better explanation of the public/private dynamics must take into account, for example, the characteristics that the political organisation of the private sector has historically assumed.

Postulating these considerations as a point of departure, a historical analysis of the relationship between government and private sector, with special reference to industry, will allow us to observe that there is a tendency to repetition, down through the years, of certain elements which have historically characterised that relationship. These have formed part of the political process that has gone hand-in-hand with decisions concerning regional integration, with specific reference to trade liberalization and its implementation, which will be described in the second part of this paper. Finally, an attempt will be made to identify the consequences that those elements typical to the relationship between the government and the private sector may have on both internal politics and the integration process itself.

Private/public dynamics in Argentina

In order to understand the nature of the relationship existing between the private sector and the government, it is necessary to make a historical review, taking into account the evolution of the economic structure of the country (with the aim of understanding the positions taken by the private sector in relation to certain policies depending on their economic interests), the founding and evolution of the main private sector representative associations (allowing for an evaluation of the level of participation and representation achieved in upholding members' interests), and the main political events which were to affect both perceptions of those interests and the capacity of these groups to organise.

The first business associations emerged towards the end of the 19th century when the economic activities of the country were based on its participation in international markets as an exporter of agricultural products and its political make-up was one of "oligarchic state": participation was limited and the reins of power were in the hands of a select group. It was, indeed, a political and economic oligarchy, whose main actors were present both in the composition of the government (the so-called "notables") and in the economic structure, controlling resources (such as foreign financiers, landowners, industrialists, bankers and merchants). In 1866 the first encompassing business association⁵ whose aim it was to represent the interests of the agricultural sector, the *Sociedad Rural Argentina* (SRA, the Argentine Rural Society), was formed. It consisted of large landowners in the Pampas region who belonged to that political oligarchy, holding positions in governments and acting as advisors on agricultural issues.⁶ Then, in 1887, in a somewhat premature manner considering the lack of industrial development that had taken place up to then, the *Unión Industrial Argentina* (UIA, the Argentine Industrial Union) was established. The nature of its founding left a particular mark on the organisation in that it did not set itself up in opposition to the rural sector but, rather, it was to be dominated by meat and grain producers whose diversification, such as into the field of food processing, allowed for their inclusion in the manufacturing sector. Therefore, the organisation maintained a very close relationship with the SRA, in general, and this contributed to the forging of criteria within the two groups that resulted in the two being more in the nature of 'clubs' than business associations (Schvarzer, 1991:29, 247), working in favour of the consolidation of elitist management and based more on economic power and socio-political relations than on the objective of representing a heterogeneous sector. The UIA built itself up "top down" and the 19th century elite went on to maintain control of members who joined at a later stage. That specific combination of big business directing matters and the smaller ones participating allows for a greater understanding of particular stances adopted by the UIA in its first years after its inception, ones which were basically directed at aiding industry to progress, but without any signs of interest in an "industrial revolution" nor opposition to the agricultural export model of that time (Schvarzer, 2000: 150, 43). This is a factor that would be seen repeatedly throughout its history.

Not only did both organisations share a certain membership base, but both held certain core principles and closed ranks in different situations when they perceived common threats. Around 1930, for example, the UIA and the SRA lent their support, in

⁵ The term "encompassing business association" is used here in the way Ross Schneider (2004) does: organisations representing most (rural or industry) subsectors.

⁶ From 1910 to 1943 almost the half of the executive power positions were held by SRA members (with five of nine presidents among them). This link would change with Peronism and start again, to a lesser extent, after the military coup in 1955.

conjunction with other business groups, to the military coup that toppled Hipólito Yrigoyen and which gave birth to what could be considered as the second phase in the history of Argentine economic development, one that was to last until 1970. In those years, the government oscillated between policies which sought to maintain the traditional trade pattern, such as the Roca – Runciman pact – a milestone in the history of SRA influence because it guaranteed beef exports to England in return for preferential conditions for English industrial imports to Argentina – to those which resulted in state intervention aimed at promoting industrial development within the protectionist framework. That is how the developmental period was brought about; this period would be characterized by linkages between large business and the state in which demands for promotional incentives or tariff protection were the norm (López, 2006:271). Meanwhile, the process of import substitution helped create a new class of manufacturers whose interests did not always coincide with those of the industrial elite. This had the effect of producing serious splits within the industrial sector which were then exploited by the Peronist government and these events would eventually have important consequences for the sector's involvement in politics.

With the arrival of Peronism, modifications to the political-institutional structure of the country were caused and, within this framework, relations between the government and the private sector were also affected, this entailing special consequences for industry. The government of Perón modified the logic of the organisations which, at their inception, were backed by an elite which invested in them as a tool of collective action (more than for the articulation of the opposing positions held by the various branches of the private sector), using them as a means to mobilise support and reduce political opposition (Ross Schneider, 2004).

The SRA, UIA and the Chamber of Commerce (CAC) had all given their explicit backing to the electoral alliance opposing Perón, so that the new government's attitude towards them was one of reticence, going so far as to give preference to sectoral associations and to dealing with businessmen on a direct, one-to-one basis (Jáuregui, 2005:142; Ross Schneider 2004). For their part, the industrialists view of the government was not without dissent given that, whereas policies which were deemed favourable to the workers were seen as a problem from the point of view of business leaders, the closing off of the internal market to competitive importation guaranteed a captive market for domestic industry. The result of these mixed perceptions was an alternation of the position taken by businessmen in relation to the government, the specific stance depending on the occasion and the particular measures enacted. From a political point of view, the government aimed to use the UIA as a tool of government, insisting on changes in the organisation's traditional make-up and management in return for dialogue. This demand gave rise to conflict within the organisation and led to state intervention in 1946, to it being closed down in 1953 and to the creation of an *oficialista*, or pro-government, business association (Ross Schneider, 2004), the *Confederación General Económica* (CGE), whose basic role it was to represent small-to-medium-sized businesses which supported the strategy of the protectionist development of industrialisation for import substitution and who received, in return, representation at cabinet meetings. As O'Donnell (1977:546) points out, the CGE lent organisational sustenance to the alliance between the workers and the "weak" bourgeoisie, an alliance which found political support in Peronism.

Government interference in the organisation of the industrial sector resulted in the latter dividing, not along economic interest lines, but rather political ones. The lack of

channels of representation open to factions opposing the government was yet one more factor in the growing tendency for private sector to look to the military for political influence. Under the military government which came to power in 1955, the CGE was banned and the UIA revived with its traditional identity. Anti-Peronist associations willingly united at various times to confront the CGE: when Frondizi's government revived it, they created the *Acción Coordinadora de las Instituciones Empresariales Libres* (ACIEL), or in 1975, when they came together to form the *Asamblea Permanente de Entidades Gremiales Empresariales* (APEGE) in opposition to the government, reducing the level of representativity of the CGE (Schvarzer 1991:214). A year later, they organised a businesses strike which had widespread effects and served simultaneously to illustrate the more powerful position that these groups held over the CGE and to contribute to the growing climate of instability which then resulted in the military coup of 1976 (Palomino: 151, 153).

The policies of opening up the economy and the long dismantling of its structures which started in the middle of the 70's can be identified as the third period in Argentine economic history. The bringing down of trade barriers to imports and erratic monetary policies marked the new period where the industrial sector was the one which most suffered due to the competition which many of its branches experienced because of the new wave of imports. One of the main structural consequences of economic policy for the industrial sector was the concentration of some activities and the formation of large conglomerates, domestically-funded economic groups which organised around a 'mother' company (normally in an activity protected by official policy) and were active not only in different industrial areas, but also in financing, agriculture, trade and foreign investment. The economic team at the time played a precise and decisive role in the expansion and consolidation of these large groups, with discretionary measures often providing them with competitive advantage (Schvarzer, 1986).

One of the first measures enacted by the military government which came to power in the coup of 1976 was the banning of the CGE and the returning to the UIA to its legal status, from thereon to be regulated in a new state intervention which would last for years. The traditional leadership of the organisation attempted to regain control, but the growing presence of other movements and business associations (a result of both socio-economic changes and the evolution and diversification of industry) meant that this was not an easy task to achieve. The military government chose a policy of aiding a slow reorganisation which would give time to the economic team to carry out the programme of trade liberalisation and, thus, the UIA was not institutionalised until 1981. Members of the CGE, which remained banned, took the decision to join the former, organising into a new faction: the *Movimiento Industrial Nacional* which created new internal groups, criteria and strategies that would affect the behaviour of traditional management, even if they retained their hegemony (Schvarzer, 2000: 243, 307). From the time of the internal elections in 1981, the main difference to be seen within the organisation was, therefore, that which separated the *Movimiento Industrial Argentino* (MIA) and the *Movimiento Industrial Nacional* (MIN). The former was made up of the old directors of the body and was characterised by its representation of more 'liberal' positions, while the policies of the latter, with members of the CGE to the fore, took a more interventionist approach and were closer to Peronist economics and developmental policies. However, in some cases those differences became more and more fractious, especially on the topic of economic reform, where divergent interests caused disagreement even within the movements themselves (Viguera, 1997: 58).

Liberalisation of the 70's gave rise to a new economic model which would take shape in the 80's and be consolidated in the 90's, forming part of the domestic economic context in which the process of regional integration would be played out.

Among those factors which can be seen to have affected relations between the private sector and consecutive governments, some should be highlighted that have resisted the passing of time and which repeated themselves near the century's end with consequences reaching right into the choice and implementation of foreign policy. Here, we may mention the high level of **heterogeneity of economic interests** which, according to certain authors⁷, can be considered to be the structural root cause of the splits that came about between the various factions in the industrial sector. This heterogeneity produced a set of contradictory pressures on the government decision-making process: given that each industrial producer sought regimes of low tariffs on goods which they needed to import while, at the same time, seeking high tariffs on the importation of goods similar to their own, a conflict of interests arose within the sector which complicated its political organisation both in terms of working against and backing certain decisions. The complexities of the Argentine economic structure and the aforementioned heterogeneity became more evident since import substitution period as a result of the naturally competitive rural sector and the late-developing industrial sectors.⁸ For these reasons, the main encompassing associations within the private sector, the control of which always remained in the hands of an elite, suffered serious limitations in its ability to articulate the various interests of the different parts of its sector.

As can be seen, however, the causes behind these difficulties in representation do not seem to be exclusively linked to economic factors which were derived from the specific situation held by the distinct factions within the sector in the economic structure of the country. From a political point of view, we should also mention other elements which affected relations between the private sector and the consecutive governments. Firstly, the quality of relations experienced is often influenced by the **type of political regime** in place at that particular point in time. In this case, it refers to a constitutional and representative system which, depending on the particular concentration of decision-making power, can be termed 'presidential', given that this power resides in the executive power of a sole individual (the president) and when speaking about relations between private sector and government there is a heavy emphasis on references to those within the executive power, from the president down through the ministers who make up the cabinet. This emphasis in actors does not in any way ignore or deny the influence that institutions can exert on the dynamics of power, however it does help to highlight the individual preferential channels of influence through which pressure is exerted. The presidential regime is one of the reasons for the central role played by political leaders in the reform process which started to be carried out in the 80's.

⁷ Among them, Alberti *et.al.* (1984) and O'Donnell (1977).

⁸ This was reflected in the fact that the reactivation of local demand as a consequence of a good industrial development implied some limits in the medium term, on the one hand, because local demand reduced the quantity of exportable goods; on the other hand, because it required importation of goods for use in industry, which worsened the trade balance deficit. These structural limits would strongly influence the possibilities of constructing stable class alliances in the country (O'Donnell, 1977).

The same can be said concerning government powers in relation to national territory: the differences between states which are organised on a federal or unitary basis may have an impact on the way that decision-making evolves and, therefore, on the means by which groups exert influence. In Argentina, even though it is technically a federal state, the political process is centralised as a consequence of formal and informal mechanisms which tend to concentrate power⁹. This, indeed, is yet one motive more for the various groups, understanding the formal procedures and the informal weight of the national executive power in the decision-making process, to direct any pressure that they may want to exert in favour of their interests on the executive body of the regime.

Within this system, the **political parties**, traditional representational bodies, did not fulfil a role of balancing of interests. The relevance of parties in a political system, their level of institutionalisation, the type of organisation that defines them and the characteristics of their leaders may all influence the modalities by which interest groups choose to exert pressure. In this case, parties and interest groups came about independently and the latter, instead of falling back on intermediaries to represent their interests, went directly to the national executive power. The reason for the weakness of the role played by the parties can be traced back both to the concentration of power in the figure of the president -that, as said, led pressure exerted by these groups to bypass intermediaries and go directly to the government- as well as to the informal characteristics of the parties (Thomas). The *Partido Justicialista* (Peronist Party) in Argentina in particular can be presented as a typical example of a party based on a predominantly informal organisation in which the leader of the moment takes the decisions, most activity flows through patronage networks, membership criteria are not clear, links to the working and lower classes are not reflected in either the statutes or the internal proceedings of the party, and the most important source of income comes from public funding without regulation. (Freidenberg y Levitsky).

We must not forget, while discussing the political regime and the role played by parties, the *movimientismo* nature of **political culture** in Argentina, which may go to help in the understanding of the informal aspects of relations between the private sector and the government. *Movimientismo* is a style of political behaviour characterized by the presence of a strong charismatic leadership that provides unity and identity to the participants in the movement, an intense feeling of vertical and horizontal solidarity which underplays internal differences and potential diversity of interests and emphasises loyalty to a common cause, and a permanent tension and antagonism between the movement and the external enemy which reinforces internal solidarity¹⁰ (Alberti, 1991: 6). One of its negative consequences is the interference exercised by the government in private sector bodies since the middle of the last century, which implied a political division rather than one based on economic interests. Furthermore, *movimientismo* is, by nature, anti-institutional, since power resides with the leader of the party and not in his / her position or in the regulations. On top of that again is the fact that the direct relationship that the leader maintains with society sidesteps all institutional frameworks of the political system (Alberti, 1991). These implications of *movimientismo* can also be seen in the relationship played out between the government

⁹ In this sense, co-participation and state intervention laws should be noted, as well as the general weakness of provincial legislative and judicial powers.

¹⁰ The last characteristic sets a double-standard normative orientation to action: what is permitted for those that participate inside of the movement is negated to those that are outside (against) it (Alberti, 1991: 6).

and the private sector in which representation based on a what may be called a specific interchange is to the fore, direct contact taking the place of institutional contact – through business organisations or political parties -, a situation which results in a lack of incentive for the private sector to shape a unified approach through which to represent their interests.

Regional integration as part of the structural reform process: ambivalence in the industrial sector.

The first steps

The integration process which resulted from the signing of the Treaty of Asunción in 1991 had its origins in the mid 80's when Argentina and Brazil initiated their own, bi-lateral integration process. The context for this initiative was that of the return of both countries to democracy and their respective governments found both political and economic motives for the new project. For Argentina, closer relationships with Brazil seemed to be a relevant piece in its global strategy to come in from the diplomatic cold after defeat in the Falklands war¹¹ and, from a commercial point of view, recovering demand in Brazilian markets would be a stimulus for the kick-starting of national production aimed at foreign markets. Furthermore, the very size of the Brazilian market could be the attraction with which to gather support for President Raúl Alfonsín's general strategy of reindustrialisation linked to international trade. In Brazil's case, the impetus was an increase in its relative importance in the world economy since the 1970's which prompted the country to revise their automatic policy of aligning themselves with the United States and, internally, better trade channels would serve as an anti-inflationary tool if eventually faced with an excess of demand in certain industrial and agricultural sectors (Campbell, 1999: 44, 63, 69).

The Argentine national context was at that time dominated by the return to democracy after a long period of military rule, resulting in new perceptions on the part of businessmen: the fact that Radicalist Party won in free and fair elections dispelled the connection that they made between democracy and Peronism (illustrating to them that not only the Peronists could win democratic elections)¹² and, furthermore, the liberal and anticorporatist discourse of the new government increased expectations surrounding the stemming of workers demands (Acuña, 1995). A further consequence was that the new government did not forget the historic alliance that was in place between the dominant economic interests of the country and the military, so that having the major economic forces in the country 'on side' with them would serve a double purpose: firstly, the breaking of the link that had brought down governments in the past and, secondly, through the setting up of dialogue and a return of confidence in the new democratic institutions, encourage those groups to invest in the country. The relationship which existed between the private sector and the government changed down the years: while it at first sought to set up an institutionalised relationship which would recognise the UIA as the official business intermediary in dealings with the

¹¹ The Falkland Islands war took place in 1982 –during the dictatorial government- and Argentina was defeated by the United Kingdom.

¹² With the passing of time, traditional business organisations, which had supported military regimes, incorporated democracy into their discourse. An example of this change was the condemnation the UIA expressed of the 'carapintada' military uprising in 1987 (Acuña, 1995).

government, it would not actually constitute an alliance as such, but rather a parallel effort would be made to reinforce relations with the ‘captains of industry’, a group of businessmen referred to for advice on measures concerning overcoming the economic crisis and, moreover, on specific initiatives, such as regional integration¹³.

The government of Raúl Alfonsín attempted to introduce tentative structural reform measures, ones which would eventually be firmly implemented in the 90’s. Of all the measures proposed, trade liberalisation was perhaps the most controversial and the one which made the formation of a support alliance the most difficult, but the government’s economic team insisted on its implementation with the aim of obtaining International Monetary Fund and World Bank funding, a prerequisite for the receipt of which was the lowering of trade barriers (Viguera, 1998). Some business associations – such as the SRA, the CAC and financial organisations, which had historically maintained a liberal discourse - showed explicit support for trade liberalisation from the very beginning. The lowering of barriers to trade coincided with their interests as it would help to stimulate exports and lower the price of imported goods. However, in this context it could be said that trade liberalisation was not a priority for agricultural organisations, for example, who were more interested in guaranteeing a favourable rate of exchange and resisting retention and other taxes which the state imposed on exports.

For their part, industrialists offered somewhat cautious support to the opening up of markets, assuming a rather ambiguous position determined by two structural factors which made the creation of a clear and homogenous front very difficult. Firstly, the varied nature of the sector, in that not all its parts were being affected in the same way and, secondly, each one had an interest in the lowering of barriers so that their particular imports would go down in price but, at the same time, they also had an interest in the protection of their final products; this, as on previous occasions, placed them at cross purposes with their peers. In addition, in a context where liberal concepts were gaining more and more relevance, they avoided taking up a posture which was in total opposition to trade liberalisation while, at the same time, making it clear that industry would resist all reform measures which exposed them to competition. Industry position was that of accepting the opening up of the export market just if it included policies which would actively boost industrial activity aimed at the exports (Viguera, 1997: 85).

Trade liberalisation policies developed basically through an interaction between government and the industrialists, represented by the UIA and other bodies of a narrower base and lesser relevance. Different strands of the UIA held different positions: there was a contrast between the MIN, representing small-to-medium-sized businesses and industry in the provinces, and the MIA, which was identified with more ‘liberal’ and ‘pro-exporters’ positions, backed by larger companies. The latter, for its part, had two factions within its own ranks: *Coordinadora de las Industrias de Productos Alimenticios* (COPAL) represented companies in the food industry which were competitive when compared with foreign producers, so they supported trade liberalisation, while the other chambers or companies tended to be in agreement with the MIN in rejecting unrestricted access to internal markets, demanding limitations, or conditions in exchange for their support. The *Consejo Argentino de la Industria* (CAI)

¹³ They were business men of the most important firms in the country –but not always with homogeneous interests- within the sectors of petroleum, petrochemicals, chemicals, food, iron and steel, metallurgical products, cars, construction (big state contractors) products, electric and electro mechanic, products, textiles and paper. Many of them were also big shareholders of banks and security entities. (Ostiguy: 111, 194, 246).

and the *Confederación General de la Industria* (CGI) endorsed the MIN's position, as did various large economic groups, particularly in the iron and steel and petrochemical sectors (Aníbal Viguera, 1998).¹⁴

If we consider this diversity of positions, it is possible to say that, in the best of cases, it was accepted in the medium term the possibility of a gradualist approach which would give time for a restructuring of production with pro-industrial policies. It was in the light of this that the reforms were signed in October 1988, having been negotiated with the UIA and groups in the various sectors in a context in which their ability to place pressure on the government was strengthened: the latter had been weakened in mid-term elections in 1987¹⁵, an economic crisis was taking hold and there was the spectre of increasing inflation, while the fact that price agreements -made on a monthly basis- also handed more power to the UIA. The government negotiated with the encompassing business associations within each sector - in contrast with the policy of the next government which would favour individual agreements - but, even considering this, analysts agree that the most concentrated sectors across the range of industry (especially the metallurgical, iron and steel, chemical and petrochemical sectors, all of which are defined by a high level of concentration and close contacts with the government¹⁶) had "saved" their positions with trade protection (Viguera, 1998). Frequently, the main opposition within these sectors of industry was against the opening up of the domestic market to subsidised production from Brazil, something implied in the integration process being worked towards with that country (Viguera, 1995: 89).

The policy of trade liberalization went hand in hand with the first steps to bilateral integration with Brazil. This process had been started with the Declaration of Iguazú and the Joint Declaration of Nuclear Cooperation, signed towards the end of 1985 on the occasion of the inauguration of Tancredo Neves bridge. There, an attempt was made to give impetus to a process of economic, trade, transport, communications, scientific, technological, and nuclear integration based on twelve protocols which were later signed. It is of some note that the first declaration created the Joint High Level Commission for Bilateral Cooperation and Integration, which was presided over by the respective foreign ministers and made up of state experts and representatives of private business (Campbell, 1999 and Lavagna, 1998). According to the then Sub secretary for International Economic Relations, Oscar Romero, the presidents of both countries had expressly taken the decision to involve the private sector- both businesses and trade organizations- considering that their participation was essential in the design of the bilateral relationship but not with each sector "defending the apple, rice, beef, etc."¹⁷

In June of 1996, the Economic Integration and Cooperation Protocol (PICE) was signed between Argentina and Brazil and, even if all the authors involved agree that the process of integration was due largely to the work of the foreign ministers, the

¹⁴ These positions were expressed both through sectoral chambers and individual business men (Viguera, 1995: 88).

¹⁵ Electoral defeat for the party of government in 1987 had as a consequence more uncertainty for the private sector, whose relations with the government's economic team were by the end of the year somewhat strained. In this context took place the creation of the "group of the 17", as a space where all business associations came together (Acuña, 1995).

¹⁶ All of them were "captains of industry".

¹⁷ Romero, Oscar, "El intercambio argentino-brasileño" in Hirst (1988).

participation of the private sector seemed to be significant¹⁸. In many cases, and especially in the industrial sector, it resulted in serious resistance being shown to the policy of lowering trade barriers included in the process of integration. Both the drawing up of product lists and the results of the different rounds of negotiation were influenced by the participation of domestic manufacturers. Giving that sensitive products (those which are not agreed on by two or more manufacturers of the same item) were not included on the list, the lists were reduced in length, resulting in the strengthening of trade in products that each sub sector had previously specialized in. The attempts to lengthen the list, however, became complex when the topic of sensitive products came up, implying conflicts of interests between the businessmen of both countries. The increasing influence of the private sector in negotiations for each product made progress difficult, since some sectors, such as iron and steel, resisted the idea of competition with subsidized production from Brazil (Viguera, 1995: 98).

Early official enthusiasm fell away as difficulties in the drafting of the protocols meant that the results were of little commercial relevance.¹⁹ Additionally, obstacles also existed connected to the macroeconomic situation in the two countries. The necessity to use customs tariffs as a source for the financing of the fiscal deficit was specifically seen as not following the spirit of the accord which actually sought to reduce those very tariffs. Therefore, while officials in charge of the process of integration were attempting to extend the list of goods free from tariffs or with reduced tariffs, frequently the economic teams showed resistance to these attempts. This type of resistance resulted in the resignation of the then Secretary for Industry and Foreign Trade, Roberto Lavagna, in 1987 and, the following year, of the diplomat in charge of PICE, Jorge Romero (Manzetti, 1990: 132). Finally, negotiations came to an abrupt halt with the fall of the Alfonsín government.

The stance taken by the industrial sector at the time was characterized basically by a lack of confidence in initiatives which aimed to reduce the protection that various sectors had enjoyed for many years. However, the private sector took part in the negotiations and allowed for some trade liberalization, even if at slow pace. The same sectors which exerted a strong influence on the government in an attempt to protect themselves from the intended unilateral market liberalization simultaneously managed

¹⁸ Just a few authors give evidence of contacts with the private sector and it is still not clear how they developed. Ostiguy indicates the formation of the Integration Council with Brasil in 1986, in which policy makers, business association representatives and individual business men (all of them “captains of industry”) took part. Livio Kühl, -of the Scania firm and ‘captains’ leader- was coordinating the council (Ostiguy: 43, 57). Campbell does not mention this Council, but he indicates the creation of a Argentine-Brazilian business committee, where, on Argentina’s side, persons appointed where, just to mention some of the, Miguel Roig (Bunge y Born); Oscar Vicente (‘captains’ member); Eduardo de la Fuente (MIA president) and Guillermo Kühl (Scania. The author also mentions an informal working group created by argentinian government, where representatives of the firms Astarsa (shipyard and metallurgical sector), Sevel and Socma (cars), Scania (buses and tracks), Bagley (food), Bunge y Born group; Propulsora (iron and steel), Bridas (petroleum), BGH (communications and electrical appliances) and Bagó (pharmaceuticals).

¹⁹ Totally, the 50,2% of the whole tariffs were negotiated (Lavagna , 1998: 173). In the iron and steel protocol (No. 13) main products remained outside; in trade protocol (No. 14) Argentina had offered proportionally more concessions than Brazil, cars protocol (No.21) was postponed to 1991; chemical protocol was not signed, and food industry protocol was signed 1988 after difficult negotiations (Campbell 1999:90). Other protocols were delayed, as the ones of aeronautical cooperation (No. 12), economy studies (No. 10), energetic complementation (nr. 8), currency (nr. 20), bi-national firms (No. 5) and the one of inversions funds, No. 7 (Lavagna, 1998: 178-79).

to protect themselves in negotiations with Brazil. The 90's were to see a repetition of these events, but this time in a more intense way: the next government would turn its back on the business organizations and would also be more drastic in the opening up of the market, so that the private sector would encounter a determined position, faced with which each player was to seek an individual accommodation with the government once the decision to open up the market seemed irreversible.

At the beginning of 1989, business associations broke off their links with the Alfonsín government and considered themselves to be freed from the price agreements, exporters refused to change foreign currency at the official rate and the World Bank suspended payments (Acuña, 1995). On top of the economic crisis there was a general air of mistrust –especially in the financial market- to the figure of Carlos Menem as presidential candidate and that very same year a draining of foreign currency provoked hyperinflation. Hyperinflation and the change of government in 1989 gave way to a series of reforms which kept on the path of open markets and fiscal order (Gerchunoff and Llach, 1998), giving way to a drastic change of focus on regional integration.

The consolidation of the reforms and the creation of Mercosur

The international context within which the 90's started was dominated by a the interdependence of different national goods markets – and, to a lesser extent, capital markets – reflected in a sharp increase in trade between them and the flow of funds in the form of foreign direct investment (FDI)²⁰. The phenomenon of globalisation could be considered to be the consequence of this technical change and the impact that it had on the cost of transferring goods, services, labour and information and was, moreover, accompanied by a discourse which underlined the benefits of global economic interdependence (Bouzas and French Davis, 2005: 325, 335). In this scenario, governments tend towards the opening up of economies so as to try and take advantage of the opportunities provided by globalisation in terms of commercial expansion and the attracting of capital. The integration processes inspired by this 'new regionalism', or 'open regionalism', were presented as a complementary element to the reforms which would allow countries to gradually become more and more involved on the international stage while at the same time increasing their competitiveness in a vast market.

The set of measures "recommended" by the group of professionals from universities in the United States known as "the Washington Consensus" became a guide for the structural reforms which had as their objective the transformation of the economic growth model in developing countries. These reforms promoted rationalisation and a reduction in the role of the state in the economy, coupled with a greater integration of national economies on the global markets with sights set on a new development pattern whose core values were private investment and an opening up of markets to the world; this was the model adopted by the Latin American economies. The influence of the ideas coming out of Washington was fundamental when the time came to consolidate consensus about the "necessity" for these reforms, but even more so in generating market confidence in those reforms. International institutions became propagators of these ideas (Bouzas and French Davis, 2005: 338).

²⁰ This was different to the end of the '70s phenomena, when the most flow funds were done by banks loans (Gerchunoff y Llach 2003: 437).

It was in this context, that Carlos Menem assumed the presidency of Argentina. He had based his campaign on a populist programme, but then went on to carry out “pro-market” reforms in line with international recommendations thus changing the perception that the private sector had of him during the election campaign²¹. The acute economic crisis had diminished the value of public contracts paid to the large corporations as compared with the previous regime and this had the effect of reducing any possible incentives that those companies could have to defend the status quo. Other areas of business joined them, who were in general in favour of the reforms, and amongst them the export and financial sectors were prominent. The depth of the economic crisis during which Menem assumed power was reflected in the uncertainty which surrounded businessmen when it came to calculating the costs and benefits of the reforms: “not even the managers of the companies are able to predict with any sort of accuracy the capacity for their company to survive” (Ross Schneider, 2005). Added to the contextual restrictions that favoured consensus was the skill of the government to handle rewards and punishment within its own party and to establish a Supreme Court of Justice which was ‘addicted’ to government and avoided any context where interests affected by the reform process could veto or question its actions (Torres, 1998).

The position taken by business organisations was that of the ratification of their global support of the reforms, while at the same time maintaining certain demands which would be compensated by specific government measures (Palermo and Novaro: 167). Simultaneously, persons with strong links to certain groups of businessmen also had a foot in the president’s circle of advisors.²² Also union leaders who were closest to the government at the time maintained strong links to business and showed that they were prepared to abandon traditional Peronist policies, co-opted by the government. This inevitably led to splits between the unions, thus sending a strong signal to the business community (Acuña, 1995). The private sector and foreign lenders took advantage of Menem’s political hability? to neutralise Peronist resistance to the reform process with the aim of accelerating the process of change (Gerchunoff and Torre, 1996: 743). The *movimientismo* nature of the Peronist Party also played a role in favour of this political capital given that, even when reforms to be carried out clashed with the demands of traditional Peronism, confidence in the ‘leader’ of the movement was fundamental in neutralising opposition.

The decision-making process was placed at the very centre of government strategy and was only opened to the international financial community and large local economic groups; simultaneously, various tactics were used so as not to lose social support (state patronage, distribution of posts in public administration, clientelism, neopatrimonialism and other populist practices). The reform process had indeed a double implication for the state: if, on the one hand, an effort was being made to reduce government participation in the economy (‘liberalising’ the market), on the other hand only a strong state could carry out the reforms deemed necessary, imposing them on affected sectors.

²¹ Acuña (1995) mentions the skepticism of a big powerful business men group when Jorge Born told them that they should back Carlos Menem because he had compromised to a big structural reform and to giving the Ministry of Economy to the Bunge&Born group.

²² The appointment of Miguel Roig and, after his death, Néstor Rapanelli, as Ministers of Economics was the most salient expression of the government alliance with the Bunge&Born group, which had given resources to Menem’s electoral campaign. There were also other important business men who became officials, such as Vittorio Orsi (SADE group, as Secretary of Planification in 1991), and liberal advisors such as Pablo Challú in the Secretary of Commerce (UIA and COPAL advisor) who was member of the right’s liberal party (Ucedé). See Acuña (1995).

The **presidential regime** favoured the concentration of decision making in the executive body with emergency and legislative powers (in particular, decrees, the power of veto and the power of legislative initiative) and the taking of decisions related to the opening of markets²³, for which reason sectors which were affected by these moves directed their complaints to the government.

The relationship between the changes which were taking place in the productive structure and the political dynamics into which they were placed was complex. Even though the coalition which supported the Menem government identified itself with large multinational companies, foreign capital and large domestic companies, this relationship was not one of perfect harmony (Torre, 1998). Even though many decisions may be regarded in this light, the pattern which dictated the relationship between the government and the private sector was much more disorderly and subject to circumstances where large amounts of compensation was deemed necessary for various sectors affected by the reforms. Whereas the government intended to concentrate power and close its doors to sectoral pressures, the necessity to negotiate certain compensations so as to be able to make headway with the reform process encouraged the tactic of the individual demands instead of joint positions concerning various policies, amongst them being those which were related to regional integration.

Reforms took place in various spheres, affecting property, the market, finance, prices, trade, modalities of employment, social services and development strategy as a whole. The two fundamental laws which illustrated the determination of the government to enforce and consolidate the reform process which been initiated quietly in the 80's were the economic emergency²⁴ the reform of the state²⁵ laws, their objective being to dismantle the system of "assisted capitalism" which had predominated in the post-war period. When both laws came before Congress, all the private sector associations expressed their support considering them to be "basic instruments of change" "towards the modernization of the country". The commitment shown to liberalization, the opening up of the domestic market and the reduction in the role of the state found in the rural sector one of its strongest pillars of support, even though at this stage it was one without specific demands. As an acknowledgement of this, the post of Sub-secretary of Agriculture was promoted to that of Secretary. This coalition survived and, towards the end of the 90's, the president of the SRA and representatives of other farming organizations even went so far as to meet twice a month with the Minister for Agriculture (Ross Schneider, 2004: 184).

Relations with industry were, on the other hand, less clear: the UIA called for "the prompt and complete approval" of the laws but, at the same time, expressed some reservations about the suspension of the promotion schemes for industry, as a result of

²³ In regional matters, decree 101/85 indicated that the facility of entering into force agreements reached in the context of ALADI relied on the Ministries of Economics and Foreign Affairs; the later decree 415/91 mentioned the delays that these shared facilities had implied, concentrating the facility now in the Sub Secretary of Industry and Trade of the Ministry of Economics.

²⁴ It suspended industry, regional and export promotion regimes in order to disarticulate state economy planification. The most salient exceptions were the car industry, mining and forestry (López, 2006: 187). It also suspended preferences to local goods in public purchases, privileged salaries schemes and it allowed the laying off of public employees).

²⁵ It fixed the legal framework for the privatisation of state firms, including those in the communications sector, aviation, trains, iron and steel, petrochemical sector, roads and ports.

which a number of sectors suffered negative effects to their production. When Domingo Cavallo came to office as Minister for Economics in 1991, he intended to show the firmness with which his economic team would move the reforms forward and, to a certain extent he achieved this - the 'group of 8'²⁶ considered him to be "difficult to access" (Viguera, 1997: 144). However, the figure of Cavallo was also associated with various important businessmen. Teichman notes, for example, that the Minister received a large monthly salary from the *Fundación Mediterránea*, a liberal-leaning group set up by large business. So it can be said that the distance which the Minister placed between himself and business organizations did not negatively affect the close ties with big business.

As a consequence, the strategy adopted by the UIA was that of "give support to the reforms in order to negotiate", taking up a position which was favourable to the changes proposed and this then allowed the organization to maintain an open dialogue with the government in order to have certain demands heard (Acuña, 1995). The continued acceptance of this model on the part of the industrial sector can be explained, in general terms, by three factors which were connected with that very process of reforms. Firstly, trade liberalization would produce the contradictory effects already mentioned of presenting to business a new challenge in terms of competitiveness, but, at the same time, allowing for the free importation of goods, machinery and technology; this would generate a certain ambiguity in the position of support or rejection on the part of private sector representatives. Secondly, the pegging of the currency to the dollar which was introduced in 1991²⁷ meant that, in 1992, a large portion of the business sector was deeply indebted in dollars; so any change which hinted at devaluation as an alternative was, therefore, profoundly undesirable. As Bisang (1996) noted, the dollar loans taken out by the main economic groups in the country were 'best ally' for convertibility. Lastly, the privatizations which were carried out between 1991 and 1992 had the effect of increasing the number of investment opportunities and the multisectorial nature of the large economic groups, something which undoubtedly influenced their economic and political strategies. In that way, the simultaneous nature of the reform process allowed the government to negotiate on a multisectorial basis with the largest economic groups, in such a way that they were compensated for losses in one area (for example, trade liberalization) with benefits in another (privatizations), thus ensuring the support of the private sector (Gerchunoff and Torre, 1996: 743; Viguera, 2003).

In nearly all the privatizations that were carried out, large national groups took part in association with foreign players. Some transnational companies even failed in their bid to take over local public companies as they were not associated with any local group, indicating the importance that being closer to 'local knowledge' can have. The largest privatizations carried out (telephone, oil, electricity, airlines, water, gas) all followed the same pattern: a foreign company, with experience in the area to be privatized, approached the government as a responsible operator, associated itself with foreign banks (which provided the necessary capital) and local groups (which contributed "the

²⁶ The following business associations were in the Group of 8: SRA, UIA, *Confederaciones Rurales Argentinas* (rural sector), *Asociación de Bancos Argentinos*, *Asociación de Bancos de la República Argentina* (banks associations), *Cámara de la Construcción* (construction chamber) and *Bolsa de Comercio de Buenos Aires* (trade association).

²⁷ Consisting of an exchange rate pegged to the dollar and the commitment of the Central Bank to maintain foreign currency reserves necessary to buy the whole monetary base at the fixed exchange rate, which was one *peso argentino* to the dollar.

knowledge” on the ground and their own capital) (Schvarzer in Bustos, 1998: 152). In this sense, the later charges of corruption, which involved various members of the government, related to the privatizations are revealing.

In benefiting these large conglomerates, the government managed to cause a division within the private sector, resulting in the marginalization of small-to-medium-sized businesses (Teichman). In this context, once again we see the characteristic difficulties of presenting a united front within the UIA since it included, under the one banner, those large local groups which benefited from the reforms, or at least preferred them to the idea of a new crisis, which was still seen as a possibility- and also those sectors which experienced difficulties in relation to foreign competition (textiles, electronic goods, spare parts, etc.) because of the opening up of the domestic market and the unfavourable rate of exchange, all the while depending on the ability and disposition of the UIA to present their demands.

A specific set of elements shaped a pattern of relations which would characterize in particular the trade liberalization policy and affect, simultaneously, the first years of regional integration: in the private sector, the ambiguous strategy adopted by the UIA and, on the government side, a strategy which would give priority to a policy of *fait accompli* (remaining firm in their decisions, such as the opening of internal markets), but which would cede to specific demands from the private sector, giving incentive to individual cases as opposed to joint positions. The criteria used by the government to define in front of which sectors demands would cede did not appear to follow a pattern which was determined just by economic criteria (which could be a situation of weakness of a sector faced with competition), but also according to the influence of certain firms (or, to put another way, their directors) in certain government officials.

In the context of reform and unilateral trade liberalization, regional and multilateral commitments were used as instruments for the consolidation of unilaterally applied reforms (Bouzas and Ffench-Davis, 2005: 328). Following on the experience of the 80's, Argentina and Brazil agreed on the Buenos Aires Act in July 1990, and the Economic Complementation Agreement (ECA) No. 14 within the framework of ALADI (the Latin American Integration Association) in December of the same year, the two of these being the instrumental basis for the process of integration which started with the Treaty of Asunción. This last Treaty was signed in 1991 by Argentina, Brazil, Paraguay and Uruguay with the aim of forming a common market by 1995 which would include: the free movement of goods, services, and labour between the signatory countries through, amongst other things, the elimination of customs duties and non-tariff restrictions; a common external tariff and a shared trade policy with relation to third states or groups of states; the coordination of positions in regional and international economic forums; the coordination of macroeconomic and sectorial policies for foreign trade, agriculture, industry, fiscal matters, monetary matters, exchange rates, services, customs, transport and communications, amongst others and the commitment of the signatory states to harmonize legislation in the relevant areas.²⁸ So that these objectives could be reached, a programme of automatic progressive tax reduction on the majority

²⁸ Treaty of Asunción, Art. 1.

of goods was envisaged, while taking into account exceptions created in previous accords but, at the same time, aiming at the gradual reduction of these exceptions.²⁹ The Treaty of Asunción envisaged a basic institutional structure made up of a Common Market Council which would strive to give political direction (to be made up of the Ministers for Foreign Affairs and the Ministers for Economics of the member states, with a rotational presidency) and a Common Market Group as an executive body (consisting of members of the Ministries of Foreign Affairs, Economics and central banks), which would create Working Subgroups which could “bring together, when thought necessary, representatives of other public administration bodies and the private sector”.³⁰ Finally, the Group would have an Administrative Secretariat with offices in Montevideo.

The Working Subgroups were the only formal sphere in which business could participate in the institutions, they being recognized as possessing technical knowledge above and beyond that of the state (Mellado, 2004, p.50). Seeing as the Treaty of Asunción also envisaged sectorial agreements, forty-one sectorial organizations started to meet in 1992. At the outset, the governments encouraged those meetings (during which a metallurgical agreement was signed), but they were later suspended as it was considered that they were placing obstacles in the way of trade liberalization. In 1993, the Industrial Council of Mercosur was created and was made up of industrial organizations from the four signatory countries³¹. However, this body did not manage to achieve a proper representation of the positions held by business in the individual countries and business organizations continued to place emphasis on pressure aimed directly at their respective national governments, rather than on those new regional forums (Klein: 178-9).

Private/public dynamics in the integration process

The role and the positions held by the private sector in the face of the integration process can not be understood in isolation from the context of structural reforms and the very political dynamics in which they took place, given that this set of events affected the perspective of the business community. As can be seen, the attempted adoption by the government of a firm attitude with respect to the private sector was also shown in foreign policy matters: in terms of the opening up of domestic markets, for example, Minister Cavallo indicated that this process was being done “so that competition would be introduced into monopolistic markets and thus price fixing on the part of some companies would be averted”.³²

Most of the literature available on the integration project relates that it was brought about exclusively through the initiative of the governments, without any significant business sector participation in the initial period. In fact, the announcement was made in the middle of a turbulent period following on two bouts of hyperinflation and the start of the privatization process. The representative associations of the private sector were

²⁹ The ECA No. 14 allowed countries to select up to 300 goods excepted of the progressive liberalisation. Argentina selected a list which included all types of sugar, some of coffee, iron and steel products, audio and video products, textiles, paper and footwear. ECA No. 14, Anex III.

³⁰ Treaty of Asunción, Art. 14.

³¹ The UIA, the Brazilian *Confederação Nacional da Indústria*, the *Cámara de Industria de Uruguay* and the *Unión Industrial Paraguaya*. Meetings would be held on a regular basis just in 1994.

³² Viguera (1988).

preoccupied with other matters at the time when the UIA, the SRA and other associations were informed about the decision to work towards a customs union with Brazil. Added to this was the lack of credibility that the private sector felt decisions such as these had. According to government officials at the time, the various sectors attempted to negotiate the timetable of trade liberalization, requesting that the reduction of tariffs on each product be put back as long as possible; they were not considering, however, buying time so as to improve competitiveness, but rather they believed that this liberalization would never be implemented. Even though the UIA was nearly completely marginalized and did not have institutionalized channels of consultation with government negotiators, individual consultations with businessmen did actually take place (Ross Schneider, 2004: 226).

The UIA made public its doubts concerning the reduction of tariffs in the context of 'high costs' - here, the low rate of exchange in Argentina, salary costs and energy costs were central to the argument (Klein: 200). However, the organization went out of its way to make it known that it did not oppose the process altogether but, rather, considered it to be a step backwards in the negative exchange relationship with the Brazilian currency (Viguera, 1997: 173). In fact, the then president of the organization, Gilberto Montagna, belonged to the foodstuffs sector and, for him, the deepening of the process was a way to extend the range of products favoured by that particular regime: the organization which he represented, COPAL, was in favour of the opening up of markets so that there would be a decrease in the price of packaging, glass, and aluminium products, thus ensuring them greater competitiveness (Campbell: 130).³³

Mercosur, however, not only meant trade liberalization, but also a certain level of protection which would be given in a customs union in the framework of unilateral liberalization. The automotive industry was the greatest beneficiary of the process because the companies were able, on the one hand, to maintain a protected sector and, on the other, enjoy the benefits of an agreement negotiated in the framework of the integration process. Right from the first attempt at the liberalization, to a certain extent, of the importation of products in that industry, the reaction in opposition to the measures by the car firms, centred in the *Asociación de Fábricas de Automotores de Argentina* (ADEFA), directed by Francisco Macri and Livio Kühl, was immediate and was backed by the car industry unions. The joint lobbying was successful and, since that time, whenever a move has been made on the automobile industry, those within the industry have defended their special regime to the letter.

Thus, while some companies which produced mass consumer goods and which could benefit from economics of scale (such as is the case in the food industry³⁴) looked favourably on the process, for others the prospect of a customs union brought the possibility of improved protection from international competitors, as happened in the textile sector and automobile industry when faced with the threat of Asian competition (Hirst, 1994: 9); others would be affected negatively by the combination of both policies. For this reason, as the policies continued to have an effect on importations to and exports from Mercosur, this topic became more and more important in the business/government relationship in terms of foreign trade.

³³ As it will be seen, not even the position of whole food sector was homogeneous: sugar sub sector asked for exceptions not only for sugar but also of those products which used sugar as a raw material (Campbell: 130).

³⁴ The most salient firms in this sector were, in the '90s, Arcor, Bunge & Born, Cartellone.

As the integration process was rolled out, many small to medium size businesses in the industrial sector were negatively affected (Hirst, 1994), and the UIA found its own limits in representing this faction, mainly because it also represented the second sector which was mostly made up of large national and international companies and economic groups who benefited from the reform process taken place as a whole. In this way, what was seen in the organization as a positive representation of the strongest groups within the body at the expense of “peripheral” businesses (Mellado, 2004:66), had its impact in the position that the organization adopted with respect to regional integration.

The strategy adopted by the government was basically in line with that which was used with respect to general reforms and acknowledged the problem of representation that the UIA itself faced: antidumping measures or compensatory duties could be used to look after the interest of the sectors affected which had closer contacts with the government without putting the march of reforms or stability at risk. That was the feature of the dynamic unilateral trade liberalization policy into which the process of integration was included. This was the same logic followed in the actions of business with respect to the integration process: more than half of the investigations open into antidumping reports between 1991 and 1994 concerned products of Brazilian origin (Ablin and Lacángeli).

Faced with a cabinet which seemed set on the opening up of the market, as we said, the leeway for action afforded to the business sector was reduced to the importance of avoiding confrontation so as to be able, if necessary, to request antidumping measures and look for the repositioning of their products within the new tariff structures, a situation which resulted from both a unilateral lowering of trade barriers and within the framework of the integration process. For this reason, the UIA stated that the reform tendency of the plan was acceptable, but allowed itself to express specific sectorial protests also. The indecision which existed between the caution and opposition within the sector deepened internal differences and contributed to a realignment about the opening up of the market which was already underway: now, there was not an opposition between the MIA and the MIN (as it was traditionally the case), but between the agricultural sector and others. As previously mentioned, the differences between the latter two had become more widespread, now that the powerful COPAL, which favoured liberalisation, was within the MIA but it there encountered metallurgical and textile groups which were traditionally in favour of the protectionism (Viguera, 1997:58). Under the presidency of Gilberto Montagna, starting in 1989, the more ‘liberal’ sectors of the organisation were to the fore³⁵, but these were replaced in 1991 by a new group which was called the *Paulistas* – with reference to the fact that they were trying to replicate the influences exercised by their peers in industry in Sao Paolo (Brazil). It was conformed by the MIN, certain chambers and associations of significance in the industrial sector such as the metallurgical (ADIMRA) and the so-called ‘Exporters Club’, an informal alliance of large companies like Techint (iron and steel³⁶), Acindar (iron and steel), P.A.S.A. (the petrochemical arm of the Perez

³⁵ Montagna had been a ‘captain of industry’ leader and UIA president, who sold his industrial food firm, Terrabusi, in 1994 and concentrated his activities in the agricultural sector. It is important to note that the selling off of Terrabusi later produced accusations and even fines for Montagna because of the carrying out of stock market operations with privileged information (Sentence available in <http://www.cnv.gov.ar/ResDisciplinarias/ResFinales/CorteSupremaTerrabusi.htm>).

³⁶ Mostly, but also engineering services, equipments and industrial machines. During the ’90 it expanded its activities to oil and gas sectors.

Companc group), Massuh (paper), Alpargatas (clothing and footwear) and Aluar Aluminium, to name a few.

From an overall perspective, a more inflexible approach was taken by the government with respect to the opening of the market and sectorial demands until the end of 1992. Appeals for antidumping measures were either put on hold or rejected outright, such as in the cases of Hisisa (textiles), Beaumont and Dio (car spares), a group which subsequently went bankrupt, and Indupa (petrochemical). Furthermore, the government made use of a system of incentives and punishment –taking the form of the denying of credits or the threat of tax inspections- to exert direct pressure on businessmen who insisted on their appeals against the lowering of trade barriers. There were, however, exceptions which resulted from the combination of close contacts big business had with the government and another form of reform measure: privatisation. The SOMISA (iron and steel) case stands out in this sense: antidumping investigations were started to ensure that the value of iron and steel did not fall before its privatisation; this decision being a result of the pressure exerted by Techint and the sale of SOMISA (which was taken over by the former).

The complexity of the relations between the interests of the economic sectors and state agents was to be seen in the imperative nature of macro stability. In order to keep the trade deficit under control, Minister Cavallo was forced to introduce benefits for exporters and even to set limits on imports in such a way that he gave in to certain pressures. Between the end of 1992 and 1993, revisions of the trade liberalisation were carried out which set about fixing new parameters, including a new structure of tariffs, the fixing of quotas and specific rights to certain sectors and quick and positive responses to specific antidumping complaints.

The sectoral associations increased the number of the complaints that they were making concerning dumping and of their demands for quotas from the Secretary for Industry and Foreign Trade. The first decision taken by the government was that to impose quotas on paper, a measure related to the fact that a bank, Citicorp Equity Investments, had just taken over in the privatisation rounds a factory making cellulose paste, Papelera Alto Paraná, whose shareholders were all paper companies, and the sector requested protection to make it profitable. It is interesting that the very same corporation was charged with laundering money in 2001 when their fraudulent operations came to light, along with the close ties that they maintained with Menem's government.

After that first exception being made to the lowering of barriers, there was a veritable rush of complaints and demands, with the attendant pressure, to the Secretary of Industry requesting similar treatment. Many of those measures adopted in 1993 were in response to the submissions made by the largest companies in each sector: Indupa (petrochemical); Ipako and PASA (petrochemical); Electroclor (petrochemical); Acindar (iron and steel); Propulsora Siderúrgica; Siderca (of the Techint group); Alpargatas (clothes and footwear); Gatic (clothes and sports shoes); they often worked together in an intense lobby on the part of the larger companies³⁷. Those last dispositions were granted between July and December of 1993 favouring, then, those sectors and responding to intense lobbying. Strictly speaking, the fact that they were the

³⁷ Many of these measures were discussed with businessmen of economic groups within the affected sectors, such as Sergio Einaudi (Techint), Patricio Zavalía Lagos (Alpargatas), Rubén Puentedura (PASA Petroquímica Argentina S. A.) and Héctor Massuh (Viguera, 1997: 163).

largest companies of each sector should not mean that they automatically had the ear of the government with the privileges included. However, indicators to that close relationship with the government were important. There were some cases which were emblematic in terms of the personal relations between certain big businessmen and the president or the minister for Economics with the aim of getting some ad hoc measure approved: the previously mentioned case of paper, the exclusive rights to the textile sector and sports shoes (where the winners were Alpargatas and Gatic³⁸) and the so-called 'Arcor decree' which increased the duty on chocolate imports³⁹ (Viguera, 1997: 164). As can be seen, the requests for protection did not strictly come from the weaker sections, and nor did they come alone from those who have been traditionally protectionist: another landmark case took place with the Cargill lawsuit on the importation of bird meat from Brazil, Cargill being a company which had not stood against liberalisation and that was a member of the ultraliberal *Consejo Empresario Argentino*.⁴⁰

So there was much accommodation of individual demands in the model, and the predominant element was the benefits achieved by the large groups through the privatisation rounds and a selective increase in protection in certain sectors. That was the *modus vivendi* which allowed for something of balance in the relationship between the government and businessmen, which combined a struggle in defence of sectorial interests with the acceptance that those demands must be compatible with the stability of the macroeconomic variables (Viguera, 1997). The hard line that the government had wished to show had the effect of limiting the behaviour of the economic agents, which made an effort to avoid collective acts which were of a confrontational nature; in a parallel manner, however, the exceptions which were introduced in to the desired firmness only served to reinforce the informality of the relationship and discretionary power which had resulted in specific concessions made through individual negotiation channels. One of the results of this was the fact that the weakest sectors affected were unable to find institutionalised channels through which they could communicate their positions and concerns on the negotiations related to foreign policy, while those in a better position and with better lobbying capabilities were compensated for the negative effects of the lifting of trade barriers through specific mechanisms. Even if demands made to the Secretary for Industry can be considered 'legal' channels, the resolution of those applications had more to do with the companies' or sectors' lobbying power⁴¹.

An approach by sector

The summarising of these dynamics in a description by industrial sectors may be of use in an attempt to identify those situations in which the traditional closeness of the private sector to the government may express itself in a variable that should be taken into account in an attempt to understand compensation obtained in relation to regional integration. This description does not try to be an exhaustive one, actually it rather

³⁸ Gatic had close links with the government, as shown –as it will be seen– by the large debt the firm accumulated during the '90s, including loans of the Banco Nación. Alfredo Zaiat, "Deudores", *Página 12*, 28/06/1998.

³⁹ The firm was a founding member and main contributor to the Fundación Mediterránea which, as said, paid a large monthly salary to Minister Cavallo.

⁴⁰ This was not the only case of contrasting attitudes with 'ideology' of the firm. Also other firms took part in the 'Consejo' without having the liberal attitudes expected: Acindar, for example, lobbied for protection to the iron and steel industry.

⁴¹ About spaces available to discretionary decisions in antidumping investigations, see Delgado (1997).

concentrates on just a few sectors, but it does give an indication of the results of the public / private dynamics which characterised the years of reform and regional integration.

The **iron and steel industry**, highly concentrated as it is (controlled by Acindar and Techint) was one of the cases where privatisation played a central role in the silencing of views which may have come out of the UIA in opposition to the bilateral opening up of markets while, at the same time, a Sectorial Agreement was being negotiated within Mercosur (reached in March 1992). This agreement included the concept that, once the costs of production were equalled in both countries, there would be possibilities for an interregional specialisation which should be explored by both countries. Those companies combined, therefore, the gradualism with which the list of exceptions was being reduced and the advantages presented in the sectorial agreement (Hirst, 1994: 20). Later, iron and steel products would make up around half of the positions included in the 'Final Adjustment Regime of the Customs Union' (positions which would adapt to the common market gradually) which was approved in 1994 and constituted the second largest (in the number of positions held) number of exceptions to the common external tariff.

In the case of the **petrochemical** industry, at the same time that the large corporations were making demands for protection, all the analysis available reveal their efforts to reach what were basically cartel agreements in the marketplace: voluntary restrictions placed on product placement, complementing varieties of the same product produced by different companies. Those negotiations resulted in a sectoral complementary agreement which was almost exclusively negotiated by the private sector but which was not ratified at an official level. The company which played the leading role in these negotiations was the aforementioned PASA (López and Porta, 1994) which, it is worth remembering, belonged to the Pérez Companc group, one of the most active participants in the privatisation process.⁴²

The **paper and cellulose** sector, as has been mentioned before, was concentrated in a limited number of companies which maintained traditional relations with the government.⁴³ The entrance of an important financial corporation with close contacts to the government also influenced the protection afforded. The government suggested an inter-business agreement with the Brazilian private sector, but this did not bear fruit in the end (Hirst 1994: 22); instead, as was seen, the sector managed to achieve the temporary application of safeguard clauses and the initiation of antidumping investigations. In 1994, a number of products from this sector were included both on the list of goods favoured by an exception to the common external duty and in the Final Adjustment Regime to the Customs Union.

In the case of **textiles** and **sports shoes**, as has been described, the positive responses to the complaints of dumping were related to the pressure exerted by traditional companies such as Alpargatas and those connected in what may be described as a dubious way to the government, like Gatic; this is shown by the enormous debt that it was allowed to

⁴² To the end of the '90s, this group, as quite a few others, sold many of its firms to concentrate activities in primary products, in this case, oil. David Cufre, "Dueño de un cuarto del apagón", *Página 12*, 28/02/1999.

⁴³ The five leader firms in this sector were Celulosa Argentina, Massuh, Papel Prensa, Papel de Tucumán and Alto Paraná.

run up with a number of banks, among which was *Banco Nación*, all of which ended in a creditors meeting.⁴⁴ Sports shoes and some clothing products (coinciding with those produced by Alpargatas) were also included in the Adjustment Regime in 1994, at the same time that it was agreed that those items would be subject to a specific clause, until a common policy was decided on for imports in the sector, each country applying its own measures for imports from third countries, but not on intraregional trade.⁴⁵

The **automotive** regime⁴⁶ is one which has been remarked upon by various authors as a result of pressure placed by individual companies with close links to the government. In fact, neither the studies on the economic strategies of the companies overlook the varying capacity to penetrate the institutional and political apparatus of the country, which brought many benefits for the sector. Bisang, Burachik and Katz (1995: 298-299) remark on this as one element which assisted in the growth of Sevel, a company which showed the greatest dynamism and penetration capacity in the market amongst all the automotive manufacturers. An indication of its close links to the government is that the company (which at that time had as its majority shareholder the Macri Group) was later accused of tax evasion but the case was dismissed by Judge Julio Nazareno of the Supreme Court who, in 2003 was put on trial for, amongst others, irregularities in this case.⁴⁷ Meanwhile, however, the makers of car spare parts have been seen to be at a disadvantage in terms of 'political' resources.⁴⁸

In contrast, the processed **food** sector, with a diversified structure in which small and medium domestic companies operate, as well as larger national and transnational companies, has been affected in different ways. Depending on its size and activity (if export orientation or directed to the internal market), integration had various effects, but in general the vision of the sector with respect to integration was positive, given that the size of Brazilian market for mass consumer products and the existence of areas of consumption for products with a higher level of elaboration and a higher price stimulated investment at a regional level and intra firm trade, especially in the cases of transnational companies (Chudnovsky and Porta in Bustos).

The final industrial sub-sector was closely linked to the **agricultural sector** whose interests, as has been seen, were in general aligned with the reforms adopted by

⁴⁴ Alfredo Zaiat, "Deudores", *Página 12*, 28/06/1998. It and other firms benefited from promotional incentives in the President's home province (La Rioja). Maximiliano Montenegro, "Sólo para amigos de la Rosada", *Página 12*, 17/11/1998.

⁴⁵ Since 1993 import duties were imposed on those products coming from third countries. Afterwards, in 1999, Argentina would introduce a 'transitional safeguard' on some importations from Brasil, Pakistán and China and the Textiles Monitoring Body (TMB) dictated that the measure was not justified in the case of the first two countries. Following on demands from Brazil -lodged also at the Mercosur Trade Commission - Argentina dropped the safeguard (Ablin y Lucángeli).

⁴⁶ The automotive regime was established in 1991 and consisted in an import - export compensation mechanism.

⁴⁷ His dismissal was sought following his rejection of an appeal against his ruling on the Sevel case where they were accused of tax evasion in the importation of cars. He was accused of having obstructed the work of a judge in the town of Concepción del Uruguay who was investigating the case, having caused losses to the state, unjustifiable delay (2 years and 3 months) giving judgment and forcing the principle of *rez judicata* to favor an economic entity.

⁴⁸ Hirst indicates that businessmen in the spare parts sector complained about the inefficiency of the Consultative Council of the Automobile Industry -integrated by government officials, business men and unions leaders- to represent their interests.

the government, even if some exceptions existed in areas such as taxation. According to Manzetti (1992: 615), to offset the disadvantage suffered by the sector because of the low exchange rate in the 90's, the government of Carlos Menem decided in favour of agricultural interests and gave incentives for agricultural exports to Brazil, in the context of Mercosur and, in the case of the United States and Europe, participated in intense negotiations arguing against subsidies given by these two to their agricultural sector. As far as the process of regional integration is concerned, although it was not an objective that these interests actively promoted, it is important to point out that neither did he go against them; in fact, in the period 1991-1993 products originating in the agricultural sector were the leaders in Argentine exports to Brazil. The massive support of organizations from this sector for Mercosur can therefore be interpreted in this way and it does not appear contradictory, with the exception of some producers who considered themselves adversely affected at specific moments, such as the aforementioned case of the importation of poultry meat from Brazil.

The only case of permanent conflict here was in the sugar sector which had been protected from the very beginning of the integration process because of the different productivity scenarios and conditions in which sugar is produced (even today) in Argentina and in Brazil. In Argentina, production is principally found in three provinces (Tucumán, Salta and Jujuy) and in these places it represents the base of the regional economy and has consistently opposed the liberalization of the sector. Here, there has been a combination of pressure exerted by companies, provincial representatives and unions, although some studies report that the unions only "accompanied" the pressure placed by the companies, who have a long tradition of contacts with their provincial representatives (Medwid, 2007). An exception was made for the product since ECA No.14 and later it received a special regime which maintains it outside of the integration process. Decree 797/92 set out a flexible rights regime which complemented the ad valorem duty of 23% and, in 1994, the special sugar regime was established and an ad hoc group which worked on its future liberalization, which was systematically postponed at various junctures. It is worth remembering that Jorge Horacio Zorreguieta, president of the *Centro Azucarero Argentino* (founded in 1894), presided over the Mercosur department of the UIA and later the Trade and International Negotiations department.

Conclusions

As can be seen from the previous description, a number of industrial sectors in which there were companies with strong links to the government obtained compensation for the opening up of the domestic market which was a result of both the regional integration process and structural reforms in general. Far from boosting the process, those actors used the position they held near to the government to their own benefit, or at least not to be too adversely affected. Meanwhile, the government used that same proximity to hand out compensation in exchange for compliance with the process. The compensation distributed out took different forms and in many cases was just a "second best" when faced with reforms decided upon. Because of this, in the first few years, it was not easy to find in the industrial sector as a whole firm backing for the integration process.

One would naturally expect this backing from the agricultural sector, but at the beginning it did not actively come out in favour of regional integration. More interested in third markets, it was not an enthusiastic supporter of Mercosur at the start, even when it was later to receive very good results in terms of exports and the attraction of investment.

Why then was the process carried out if it was difficult to find private backers at the start of the 90's? As was mentioned before, it was a government decision which, in fact, had little effect in 1991. This usually takes authors to the other extreme: focussing analysis of the process on government decisions. But the manner in which the decision was adopted does not imply that the government attempted to implement this foreign policy in an isolated manner with respect to certain pressures. Because of this, the objective of this work has been to understand the dynamics that existed between the public and private sectors during the period of transition to a customs union, a time in which the negotiations of various sectors came together in an attempt to achieve a favourable position in the new regime.

These dynamics, even if they acquire particular characteristics which every context produces, can be explained at least in part by elements which have historically affected relations between the private sectors and governments. In the 90's the 'particularist' pattern which the relationship between the government and the private sector took on faced with structural reforms, especially trade liberalization, was also seen in relation to the Mercosur: "the large companies are the ones who are at the front of the lobbying queue, and the ones who never fail to include the topic in meetings with Minister Cavallo" (Viguera, 1997: 172). The ambiguous action of the UIA contributed to an increase in focussed complaints as the predominant strategy and the more frequently used resource of the antidumping rights was evidence of fragmentation, because of which the diverse interests presented their complaints directly to the institutions of state to 'save' their own sector instead of forming a common front with other affected sectors.

This pattern was nothing more than the result of a combination of elements which had historically characterized relations between the private sector and government in the context of economic reforms within the process of integration. Firstly, the traditional **heterogeneity of economic interests** within the industrial sector was maintained and deepened in this context in which the interests of certain groups benefited from the reforms while others, to a high level of divergence, were affected negatively -in general small to medium size businesses with greater difficulties in facing foreign competition. Those groups with strong contacts with the government were able to extract benefits, firstly, participating in privatizations or counting on a stable economic environment and access to credit and, secondly, by receiving exceptions to the lowering of generalized tariffs.

As happened historically, the **political parties** did not play a determining role in the representation of interests and, in fact, it was a period which saw a weakness of opposition and was marked by a clear co-opting of the traditional basis of the Peronist party (especially unions). The informality of the party and the *movimientismo* **political culture** had a facilitating effect on this cooption, and this is of fundamental importance when comes to understanding the lack of mobilization of its own bases when faced with policies contrary to those which it traditionally held.

The **presidential regime**, as was mentioned, favoured the concentration of decision making in the executive body and, therefore, it was there that business directed its complaints. It is probable that the combination of specific complaints and the concentration of decision making in the executive body facilitated *ad hoc* arrangements which were made as the reform process took place. It is worth pointing out, moreover, from a general point of view that the “Washington Consensus” was prone to exacerbate the power of presidents in an effort to avoid obstacles as social resistance to privatizations, trade liberalizations and deregulation.⁴⁹

This work has analysed the way in which those elements and the context of reforms combined, considering that they produce an explanation which is more complete than those based just on economic factors to explain the dynamics of the public/private relationship. The type of relation that exists between these two spheres could have serious consequences both for the representation of interests and democracy itself. In the first case, it could be said in synthesis that the influence that those groups near to the government have in the directing of the UIA -which has historically been in the hands of the main local groups- silenced the opposition which could have come from that body as a representative of the industrial sector as a whole, which expressed itself in an individualistic and not in an institutionalized manner. Parallel to the messages of the UIA, which supported the reforms in general, each sector or business tried to achieve their own level of protection, illustrating the fragmentation of action of the private sector and the difficulties of representing its interests in a combination of strategies which, endorsed by the government, resulted in the establishment of the exceptions at a regional level at the same time as the open market policy was being extended.

The result of this was that the weakest affected sectors could not find institutional channels by which to communicate effectively their positions and concerns about foreign policy negotiations, while those best positioned and with the greatest lobbying power compensated the negative effects of trade liberalization through specific mechanisms. Even if the applications presented to the Industry Secretary passed through ‘legal’ channels, the resolution of these can be seen to be related to the lobbying power of certain companies. The quantity of reports of corruption and laundering of money during the government of Carlos Menem does nothing more than confirm the close relations that existed between certain business people and government officials. The lack of clear regulations or, even worse, that the regulation was based on personal contacts, could bring into question the very basis of democracy.

As far as the regional integration process is concerned, in December of 1994 the leaders of the four Mercosur countries came together in Ouro Preto and decided to put into effect the plan for a customs union. A common external tariff agreement was signed and exceptions to this (decision 22/94) were listed as well as a Final Adjustment Regime for the Customs Union (decision 24/94).⁵⁰ As stated above, many of the products included

⁴⁹ José Natanson, “Superpoderes y decretos en América Latina”, *Página 12*, 09/07/2008. An exception to this concentration would be the sugar case in 1997: although the executive power had resources to concentrate power, the Congress imposed its decision of excepted this sector from the integration process.

⁵⁰ In Ouro Preto it was also decided, among other things, to create the Economic and Social Consultative Forum, which would represent “economic and social actors” on a consultative basis. The idea of this Forum was to involve different actors in the process, such as unions, cooperatives and small and medium sized enterprises (Mellado, 2006: 45) but the founding entities, at least from Argentina, were in fact the

in these mechanisms correspond to sectors analysed herein: in some way, the ending of the study was chosen as a crystallization of the negotiations which took place in the transition period.

It should be stated that there is not expected here to find a simple causal link between pressure exerted and its results. In fact, if that was so, it would not be possible to explain the changes that can be seen today in the principal groups mentioned in this work (which have swung from successful expansion to changes in their activities or the sale of their stock to foreign companies). What was sought here was an understanding of the complexity of the political process in which the actions of businessmen and government officials take place with relation to regional integration. It could be said that governmental strategy was successful when it came to overcoming opposition. The compensations handed out to certain members of the business community managed to subdue the opposition which may have arose, in particular, the small to medium size businesses and also small agricultural producers. In this sense the ambiguous stance of the UIA was functional in terms of government strategy. However, if the policy of responding to individual demands avoided the formation of a strong coalition which would have stopped the process, it was anything but an incentive for a more articulate representation of the interests with strategic vision (instead of a tactical one) of the process.

I In this way, during the reform process the fragmentation of industry in structural terms was accompanied by a deepening of its traditional difficulties to represent all of its various components. Given the plurality of positions when faced with the integration process, the discretionary nature of the way that some compensation was managed shows once more the deep-seated lack of interest in establishing clear rules, a precedent to be taken into account, for example, when the possibility of strengthening regional institutions is brought up.

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