

Southern Cone Liberalization: A Skeptical Refutation of the Hyperglobalist Thesis

The end of the Cold War removed a Soviet communist ideology that for several decades had countered western conceptions of development. This ushered in a new era in which, initially, a relatively wide consensus emerged (even in post communist states) favoring free and open market development both within countries and between them. Globalization, or the increase of “networks of interdependence at multicontinental distances” has come to embody this consensus and defines the greater levels of enmeshment amongst countries and regions of the world (Keohane & Nye, 2000). Key to the process of globalization, for Held, McGrew, Goldblatt and Perraton (1999), is its restructuring of power relations (p. 28). They delineate between the two opposing theoretical approaches of hyperglobalizers and skeptics, which both seek to address the question of the impact, if any, of globalization and its power restructuring (Held et al., 1999, p. 2). A key issue for both paradigms is whether domestic changes in states are due to exogenous or endogenous factors. In other words, they assess the question of whether globalization is externally imposing neoliberal changes within states or whether domestic factors are driving current modes of neoliberal restructuring. Chile and Argentina are two countries in the Southern Cone of South America that present a good opportunity to test the effects of globalization and the theses of the hyperglobalist and skeptic schools. This paper will analyze these two countries in the era of globalization with a particular focus on domestic economic liberalization and regional integration. Ultimately, the cases of Chile and Argentina confirm a more skeptical view of globalization as neoliberal domestic and international policy shifts were determined largely by internal and less by external pressures.

Literature Review

The ideology of neoliberalism, often seen as the paradigm guiding globalization, emerged within the U.S. following the collapse of the “uneasy alliance” between Keynesians and liberal internationalists which had emerged after World War II (Rupert, 2000, p. 45). Ruggie (1994) attributes the term “embedded liberalism” to this pre-neoliberal period to convey the social compact as being one between labor and capital where free trade was emphasized, but within a system that permitted state intervention and full employment policies (p. 2-3). Furthermore, this “Fordist” alliance tended to exclude the interests of international bankers and the Wall Street lobby as it was critical of capital mobility and favored its regulation by the state (Rupert, 2000, p. 44). Private capital flows were relatively low and highly restricted under this Bretton Woods system, but this shifted in the 1960’s and 1970’s leading to a “dramatic expansion...in the extensity and intensity of global financial flows and networks” (Held et al., 1999, 200-1). This shift in favor of capital undermined the “corporate-liberal” alliance which had reigned under the Keynesian system towards what Rupert (2000) terms “laissez-faire fundamentalism” (p. 44-5). The emerging neoliberal paradigm was somewhat similar to the Keynesian alliance as both favored privatization and a more open international economy, but they greatly differed on the terms of such openness (Rupert, 2000, p. 49).

Some of the differences between the two paradigms stem from their theoretical assumptions. Neoliberal economics, for example, rejected the Keynesian acknowledgment of

market failure and its resulting remedy of state intervention, instead arguing that a single economic model could apply everywhere and in every situation (Gilpin 2001, p. 310-11). Neoliberals thus opposed state intervention as they see the market as “self-regulating and self-correcting” with its occasional disruptions better addressed by the market itself which operates to restore the system to equilibrium (Gilpin, 2001, p. 54-5). In looking at problems in developing countries, Keynesian models would recognize market failures and thus permit state intervention, but neoliberal models would be prone to address problems in developing countries as being singularly governmental with the optimum remedy being a sidelining of the state and an opening of markets (Gilpin, 2001, p. 312). Neoliberalism, in rejecting any form of state intervention, even goes further than the neo-classical economics of Adam Smith. Irwin (1991), after all, argues that Smith had accepted some intervention through protective tariffs as a means to encourage industries essential for national defense and to balance against the domestic taxation of domestically produced goods (p. 202).

The logic behind neoliberal reliance on the market, while assuming an equilibrium of perfect competition, is that elimination of state protection for domestic firms enhances competition in the domestic market, yielding greater efficiency and consumer benefits (Irwin, 2002, p. 32-3). Thus domestic leaders seeking to implement neoliberal reforms often confront strong political pressure from business or other domestic interests favoring state protection (Krugman, 1987, p. 142). This has led some to speculate that insulated governments, usually a characteristic of military regimes, are better suited to implement neoliberal reforms (Olson, 1982). The presumed insulation required for neoliberal policies is also a source of contention for those who argue that globalization-induced neoliberalism produces a “democratic deficit” as the reforms required of states to compete globally render them less accountable to domestic concerns (Strange, 1997, p.366-7). Thus, it is this variant of a stateless and nonresponsive neoliberalism that is often seen as being pushed by globalization either directly through pressure from MNC’s and global capital or indirectly with states seeking to make themselves more competitive in the global economy. In both cases, external factors are seen as motivating state behavior.

Along with operating under a rubric of neoliberalism, globalization is also often associated with greater levels of integration amongst states. In particular, the current phenomenon of regionalization reflects both the neoliberal tenets of open markets and the need to integrate to enhance competitiveness in the global economy. While regionalism has occurred in previous eras, its manifestations in the era of globalization differ greatly from those in past eras. In the period prior to World War II, for example, regional groupings composed a form of “autocentric regionalism” where enclosed and isolated blocs resembled “territorially based autarchies” (Mittelman, 2000, p. 112). By contrast, modern forms of regionalism can be characterized as attempts to pool political and economic power with the goal of enhancing the ability to compete in the global economy (Mittelman, 2000, p. 112). Citing studies on intraregional and interregional trade, Held et al. (1999) confirm that trade has “grown vigorously” between and within regions and he concludes that current regional groupings are not “protectionist fortresses” that exclude areas outside of their region, but instead are structured to increase overall trade liberalization thus complimenting and not contradicting the neoliberal forces of globalization (p. 168).

Another considerable difference is that new modes of regionalism involve integration not just of trade, but also finance and foreign direct investment (Gilpin, 2001, p. 341). Furthermore, current regionalism differs from previous eras as there is a greater willingness of major economic actors to mediate trade disputes and also an institutionalized multilateral framework (the WTO) in which trade relations are organized (Mansfield & Milner, 1999, p. 601). Thus it could be argued that current forms of regionalization differ greatly from that of past eras as they are deeper in enmeshment, wider in outlook and more institutionalized.

An important distinction regarding regionalization is made by Fishlow and Haggard (1992) who argue that motivations for regional integration are not just economic, but political as well (Mansfield & Milner, 1999, p. 591). Understanding variance in regionalization thus allows for an awareness of domestic factors as Mansfield and Milner (1999) emphasize the importance of domestic politics in shaping forms of regional integration (p. 602). Political motivations for regionalization, for example, might reflect the desire of a state or states to create trust or more stable relations with their neighbors. Some maintain, however, that regionalization, while a dynamic phenomenon incorporating varying historical manifestations and motivations, now displays a great congruence with the dominating neoliberal tenets of free and open markets.

Neoliberalism and regionalization are two important aspects of globalization as the previous provides a reigning ideology of stateless economies and the latter offers evidence of state subservience to larger markets, a behavior often attributed to the ideology of globalization. This is one area where the theoretical approaches of hyperglobalists and skeptics differ. Generally, hyperglobalists, although they might differ in their normative assessments, accept the argument that neoliberal globalization is indeed occurring and creating external forces on states that are altering traditional power structures and rendering states ineffectual. Skeptics, on the other hand, while possibly recognizing some new forces attributed to globalization, would challenge the influence of such forces and would not concede the point that states have lost power. While a better understanding of hyperglobalists and skeptics will be outlined below, these competing approaches present frameworks under which a better assessment of the impact of globalization on individual states like Chile and Argentina is possible.

Literature from hyperglobalist and skeptic frameworks provide better insight into their respective analyses of globalization and its neoliberal and regionalist pressures. The hyperglobalization paradigm posits that the power restructuring of globalization has produced weakened, if not powerless, states in contrast to the rising power of non-state actors. This paradigm sees economies as undergoing “denationalization” through the process of economic integration to the point where economies are borderless and states become mere “transmission belts” between global capital and local forces (Held et al., 1999, p. 3). Mittelman (2000) argues that all states are touched by globalization and that most of them play “a courtesan role” in serving the dominant interests of the global political economy (p. 25). Hyperglobalists view the state as weakening by pointing to the globalization of production, trade and finance. While neoliberal globalists see this as positive, critical hyperglobalists see it as negative. For Strange (1997), greater capital mobility through liberalized finance has “created the necessary and sufficient conditions for the internationalization of production” and has created a “new diplomacy” where states compete amongst each other for foreign investment (FDI) (p. 367-8). Part of this competition involves tax incentives for multi-national corporations (MNC’s) which

have a negative impact on state revenues and thus social spending (Strange, 1997, p. 369). Furthermore, hyperglobalists would see states as competing amongst each other by using such tax incentives or by utilizing deregulation to attract foreign capital or MNC's, which further erodes state power and control. According to Matthews (1997), MNC's have shifted from being an extension of their home governments to the point now where they are "disconnecting" from the interests of their respective governments and "moving jobs, evading taxes, and eroding economic sovereignty in the process" (p. 4).

Furthermore, a heightened danger of capital flight exists when this mobility of financial capital is coupled with greater reliance by states on such capital to offset current account deficits spurred by the opening of trade. During the East Asian crisis in 1997, for example, many of the countries involved had strong economic indicators and thus attracted high levels of foreign investment, but found themselves at the mercy of sudden capital flight by foreign investors driven by the collapse of the Thai baht (Mishkin, 1999, p. 10-13). The IMF, often seen as one of globalization's "leading advocates of markets unfettered by the distortions of subsidies and government intervention," is often cited by negative hyperglobalists for its role in the East Asian crisis (International Forum on Globalization, 2002, p. 210). Stiglitz (2002) indicts the external role that the IMF played as it pressured many of the affected countries to initiate financial and capital liberalization at an "excessively rapid" pace (p. 89). Hyperglobalists who have a critical view of globalization thus contend that globalization exerts undue external pressures on states to liberalize to attract investment, putting them and their economies at the mercy of global capital.

There are also those neoliberal hyperglobalists who have a positive connotation of globalization. Their contention is that higher levels of foreign investment and internationalized production promotes specialization in developing countries and thus would discourage states from following industrial or diversified development if they held no comparative advantage in such industries (Held et al., 1999, p. 276). Thus they see the external pressures of globalization as yielding greater benefits to states and citizens through economic growth, efficiency and cheaper and more diverse goods. Irwin (2002) also argues that global requirements of integration and openness to international trade and finance enhance domestic gains by creating a mutually beneficial boomerang effect where money spent on imports often returns to a country through the purchase of its exports or through foreign investment (p. 71). Neoliberal hyperglobalists would favor removal of state protection from domestic industries regardless of whether states were externally pressured to do so, because the result would be a more efficient, more neoliberal economy. Despite the chasm of normative difference between critical and neoliberal hyperglobalists, both agree that globalization is creating external pressures on states to liberalize their economies. According to Mittelman (2000), neoliberalism has produced "the predominant ideas about world order from the 1980s...[that are] now widely translated into policy prescriptions...embodied in culture...[and] transmitted transnationally" (p. 119-20).

While hyperglobalists see neoliberal globalization as weakening state power in favor of global capital, skeptics uphold the contrary position. They contend that states, in the current era, retain their strength and relevance and that elements of globalization are not unique and are within the control of states. Skeptics would point out that increases in global flows of trade or capital merely reflect "heightened levels of internationalization" in which any economic liberalization or integration that occurs is wholly dependent upon the prerogatives of national

governments (Held et al., 1999, p. 5). Gilpin (2001), in embracing a skeptical position on globalization, argues that MNC's are far from independent and footloose challengers to states, and instead they continue to remain "products of their home economy" with service industries and industrial production still predominantly nation-based (p. 297). Gilpin (2001) also argues that policy outcomes in states are due to their respective choices and are not based on a "financial straitjacket" imposed by economic globalization (p. 370). The degree, then, that states pursue more liberal economic policies, for skeptics, would be based upon a domestic "triumph of conservative economic ideologies" and not external pressure from global forces (Gilpin, 2001, p. 368). Krugman (1994) further stresses the importance of domestic factors when he criticizes literature that emphasizes a heightened level of competition between states due to increased levels of trade and integration. He argues that factors like employment are determined by domestic variables like productivity and not by increased international competition as hyperglobalists might contend (Krugman, 1994, p. 6). Skeptics would also argue the primacy of domestic factors with regard to regional integration. They would look at regional policies and organizations as being reflections of the "economic and political interests" of the dominant states involved (Gilpin, 2001, p. 297). Skeptics ultimately believe that domestic factors and state choices are the prime determinants of outcomes in modern times and not other actors, like MNC's or global capital, cited by hyperglobalists.

While the hyperglobalist thesis is that states have been rendered more impotent due to the elements and forces of globalization, skeptics point to evidence of state strength for those economies that are integrated in the global system. Evans (1997), while not necessarily rejecting claims of increased globalization as some skeptics do, contends that strong statehood actually coexists with, and may even be caused by, increased integration and exposure to the forces of globalization (p. 68). He cites the example of Singapore which is a country with a "highly internationalized economy...[yet] at the same time it is equally renowned for the capacity and power of its state bureaucracy" (Evans, 1997, p. 70). The hyperglobalist conception of state subservience to MNC's and global capital, for Evans (1997), fails to acknowledge the fact that MNC's might favor stronger states to courtesan states when it comes to promoting and protecting property rights with other states or regions (p. 77). Ultimately, his thesis would challenge conceptions of state retreat as argued by Strange (1997) as he believes that strong and more efficient states possess a competitive advantage in the global economy as evidenced in East Asia (Evans, 1997, p. 69).

Hirst and Thompson (1996) likewise show that strong statehood is not antithetical to globalization. In their analysis of the welfare state, they show that countries like Denmark present a model of growth, low unemployment and strong support for welfare thus "bucking a trend towards welfare states in crisis," and ultimately leading to a conclusion that domestic factors are primary in determining whether states continue welfare policies or not amidst globalization (Hirst & Thompson, 1996, p. 170). Skeptics would thus point to Evans (1997) and Hirst and Thompson (1996) for evidence that states and domestic factors still retain relevance and, more importantly, power and influence in the current era. A skeptical analysis would likely look to endogenous factors to explain domestic neoliberal reform or interstate trends like regionalization. Such variables, for skeptics, would be more relevant compared to analyses that emphasize the role of exogenous forces in such change.

Neoliberalism in Chile and Argentina

As much of the literature above illustrates, a major difference between hyperglobalists and skeptics is their focus on the retention or loss of state power amidst current changes in the global environment. Hyperglobalists would look at the increase of neoliberal policies amongst both developing and developed states and attribute it to external forces such as the reigning ideology of globalization and the influence of global capital. Skeptics, on the other hand, would be more prone to assess such neoliberal developments by looking at endogenous factors. The emergence of neoliberal policies in Chile and Argentina provide evidence for the skeptical thesis as they will be shown to have been derived from largely endogenous factors and they also demonstrate variation within the manifestations of neoliberalism, due to such domestic factors, which is not accounted for by hyperglobalists who have a singular conception of neoliberal economics that is fixed and rigid. In all, a more contextual analysis of liberalization and integration in Chile and Argentina yields deeper insights into the impact of globalization that are often neglected in more abstract theoretical debates.

On a general level, recent waves of liberalization in Latin America have exhibited rather wide variations, depending largely on domestic variables (Biglaiser & Brown, 2003, p. 77). Biglaiser and Brown (2003) conducted an empirical study of the determinants of privatization for state owned enterprises (SOE's) in Latin America between 1980 and 1997 (p. 77). Their conclusion is that the two variables most correlated with privatization were rising debt burdens of SOE's and a political time lag wherein privatization tended to occur within the third or fourth years of a presidential term (Biglaiser & Brown, 2003, p. 78). Both factors, of course, are largely unaffected by external pressures. They even controlled for international variables by looking at the IMF, for example, and found that borrowing or standby agreements with the IMF had no effect on privatization of SOE's (Biglaiser & Brown, 2003, p. 84). After all, countries like Chile, Argentina and Uruguay had large debts with international organizations by 1982 and yet each pursued different economic policies (Biglaiser, 1999, p. 5). Biglaiser and Brown's (2003) study purports only to show correlation and not causality, but on a broader level its finding indicating the importance of domestic variables mandates a more in-depth and contextual analysis of privatization within countries like Chile and Argentina.

It is important first to note that Chile and Argentina began initiating liberal economic reforms in the 1970's when both countries were under military rule and their neoliberal reforms had differing results caused by domestic factors. Chile's first phase of liberalization from 1974 to 1981 was interrupted by a temporary recession in 1982 only to be resumed in a second phase from 1985 to 1989 (Sanchez & Corona, 1993, p. 42-3). Argentina, on the other hand, tried unsuccessful liberalization in the late 1970's and resumed a more successful, in terms of implementation, neoliberal restructuring in the late 1980's and early 1990's (Biglaiser, 2003, p. 602-4 and Mainwaring, 1995, p. 124-5). What is interesting is that levels of FDI over this period did not increase greatly and instead remained fairly static, with slight increases only occurring in the late 1990's (Appendix A, Chart 1). This seems to indicate that neoliberal reforms did not stem from capital-push or capital-pull forces. That is, neoliberal reforms were not designed due to pushes by existing FDI sources for greater openness to capital or for the objective of further attracting external capital as FDI remained fairly unchanged during periods of reform. While the periodicity is important in analyzing levels of FDI, it also indicates that neoliberal policies were attempted in both countries in the 1970's, predating to the spread of neoliberal globalization.

Hyperglobalists, after all, contend that neoliberalism emerged as a world ideology with the rise of President Reagan and Prime Minister Margaret Thatcher in the 1980's (Mittelman, 2000, p. 119-20). These indicators suggest that domestic influences affected the course of neoliberal reforms in both Chile and Argentina.

One aspect that is key to understanding neoliberal reform in Chile, and Argentina as well, is the political structure that existed under military rule. Most conceptions of Chilean liberalization tend to suggest that such reforms required an insulated military regime to implement as such a structure would minimize the influence of domestic actors favoring protection or state benefits. However, Biglaiser (2003) points out that the liberalization process in Chile was much more dynamic. He argues that structures of military rule vary and that rule by such elements does not guarantee insulation as, unlike democracies, military regimes do not gain legitimacy through elections, but rather they “need good economic results to legitimize their rule” (Biglaiser, 2003, p. 598). In Chile, the pursuit of neoliberal reform was seen as a way to generate economic growth, but this concern with legitimacy countered the pressure for survival of the military regime. As Biglaiser (2003) notes, militaries that are coalitional, factionalized and have a history of political intervention tend to use the state apparatus, and in particular positions within SOE's, to promote consensus and support within the military (p. 596). Chile had a military political structure that created less of a need to use SOE's for support as its military was under one man rule and was less factionalized due to a history of support for democratic governance and non-intervention (Biglaiser, 2003, p. 599).

However, there were points during Pinochet's rule in which pressure from domestic elements and military factions inhibited liberalization. According to Biglaiser (2003), the sale of SOE's in Chile was primarily based upon the political situation facing Pinochet. He used SOE positions for his political survival, doling them out to retain officer loyalty which also explains why officers opposed the sale of SOE's (Biglaiser, 2003, p. 601). Officer opposition to the privatization of SOE's prior to a strong consolidation of Pinochet's regime, is why the state choose to only sell off small firms and retained most of its large SOE's prior to 1975 (Biglaiser, 2003, p. 601). In fact, it was only after Pinochet's victory in a 1980 constitutional referendum, which helped to consolidate his rule making it less dependent upon officer support, that his policy makers planned a wider privatization of SOE's (Biglaiser, 2003, p. 601). But even this was no guarantee of liberalization as domestic factors other than concern for legitimacy came to influence economic decisions by policy-makers. Pinochet, for example, responded to the collapse of recently privatized conglomerates (*grupos*) in 1981-2 and resulting economic depression and unrest by slowing privatization, regaining control and management of the *grupos* and replacing neoliberal advisors with Sergio Onofre Jarpa and Luis Escobar Cerda who both ardently opposed his Chicago Boys¹ advisors (Biglaiser, 2003, p. 601 and Biglaiser, 1999, p. 14). However, by 1985 public unrest had simmered down and Pinochet replaced Jarpa and Cerda with their neoliberal predecessors (Biglaiser, 1999, p. 14). This second phase of liberalization saw a reduction of officers in SOE positions many of which were replaced with economists, enabling for the further privatization of Chile's SOE's (Biglaiser, 2003, p. 601-2).

¹ The Chicago Boys were a group of about 25 Chilean economists who were trained at the University of Chicago and strongly favored neoliberal reforms such as privatization of state industries.

Chart 2 in Appendix A shows the dramatic reduction in SOE's from 1973 to 1990. These results can hardly be characterized as the product of external pushes as they derived from internal political conditions. A comparison of Chart 2 with Chart 1 in Appendix A will reveal that privatization did not yield significant increases in FDI. Furthermore, international leverage was significantly reduced by the fact that foreign sources of aid were exhausted due to the restraint that international organizations showed in the face of human rights abuses by the Pinochet regime (Biglaiser, 2003, p. 600). Chart 1 in Appendix B shows this precipitous decline in aid that occurred during the period of liberalization under Pinochet. Rather than being the result of the influence of global capital, then, privatization in Chile came about through a mix of domestic factors and an insulated military regime that was somewhat responsive to internal pressures.

But the question remains as to why Pinochet favored neoliberal policies and selected neoliberal advisors to help him implement them. Hyperglobalists might look for evidence pointing to external influences on Pinochet, but Biglaiser (1999) argues that Pinochet favored a neoliberal track largely for domestic, and more specifically political, reasons. Pinochet's primary political challenge came from the Commander of the Air Force General Gustavo Leigh, a Keynesian who sought influence not just in commanding the armed forces but also in economic policy (Biglaiser, 1999, p. 12). Pinochet, according to Biglaiser (1999), did not have a history of advocating free-market economics and, in watching the "'Chicago' economists...tear apart...[Leigh's] arguments in front of military decision-making committees" appointed such neoliberal economists to weaken a political competitor and thus help to consolidate his rule (p. 12). This indication of a more political logic behind the choice of neoliberal reform on the part of Pinochet might be illuminated by an analysis of the type of neoliberal reforms that were undertaken in Chile. Because of the lack of a strong economic motivation for Pinochet's decision to implement neoliberal reform, such reforms might appear to be less "pure" in their actualization.

As mentioned earlier, Pinochet was willing to halt and reverse privatization during the political and economic unrest that occurred with the collapse of the *grupos* in 1981-2. In defiance of neoliberal tenets and supporting the claim that political motivations were primary concerns for Pinochet, Mainwaring (1995) notes that the Chilean dictator used "politically targeted social spending" in 1988-9 to try to generate stronger electoral support (p. 140). Certainly, neoliberal reforms under Pinochet did not produce a weakened state and did not preclude him from engaging in behavior antithetical to neoliberalism. Furthermore, the neoliberal reforms undertaken by Pinochet were less than pure according to neoliberal standards.

Neoliberal reforms did indeed produce lower tariffs (Appendix B, Chart 2) and enhanced trade (Appendix A, Chart 1). However, professors Dominique Hachette, Rolf Luders and Guillermo Tagle of the Pontificia Universidad Catolica de Chile point out that neoliberal reforms utilized a "wealth of privatization methods" from popular capitalism (the sale of state companies to small investors) to labor capitalism (the sale of state companies to the employees of the privatized companies) with the state pursuing policies that encouraged workers to buy stock (Sanchez & Corona, 1993, p. 44-5, 91). Such policies were pursued because the state, indicating its persistent strength amidst neoliberal reforms, sought to ensure the diversification of ownership and sought to neutralize opposition from unions (Sanchez & Corona, 1993, p. 91).

Such attempts to appease labor did not just emerge in the period of liberalization as just within a year after taking power, Pinochet began an economic policy that gave workers a share in management, abolished the “traditional distinction” between blue and white collar workers and tentatively restored a provision permitting the right to strike (Whitaker, 1976, p. 346). Economic reforms under Pinochet thus did not reflect a purist form of neoliberalism.

Even neoliberal policies pursued under Pinochet’s democratically elected successor, Patricio Aylwin, contradict hyperglobalist notions of a purist neoliberalism being imposed on states. Mainwaring (1995), for example, notes that while Aylwin generally continued the free market policies of Pinochet, he also raised both taxes and state spending (p. 140). Such measures are inconsistent with neoliberal doctrine. Aylwin’s policies towards privatization also lacked the “impetus it enjoyed” in the second phase of privatization under Pinochet when he had consolidated his power and relied less on the state apparatus to ensure the political loyalty of officers (Biglaiser & Brown, 2003, p. 86). The neoliberalism practiced by both Pinochet and his successors, suggest that it is less a fixed and more of a dynamic process, fluctuating and incorporating non-purist models. One final note about economic liberalization under President Aylwin deals with the level of public support for his policies. According to Mainwaring (1995), a March 1993 survey showed that 58% of Chileans supported Aylwin’s handling of government affairs with only 16% disapproving (p. 162). Biglaiser and Brown (2003) contend that privatization policies had gained popularity even under Pinochet with many Chileans even expressing support for selling off the state-owned copper company, CODELCO (p. 86).

The above evidence of liberalization in Chile suggests two major points. First it shows that neoliberal reform in Chile, by being based largely on political and structural factors, was not driven by the exogenous influence attributed to globalization by hyperglobalists. Second, reform in Chile also revealed that liberalization can vary in its manifestations and need not always follow a pure neoliberal model. This directly challenges the hyperglobalist thesis that a specific, stateless model of neoliberalism is the dominant economic ideology. The state played a very important role in directing and determining privatization in Chile and was not influenced by the interests or incentives of foreign capital. In all, the case of liberalization in Chile seems to confirm a more skeptical view of globalization.

The path of neoliberalism in Argentina, while temporally different from that taken in Chile, bears similarity to that experience in that it was determined largely by domestic, not international, factors and produced a less than “pure” process and result. Like Chile, Argentina saw the rise of a ruling military junta in 1976 that pledged liberalization, but Biglaiser (2003) notes that it was structured much differently from that in Chile, as there was a more frequent history of military intervention in Argentina (p. 592, 602). This frequency was coupled with politicized military promotions and inter-service rivalries and produced a much more politicized and factionalized military in Argentina to the point where Argentine officers were “inspired...to develop fiefdoms in SOE’s...offering plum jobs to officers to relieve counter-coup threats” (Biglaiser, 2003, p. 602, 604). Furthermore, the military rulers in Argentina were based less on one-man rule as was the case in Chile. Instead, the Argentine military opposed conferring dictatorial powers to any branch or individual, favoring instead an arrangement of “direct and equal participation among the service branches...[which made] decisions through majority rule” (Biglaiser, 1999, p. 16). This coalitional institutional structure both weakened the government’s

ability to take decisive reforms and made it much more dependent upon the use of SOE's to preserve survival than had been the case in Chile. The positions in SOE's held by military officers, unlike the case of Chile, actually increased during military rule, as they held 67.9% of the most important SOE positions from 1976-80 and 75% from 1981-2 (Biglaiser, 2003, p. 604).

Along with a greater presence of military elements in SOE's, the military itself became a center for lobbying by domestic interests who disfavored privatization (Biglaiser, 2003, p. 604). The *patria contratistas*, for example, benefited from subsidized prices and state construction projects and thus lobbied officers who in turn would lobby the coalitional junta (Biglaiser, 2003, p. 604). This domestic and internal lobbying further inhibited efforts to privatize Argentina's SOE's (Biglaiser, 2003, p. 604). The largely political motivations behind economic policy under the military spawned a poor economic environment that was bequeathed to President Raul Alfonsín who took power through democratic elections in 1983. According to Mainwaring (1995), the "disastrous legacy" of military mismanagement produced a \$46 billion foreign debt, a public sector deficit that was 11% of GDP, an inflation rate of 344% and, unlike Chile, Argentina entered this democratic period "without having undergone any substantial readjustment of the economy" (p. 122). While military rule in Argentina differed from that in Chile as it did not produce significant neoliberal reforms, both cases emphasize the point that domestic factors determined the pace and effectiveness of economic liberalization.

This shift towards democracy, which in itself was largely spurred by domestic factors such as the loss of legitimacy for the military junta following Argentina's defeat in the Malvinas War, presented a new set of leaders confronting dire economic straits in Argentina (Pion-Berlin, 2000, p. 49 and Biglaiser, 1999, p. 17). According to Mainwaring (1995), Alfonsín created a false impression to the public that Argentina's economic problems could be dealt with and improved simultaneously (p. 123). This raised public expectations, but Mainwaring (1995) argues that Alfonsín pursued "unrealistic, expansive Keynesian policies" which largely ignored the constraints of foreign debt, fiscal deficits and extensive levels of inflation (p. 123). Alfonsín was not inhibited from pursuing such policies by external globalizing forces, but what led to shifts towards neoliberal policy in Argentina was the effect of such policies. Chart 1 in Appendix C shows an initial negative effect of Alfonsín's policies on inflation in 1984 with it reaching the "hyperinflationary" level of 4,923% towards the end of his term in 1989 (Mainwaring, 1995, p. 124). There were social effects to Alfonsín's economic policies, such as looting and growing marginality, but their effects also increased public support for measures to stabilize the economy even if it required short-term sacrifices (Mainwaring, 1995, p. 124-5). Thus, conditioned by economic factors, the Argentine public was more willing to support tough austerity measures that would take place under President Carlos Menem, again revealing domestic causes for neoliberal reform and not international pressure.

Based upon increased economic instability, Menem received 47% of the popular vote in 1989 (compared to 37% for his rival) with his party winning key congressional victories in 1991 and 1993, revealing public support for his economic restructuring (Mainwaring, 1995, p. 157-8). Congress eventually "handed to Menem a *carte blanche* to take the initiative...[he] often ruled *via* presidential decree...[and] liberalization...proceeded at a furious pace" that was much faster than the pace in Chile (Mainwaring, 1995, p. 143). But, as was the case with Chile, it is important to note whether or not the process of liberalization fit into the purist neoliberal model

that hyperglobalists claim is being foisted upon states by international forces. Etchemendy (2001) analyzes neoliberal reforms in Argentina and comes to the conclusion that “what is often viewed as an orthodox and unilaterally imposed market transformation was...[in Argentina] founded on coalitions cemented in more or less formal bargains with a variety of sectoral interests” (p. 1). His main focus is on showing that liberalization need not depend on the marginalization of traditional interest groups, but rather can occur through a coalition-building process where the government negotiates an allocation of “sectoral payoffs” or permits rents to elements that benefited from the previous economic structure (Etchemendy, 2001, p. 2-3). Schamis (1999), after all, has noted that the opening of economies can still yield potential for rent-seekers and rent-providers (p. 239). Such notions of coalition building and domestic compromise refute the hyperglobalist contention that a raw and unresponsive neoliberal economic model is externally imposed and instead validates a more skeptical view that emphasizes the continued importance and strength of states.

One important area of reform for the Menem government that presented the potential for strong domestic resistance was the realm of public administration. The first phase of Menem’s program involved a reduction of employment in the public sector and the second phase involved decentralization of education and hospital systems, devolving jurisdiction to provincial governments (Etchemendy, 2001, p. 6). Three major unions were affected by the proposed downsizing of the public sector, the UPCN (a Peronist national public administration union), the ATE (an anti-Menemist public sector union) and the CTERA (an anti-decentralization education workers union) (Etchemendy, 2001, p. 6). According to Etchemendy (2001), Menem sought to ally with the UPCN, protecting its members from the impact of his decrees that reduced the quantity of undersecretaries, induced the retirement of employees and suspended collective bargaining agreements for national public administration (p. 6).

Furthermore, the Menem government helped to enhance UPCN’s organizational structure and institutional power, even permitting the UPCN to participate in an executive committee of the Ministry of Economy (CECRA) which was insulated from congressional pressure and tasked with implementation of public sector downsizing (Etchemendy, 2001, p. 6-7). While the participation of the UPCN was recognized by formal decree, giving it a “considerable voice in redesigning the structure of state agencies,” the ATE was excluded from decision-making (Etchemendy, 2001, p. 6). The UPCN further used its power to ensure that its ranks would be have more representation at the national level during periods of bargaining (Etchemendy, 2001, p. 7). The government also bestowed administration of the welfare system for the national public sector to the UPCN which directly undermined the power of the ATE (Etchemendy, 2001, p. 7). The result was that great reductions in public employment occurred in the health (94.8%), education (64.2%) and public enterprises (82.6%) sectors, areas that hurt other unions, but not the UPCN (Etchemendy, 2001, p.7).

The tendency of the Menem administration to incorporate and cooperate with certain union organizations in advancing liberal reforms was not just limited to public sector reform. In their efforts to deregulate the labor market, for example, Menem shifted from a failed strategy of legislation designed to weaken the economic and political power of labor unions to a strategy based on cooperation (Etchemendy, 2001, p. 9). In 1994, the government created the Pact for Productivity and Social Equity in which unions of the General Confederation of Workers (CGT)

and the Argentine Industrial Union (UIA) helped to formulate and prepare legislation, ensuring that such laws passed through the union-dominating Labor Committee and Congress which indeed passed the “corporatist” reforms without major modifications (Etchemendy, 2001, p. 9). While the unions permitted greater flexibility of contracts and a reduction of severance payments in some areas, they in turn gained monetary subsidies for their union-run health care system (Etchemendy, 2001, p. 10).

The Menem government also used a bargaining model with labor unions in the state petroleum and steel sectors. Regarding the latter, Etchemendy (2001) notes that while steel unions saw a reduction of the labor force by almost half, many of their members were able to obtain greater shares of stocks in the state steel mill Siderar, resembling the labor capitalism employed under Pinochet in Chile (p. 18-9). Also, the state compensated domestic steel companies which lost both state subsidies and protective tariffs by permitting them greater control of the domestic market and by enacting antidumping measures against foreign competition which helped “old producers...consolidate...hegemony in the domestic market” (Etchemendy, 2001, p. 18-9).

The case of neoliberal reform in Argentina, like that in Chile, illustrates the important role that the state and domestic factors played in the process of liberalization. Both cases emphasize the importance of domestic conditions for spurring and shaping the structure of liberalization, helping to confirm the skeptical thesis. As with Chile, neoliberal reform in Argentina also proves that great variation can exist with different modes of liberalization being employed by both countries. While this can also be applied to the case of Chile, Etchemendy (2001) argues that liberalization in Argentina “contradicts some common knowledge regarding...market reform implementation...The idea of liberalization as a task of political construction, in which the state acts as a coordinating agent attacking vested interests in some policy areas but at the same time opens windows to administer compensations in others, is, to a great extent, overlooked by traditional approaches” (p. 26-7).

Regional Integration in the Southern Cone

As has been shown, economic liberalization in Chile and Argentina was spurred largely by domestic, and not international pressures, confirming the skeptic thesis. Likewise, regional integration in the Southern Cone was spurred initially by political and domestic factors and not global economic pressures for enhanced competitiveness. Although integration certainly enables greater economic clout in the global economy and this may be a current objective of countries like Chile and Argentina, it is not the only goal and was not the primary one either. Regional integration in the Southern Cone was, and still is, driven by states and has retained a strong political dimension, confirming the skeptic paradigm as applied to regional integration in the Southern Cone.

Economic integration in the Southern Cone began in the 1980's and coincided with the rise of democratic regimes in Argentina and Brazil and later Chile. Many contend that the return to democracy helped remove “political and psychological barriers” to cooperation as the intense reliance on zero-sum conceptions of national security and territorial nationalism by legitimacy-seeking military regimes had often diminished earlier possibilities for cooperation (Pion-Berlin, 2000, p. 45, 48-9; Fournier, 1999, p. 47; and see Escude, 1988). Argentina and Brazil signed a

declaration of intent in 1985 which led to several protocols and culminated in a 1989 treaty setting the goal of achieving a common market by 1995 (Bulmer-Thomas & Dunkerley, 1999, p. 84). The Mercado Comun del Sur (MERCOSUR) did emerge in 1995, created by Argentina, Brazil, Uruguay and Paraguay (Cason, 2000, p. 23). One year later Chile became an associate of MERCOSUR, but not a full-fledged member because it did not want to adopt the common external tariff required of members as this would have required Chile to actually raise its already low tariff levels (Pion-Berlin, 2000, p. 43). Cason (2000) argues that such integration in the MERCOSUR region was ultimately a state-led effort, driven not by economic, but rather by political motives such as the consolidation of democracy or reduction of tension within member countries (p. 24). Certainly trade interests were important, but, regional integration was “very much led by political decisions, more specifically by the presidents and the foreign ministries, not by economic interests” (Bulmer-Thomas & Dunkerley, 1999, p. 84).

Evidence of both political motivations and the role of political leaders can be seen in the early integration precursors to MERCOSUR. Argentina and Brazil, both governed by democratically elected leaders, signed an integration treaty in Iguazu in 1986 in what many observers said was laden with concerns for protecting the infant democracies (Fournier, 1999, p. 48). The treaty itself stipulated that one of the primary purposes for economic integration was “to consolidate democracy as a way of life and system of government” (Fournier, 1999, p. 48). Further endorsing the claim that political motivations preceded economic objectives, Fournier (1999) quotes Deputy Foreign Affairs Minister Jorge Sabato who stated that the government of Argentina “believed that the creation of a political and economic community between Argentina and Brazil could play the same role [as the EEC which promoted democracy in Europe]...a cooperative binational regime would contribute to the elimination of the risk that our respective states eventually return to the hands of the military” (p. 48-9). While domestic factors were the major impetus for increased regional integration, Fournier (1999) emphasizes the importance that specific domestic leaders like Alfonsín played in the process. He notes that the democratic values embraced by Alfonsín and pronounced in his 1983 inaugural speech explain why his government pursued deeper political and economic cooperation with fellow democracies and yet decided to go no further than maintaining “cordial” relations with Pinochet’s Chile unless and until a democratic transition took place (Fournier, 1999, p. 39, 66).

The predominance of domestic over international factors in regional integration strategies in the 1980’s persisted through to the creation of MERCOSUR. The new common market built upon the identification of common political interests that occurred in the 1980’s and was seen as a means to continue “diffusing regional tension” (Bulmer-Thomas & Dunkerley, 1999, p. 84). As Pion-Berlin (2000) notes, along with reduced tensions between MERCOSUR states, there is no common external security threat spurring greater military buildups, but he contends that this also has a negative incentive for deeper military integration (p. 61-2). Chart numbers 1 and 2 in Appendix D show adjustments in military size over time for both Argentina and Chile. Argentina has significantly reduced their military forces indicating both a reduced threat perception from its neighbors and declining military influence. Chile’s forces have not shown precipitous increases in size that would be associated with heightened threats, but it does not show much decline either. This is likely due to the fact that, by law, Chile’s armed forces cannot decline beyond 1989 levels (Pion-Berlin, 2000, p. 49). Along with using MERCOSUR to reduce the regional military threat, permitting greater cooperation and domestic stability, they also do

not seem to be using the common market to bolster their ability to trade with major markets like the US, as hyperglobalists would argue is the main reason for regional integration. MERCOSUR countries are less interested in enhancing trade access to the USA compared to other Latin American countries as “they depend less on it...[they have the] freedom both to have conflicts with the USA and to accept agreements with it without fearing dominance” (Bulmer-Thomas & Dunkerley, 1999, p. 78). Charts 1 and 2 in Appendix E seem to confirm this by showing great increases in exports to MERCOSUR countries from 1990 to 1996 which coincided with declining exports to markets outside of MERCOSUR, including the United States.

Further emphasizing the predominance of political motivations and domestic variables, Cason (2000) points out that the initial process of regional integration proceeded in a “pragmatic and piecemeal” manner (p. 26). Piecemeal efforts would surely not be possible if the countries of the MERCOSUR region were being forced to integrate by the external pressures of globalization. Furthermore, as noted above, the government of Chile decided to obtain associate rather than member status due to the fact that it did not want to raise its tariff levels to the common external level of MERCOSUR as required by membership. This reveals both that Chile was able to pursue and prioritize a domestic state interest and refuse a regional policy pressure and also revealed that Chile, in becoming an associate, was able to integrate on its own terms.

Regional cooperation and economic integration in the Southern Cone, like the cases of liberalization in Argentina and Chile, confirm a skeptical view of the persistence of state power and interests in the era of globalization. In the case of liberalization and in the case of regional integration, states were in command and responsible for directing the pace and structure of both phenomena, with great priority given to domestic interests and concerns. Domestic political determinants and domestic leadership and strategies have more causal power compared to the hyperglobalist independent variable of globalization (through the agency of MNC’s and global capital) in explaining the trend of liberalization and regionalization in the Southern Cone.

This paper sought to dispel the hyperglobalist thesis in the case of the Southern Cone of South America. As has been shown, the major tenets of the hyperglobalist paradigm do not apply to either the case of economic liberalization in Chile and Argentina or the case of regional integration amongst the MERCOSUR countries. Instead, the skeptical approach to globalization offers better explanatory power to events in the Southern Cone. It is important to note that these cases may not be externally valid to other regions or countries. What this paper illustrates is the utility of taking a more contextual analysis of changes within countries and regions in the current era. Such contextual and historical analyses can often yield greater insight and offer good proving grounds for broader-based theoretical arguments.

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Appendix A

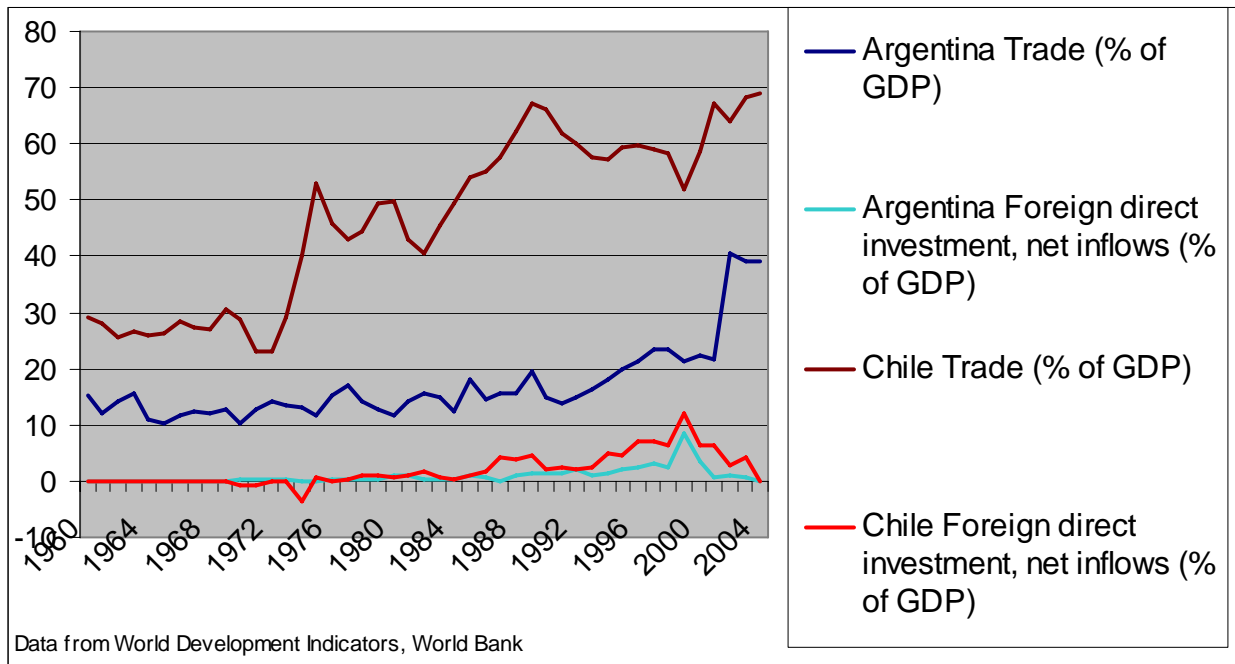


Chart 1

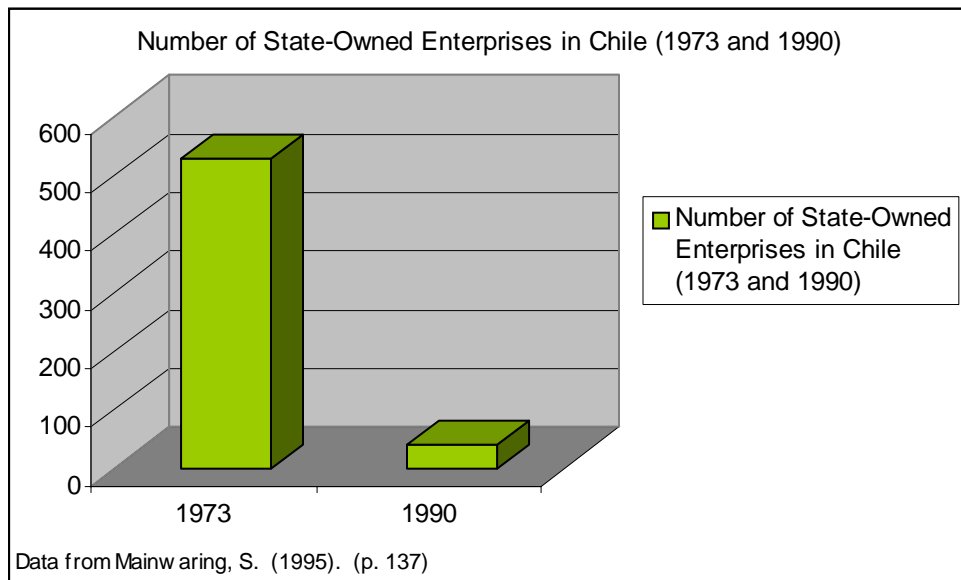


Chart 2

Appendix B

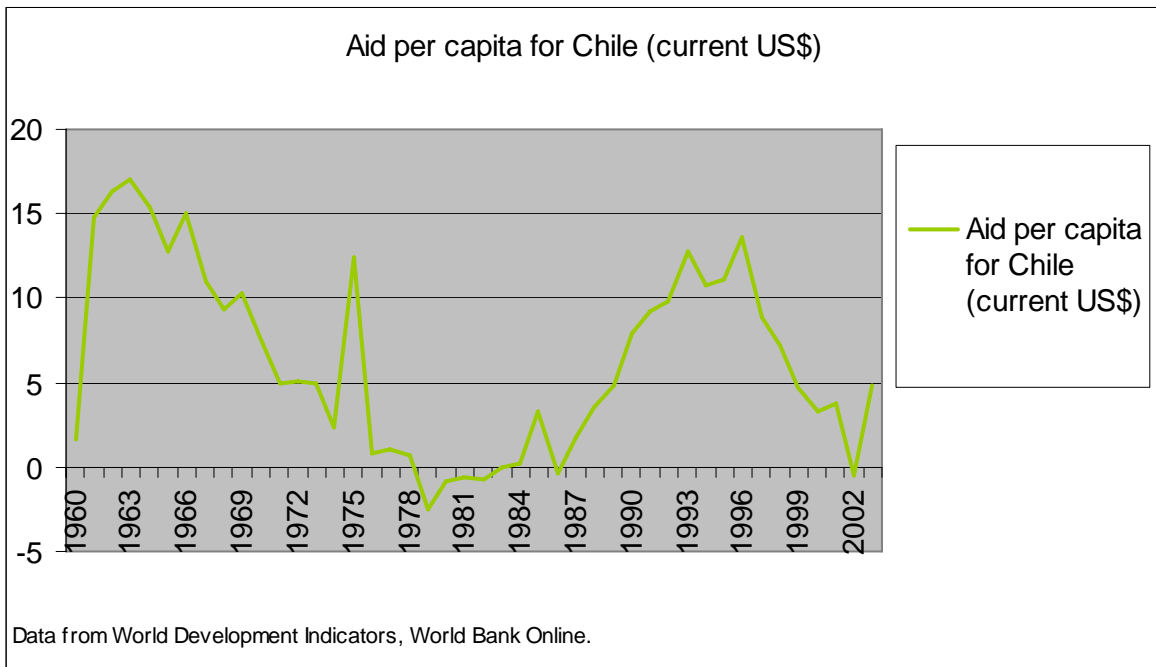


Chart 1

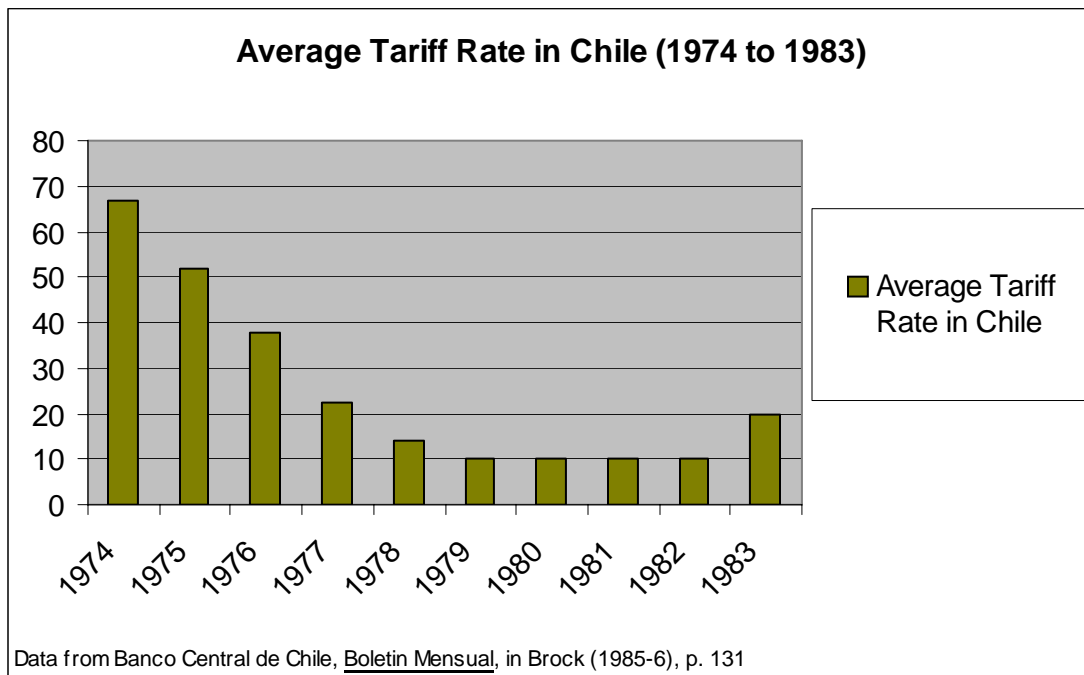


Chart 2

Appendix C

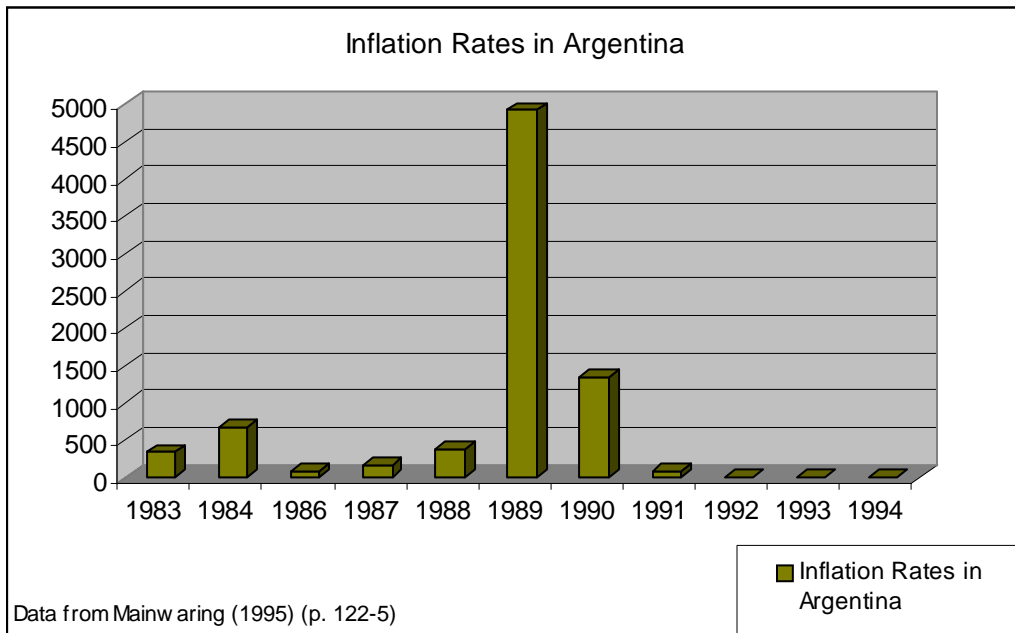


Chart 1

Appendix D

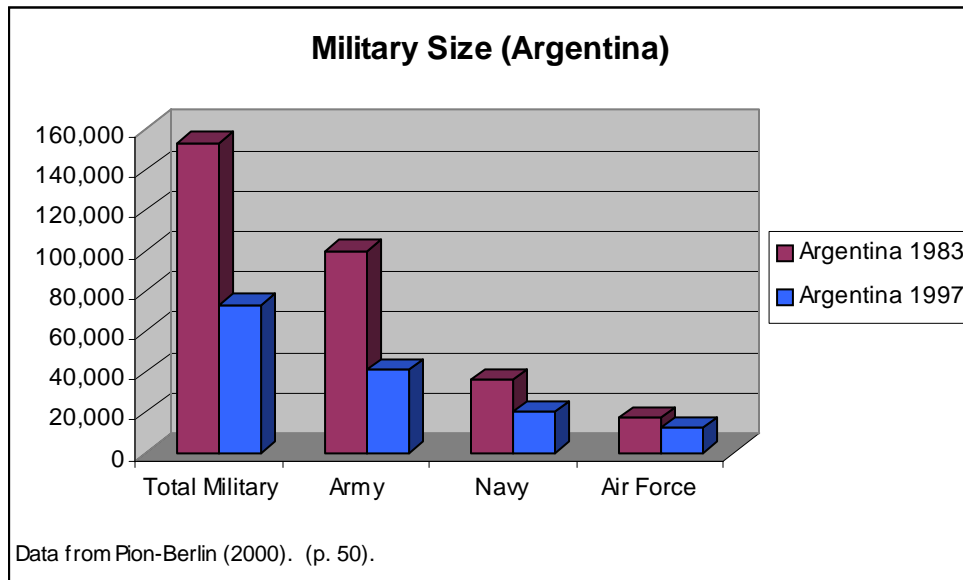


Chart 1

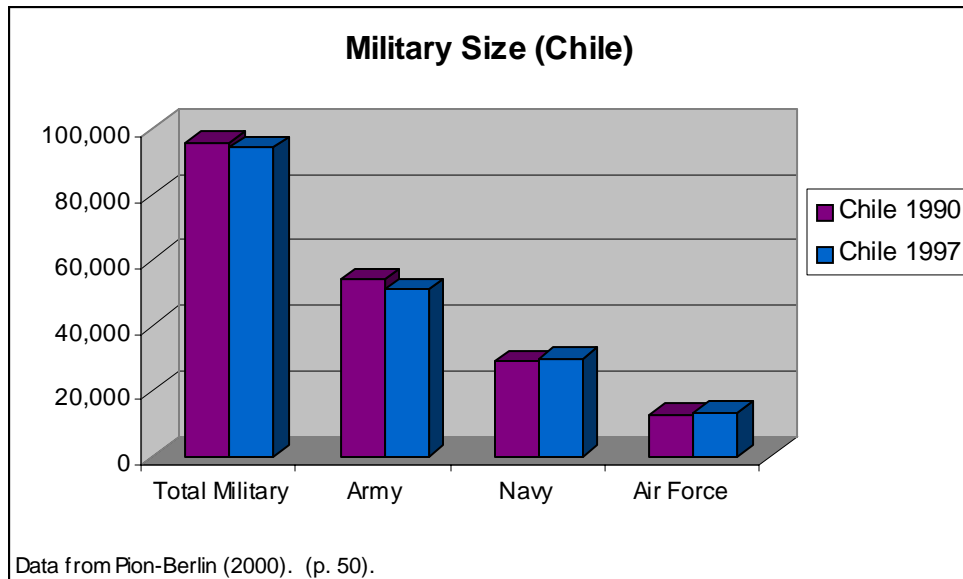


Chart 2

Appendix E

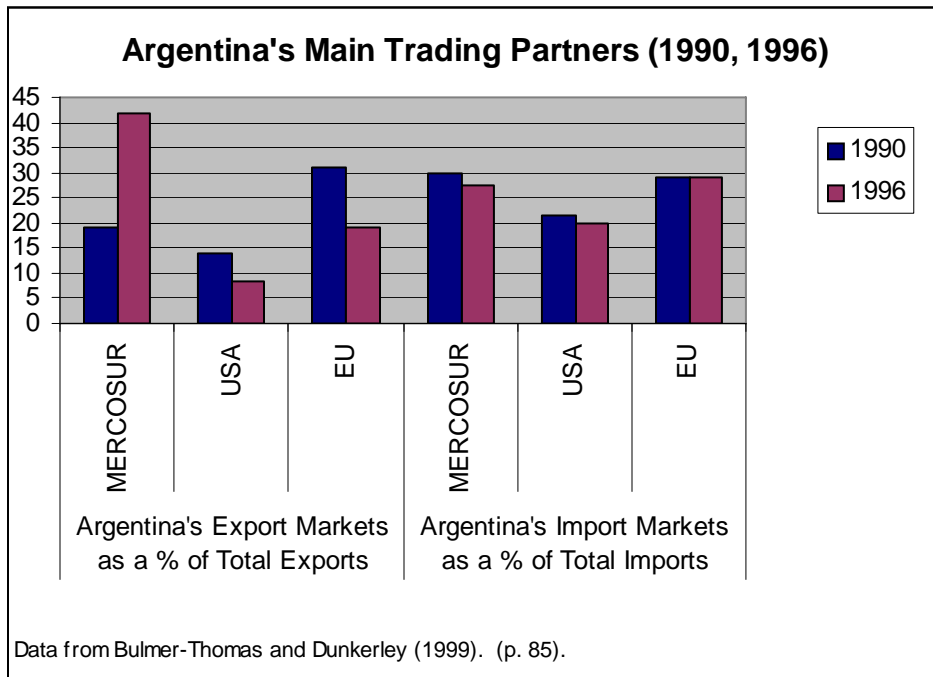


Chart 1



Chart 2