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Regional Integration in Latin America

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1. Executive Summary

- The regionalization process is not something new in International Relations. The most prominent paradigm of such tendencies is of course the European Union. However, such tendencies have been met in Latin America since the early 60s, but on the contrary to EU, these initiatives failed due to the tendency for national protectionism, the tensions between the states and the private sector, and the uneven trade balances among partners that created serious political tensions in the agreements.
- Adding to the above the U.S. skepticism concerning regional approaches during that period, and also the fact that during this period LA countries were dominated by authoritarian governments that stimulated national rivalries, border conflicts and restrictions on the flow of goods, people and development of regional infrastructure, clearly someone could see the negative scheme that the first attempt had to deal with.
- During the 90s a new wave of regionalization came into surface. Under the pressure of a devastating economic collapse the states of Latin America proceeded to a structural economic reform, a new wave of Preferential Trade Agreements (PTAs) known as the 'new-open regionalism'. The main characteristics and the main objectives of this new attempt were: a) the strengthening of structural economic reform through the creation of strategic policy tool capable to reinforce this reform, b) the economic transformation via a reciprocal openness that guarantees new opportunities for export experience and diversification and thereby over time serve as a strategic stepping stone to compete more effectively in a global economy, c) the attraction of foreign direct investment by creating a larger liberalized rules-based market with locational advantages, d) the establishment of a functional regional cooperation following of course the example of Western Europe, and finally in terms of geopolitics, the establishment of a safety net between like-minded countries for the promotion of disarmament and peace among neighbors, while enhancing their bargaining power in international *fora*.
- In 26th of March 1991, the Mercosur was established among Brazil, Argentina, Uruguay and Paraguay and it seemed that the regionalization process in Latin

America made a very positive and radical shift, with Brazil and Argentina taking the wheel. The route of Mercosur until now is for many experts quite ambiguous, because the outcomes of such an ambitious effort don't seem to be too obvious.

- However, Mercosur tried to promote not only regional cooperation but transregional as well, with other regional blocks such as European Union, ASEAN and NAFTA. Collaborations that until now don't seem to flourish in a desirable level.

2. Introduction

The main objective of this Report is, in the first part, to illustrate the main reasons for failure of the regionalization process in Latin America and, in the second part, to analyze the new 'open' regionalism that brought the challenge of regionalization into the limelight again.

However, before attempting to illustrate the two phases it is essential to give a short definition of regional integration. Initially, regions are defined as territorially based subsystems of the international system. The integration of regions, then, refers to the process whereby territorially based subsystems increase their level of interaction. Thus, regionalism could be defined as the formation of closer economic links between countries that are geographically near each other, especially by forming preferential trade agreements (PTA).¹

¹ Preferential Trade Agreements: A union between two or more countries in which goods produced within the union are subject to lower trade barriers than the goods produced outside the union.

3. The failure of the old regionalism (LAFTA & LAIA)

The end of World War II brought a radical change to the way that third world societies understood economic development. The new paradigm of modernization and neoclassical economic theory forced these traditional societies to adopt a different model of economic development, as the old one was considered to be an obstacle to the creation of a contemporary capitalist system.

According to this new model, the peripheral countries of Latin America, Asia, and Africa were obliged to substitute the external demand for raw materials, for example, for an internal demand in order to decrease the economic divide between them and developed countries. Thus, as Myriam Gistelinck characteristically argues, “the periphery had to evolve from development towards the outside to development towards the inside”.² In Latin America, this renovating process was called Import-Substitution Industrialization (ISI) and it was firmly grounded in the structuralist school of thought.³

In this strategy, the state played an enormous and vital role in the development process. Almost every part of the economic development – industrial planning, provision of infrastructure, elaboration of regional integration initiatives – took place under the umbrella of the ‘developmentalist’ state. In other words, the state was the accelerator and also the catalyst for every possible economic initiative. This state-promoted industrial structure was meant to respond to an already existing domestic demand, thus creating, to some extent, an industrial basis in countries that were basically exporters of primary goods.⁴ This was the Achilles’ heel for the ISI model,

² Myriam Martins Gistelinck, *The Influence of Brazil’s Developmental Projects on its Positioning in the Negotiation of Regional and Bi-regional Trade Agreements*, IIEB Working Paper 19, October 2005.

³ The keyword of the structuralist school of thought was industrialization. The structuralist vision was to transform the structure of comparative advantages towards a higher level of productivity and competitiveness. Cyro Banega - Björn Hettne - Fredrik Söderbaum, “The New Regionalism in South America” in Michael Schulz- Fredrik Söderbaum- Joakin Öjendal (eds), *Regionalization in a Globalizing World*, London/New York: Zed Books, 2001. p. 235.

⁴ *Ibid*, p. 235.

as this model was actually expressive of export pessimism, skepticism regarding private markets, and great concern about the presence of, and dependence on, foreign firms.

The ISI model had indeed many limitations, thus, the countries of Latin America, encouraged by the United Nations Economic Commission for Latin America (ECLA), decided to go beyond this model and proposed regional integration as “Trojan Horse” to every possible limited capacity of ISI. The idea was:

- The creation of a regional market in which there would be elimination of internal trade barriers and
- Expansion of industrial planning to the regional level while keeping high levels of external protection in order to overcome the limitations of the ISI model. According to its supporters, this strategy seemed to offer large economies of scale and wider markets, which could serve as an incentive to industrialization, economic growth and investment.⁵

In this Direction, in the 1950s there was much discussion of creation of a Latin American Common Market and in the 1960s the wave of ‘old regionalism’ that took place included specific kinds of preferential trade agreements (PTAs). However, the high degree of selectivity that embodied the regionalism of the 60s led to the failure of meeting its most ambitious objectives in terms of trade liberalization.

In a nutshell, as experts argue, the ISI policies resulted in “an acute overvaluation of the real exchange rates, which reduced additionally the degree of competitiveness of the export sector”. High-import tariffs and prohibitions generated “a serious anti-export bias that was deterring the growth of the export sector and its diversification”.⁶ In essence, the basic development model of the region was ‘inward-looking’ and so too was regional integration.

⁵ Cyro Banega - Björn Hettne - Fredrik Söderbaum, “The New Regionalism in South America” in Michael Schulz - Fredrik Söderbaum - Joakin Öjendal (eds), *Regionalization in a Globalizing World*, *op. cit.* p. 235.

⁶ Ramiro Pizarro, *Comparative Analysis of Regionalism in Latin America and Asia-Pacific*, United Nations Publications, Serie Comercio Internacional, Comision Economica para America Latina y el Caribe, Santiago de Chile, December 1999.

One of the most important, but also unsuccessful, regional integration movements of the 60s was the Latin America Free Trade Agreement (LAFTA), which was established with the ratification of the Treaty of Montevideo in 1960, and tried to comprise the South American countries and Mexico, and the five-member Central American Common Market (CACM).⁷ This treaty was signed by seven Latin American countries.⁸ The main pattern was the creation of a free trade area between those states within a period of twelve years. Nevertheless, and despite the fact that in the beginning the agreement seemed to flourish, as intra-regional trade increased from 8% in 1960 to 13.6% in 1975, the future of LAFTA was not so auspicious.⁹

From the literature derive many useful and essential approaches concerning the reasons for LAFTA's failure. These reasons were:

- “The lack of interest in a larger, competitive market among the largest industrial groups in Argentina, Mexico and Brazil”.¹⁰ Characteristically, while representatives of the private sector from these countries were sent to negotiate the creation of a common private sector, at the same time, ironically, their governments were engaged in strong competition among themselves to attract Foreign Direct Investments (FDI) from Europe and USA.
- LAFTA was not accepted with great enthusiasm by smaller countries, such as Colombia and Chile, which claimed that LAFTA mainly benefited the ‘Big Three’ (Mexico, Argentina and Brazil). Obviously, the weaker countries feared the increasing competition of markets; thus they opted for a more radical and ambitious policy focused on a joint industrialization strategy. This, in turn, led to the foundation of the Andean Pact in 1969, but its high ambitions were never actually realized.
- The strategy within LAFTA was a great setback for the initiative. The main reason for the collapse of this regional attempt was the strategy of creation of a

⁷ Robert Devlin - Antoni Esteveadeordal, *What's New in the New Regionalism in the Americas?*, Institute for the Integration of Latin America - Integration, Trade and Hemispheric Issues Division - Statistics and Quantitative Analysis Unit / Inter-American Development Bank, Working Paper 6, May 2001.

⁸ Brazil, Argentina, Mexico, Colombia, Chile, Bolivia and Ecuador.

⁹ Achieved from the tariff reductions that took place in the first years of LAFTA.

¹⁰ Myriam Martins Gistelinck, *The Influence of Brazil's Developmental Projects on its Positioning in the Negotiation of Regional and Bi-regional Trade Agreements*, IIEB Working Paper 19, October 2005.

“regional MFN-principle” by which every tariff reduction conceded was valid for all LAFTA members. Indeed, considering the huge amount of products (9,200), the intergovernmental negotiation process for the reduction of tariffs was actually a slow and inflexible process.

- Internal conflicts existed. Economic and political instability was actually a significant disadvantage for the promotion of a possible regional cooperation. The democratic gap that pre-existed and was increased by the establishment of military dictatorships throughout the continent during the 1970s was, in fact, a poor partner in promoting regional integration, considering at the same time the overlapping interests of Latin American countries. The outcome was that the objective of a free trade area never materialized. It was partly defeated by extremely awkward and unfruitful tariff reduction negotiations. Economic stagnation due to demands of exceptions in combination with continued protectionism against third countries was the main characteristic of Latin America.¹¹
- The USA’s role was also of great importance. Its role as a superpower didn’t leave much space for manoeuvre for Latin American states. The United States had very little positive interest in Latin America. In other words, Latin America was not their priority. Considering that we are referring to the Cold War period, it seems quite clear that every possible development project for Latin American states could be considered as advancing the interests of the other side (USSR), thus being unacceptable.¹² Therefore, the only regionalism that was accepted was ‘hegemonic regionalism’ under the umbrella of the US. A striking example was the Organization of American States (OAS), which was perceived more as an instrument of US policies than as a genuinely regional body.¹³ The entire situation changed with the end of the Cold War. The United States showed more interest, expressed in a broad way in the manifest of the Enterprise for the American Initiative (EAI) taken by President Bush in 1990.

¹¹ Myriam Martins Gistelnic, *The Influence of Brazil’s Developmental Projects on its Positioning in the Negotiation of Regional and Bi-regional Trade Agreements*, *op. cit.*, p. 17.

¹² *Ibid.* p. 17.

¹³ Cyro Banega - Björn Hettne - Fredrik Söderbaum, “The New Regionalism in South America” in Michael Schulz - Fredrik Söderbaum - Joakin Öjendal (eds), *Regionalization in a Globalizing World*, *op. cit.* pp. 235-236.

The failure of LAFTA led most leaders in Latin America (especially in Brazil and Argentina) to start pushing for a reformulation of their regional integration strategies. This led to the negotiation of a new Treaty of Montevideo in 1980. The outcome was the creation of the Latin American Integration Agreement (LAIA). The new agreement was believed to be more flexible and pragmatic in terms of regional integration instruments.

A crucial factor that also led to this new attempt is the wave of democratization that flourished during the 80s. Latin America's return to democracy in the mid-1980s brought a new dynamic to the so called regional cooperation. The fresh generation of democratic leaders, in their attempts to stabilize the newly formed democracies, proceeded to regionalist schemes in order to back each other up.¹⁴ Moreover, there was a transformation of the political landscape in the direction of more openness and towards a genuine political culture, indicating a political homogenization of South America, and of the Southern Cone in particular.¹⁵ This shift began with Argentina and Brazil. These two states decided to put an end to decades of rivalry and engage in a process of bilateral cooperation.¹⁶

The LAIA agreement proposed two types of trade liberalization methods:

- It set an overall tariff reduction scheme for all members
- It produced a framework in which the signing partners could commit themselves to additional trade liberalization schemes or increased economic cooperation.¹⁷

However, the LAIA did not manage to succeed despite the liberal methodological initiatives. In fact, these initiatives were embodied within the ISI strategy as had happened already in the case of LAFTA. As experts argue, LAIA's success was jeopardized from the outset by the national-developmentalistic imperatives it aimed at. In other words, and paradoxically, the primacy of national protection in the ISI

¹⁴ *Ibid* pp. 235-236.

¹⁵ *Ibid.*

¹⁶ *Ibid.*

¹⁷ Treaty of Montevideo, 1980, art. 4-10.

model undermined the regional integration instrument that emerged to rescue it. The continuous strong antagonism between different states with similar inward-looking development strategies led the old regionalism and the LAIA agreement to failure. National markets did not open and, as a consequence, the explicit goal of diverting third party imports to intraregional production and export did not actually happen. As Robert Devlin characteristically wrote, “the effects of integration on commercial links with the industrialized countries’ markets and the multilateral system were not a central policy issue in view of the export pessimism of the times and the perceived ‘virtues’ of protection”.¹⁸

To conclude, Latin America took the lead concerning import-substitution industrialization development strategies right after the end of World War II. However, these strategies were implemented inside a protectionism framework. As some critics argue, Latin America countries raised their barriers and governments undertook a much more direct role in the economy. Unlikely many other areas in the world, the Latin American ISI model’s goal was to industrialize by substituting imports behind high levels of national protection. At the same time, the state took a leading role in promoting public enterprises in strategic sectors, and demanded regulation of FDI. The model prospered for almost a decade but began to falter in the 1950s. Hence, Latin America did not manage to follow the processes of liberalization of international trade in the world economy; thus, Latin America’s growth performance began to flag especially for the small economies. The diagnosis of the time led to the initiative of creating a larger market in order to achieve the efficiencies of economies of scale. Latin American countries saw regionalism as the panacea of the time. Larger market environment was believed to be the antidote to the limited capacity of ISI strategies.

¹⁸ Robert Devlin - Antoni Esteveordal, *What’s New in the New Regionalism in the Americas?*, Institute for the Integration of Latin America - Integration, Trade and Hemispheric Issues Division - Statistics and Quantitative Analysis Unit / Inter-American Development Bank, Working Paper 6, May 2001.

Key points

- The tendency for national protectionism: The opening up of a regional market was handicapped by the national protectionism inherent in the model. Paradoxically, the strategic tool of regional integration was undermined by the very model that it was designed to rescue.
- Tension between the state and the private sector: On the one hand there was wide state intervention in market decisions, and on the other there were protectionist habits of the private sector.
- Macroeconomic instability: The ISI model was inherently unbalanced and prone to exacerbate macroeconomic instabilities, as it placed heavy demands on capital and intermediate goods imports without an analogous generation of exports. This was aggravated by unstable commodity prices and financial flows.
- Distribution of benefits: Uneven trade balances among partners created serious political tensions in the agreements.
- Infrastructure: Sparse regional infrastructure was a limiting factor for growth of regional trade.
- Authoritarian governments: The period was dominated by authoritarian governments that stimulated national rivalries, border conflicts and restrictions on the flow of goods, people and development of regional infrastructure.
- US skepticism: The US government was not comfortable with regional approaches during this period, as its focus was exclusively on the multilateral system.

4. The shift: The new-open regionalism of the 1990s

The region's economic collapse of the 1980s was localized as the world economy continued to expand and world markets remained open. Under the pressure of an extended economic collapse and a shifting policy consensus, the region proceeded to a structural economic reform, a new wave of PTAs known as the 'new-open regionalism'. The concept of 'open regionalism' in Latin America originated in Economic Commission for Latin America and the Caribbean (ECLAC) proposals of the early 1990s. According to Eduardo Gudynas, the springboard for the evolution of the 'new' wave of regionalism were three documents: 'Productive Transformation with Equity' (PTE) in 1990, 'Sustainable Development: Productive Transformation, Equity, and Environment' in 1991 and finally the 'open regionalism' program in 1994.¹⁹

In our attempt to define the 'open regionalism' in some way, we discovered from the literature that few attempts had actually been made to define the term systematically. Clark W. Reynolds' concise definition – one of few – is quoted below:

*“Open regionalism is understood as a strategy of international economic opening which stresses regional cooperation with an emphasis on the reduction of intraregional transaction costs, broadly defined. The concept of social access is understood to involve active measures by the state and civil society to permit the gains from liberalization and structural adjustment to be more broadly shared, such that economic efficiency, competitiveness, and growth become consistent with social and political stability”.*²⁰

¹⁹ Eduardo Gudynas, “*Open Regionalism*” or *Alternative Regional Integration?*, Published by the Americas Program of the International Relations Center, at www.irc-online.org, 26 October, 2005.

²⁰ Clark W. Reynolds, *Open Regionalism - Lessons from Latin America for East Asia*, Working Paper 241, August 1997, available at <http://kellogg.nd.edu/publications/workingpapers/WPS/241.pdf>

However, an early attempt at defining ‘open regionalism’ could be found in a Report made by the Council of Economic Advisors to the President of the United States in 1995:

*“Open regionalism refers to plurilateral agreements that are nonexclusive and open to new members to join. It requires first that plurilateral initiatives be fully consistent with Article XXIV of the GATT, which prohibits an increase in average external barriers. Beyond that, it requires that plurilateral agreements not constrain members from pursuing additional liberalization either with non-members on a reciprocal basis or unilaterally. Because member countries are able to choose their external tariffs unilaterally, open agreements are less likely to develop into competing bargaining blocs. Finally, open regionalism implies that plurilateral agreements both allow and encourage non-members to join”.*²¹

From this definition derive three criteria for ‘open regionalism’:

- a) allowing non-members to join and maintaining a positive stance towards this
- b) consistency with Article XXIV of the GATT
- c) autonomy for member countries. Members have the right to liberalize further unilaterally and to sign plurilateral agreements with non-members.²²

As already mentioned, regional integration in Latin America is not something new; indeed, the history of the region was full from such initiatives since independence.²³

The factors that promoted ‘open regionalism’ are:

- Initially, as far as the international system is concerned, a crucial factor was the end of the Cold War. The bipolar and vertical order of the international

²¹ Definition was found in Arvind Panagariya, *The Regionalism Debate: An Overview*, July 1998, available at www.bsos.umd.edu/econ/panagariya/overview/overview.pdf

²² For a further analysis of the three criteria please see: Arvind Panagariya, *The Regionalism Debate: An Overview*, July 1998, available at www.bsos.umd.edu/econ/panagariya/overview/overview.pdf

²³ Robert Devlin - Antoni Esteveordal, *What’s New in the New Regionalism in the Americas?*, Institute for the Integration of Latin America-Integration, Trade and Hemispheric Issues Division-Statistics and Quantitative Analysis Unit / Inter-American Development Bank, Working Paper 6, May 2001.

system dramatically changed and was replaced by a new multi-polar world order. Within this new international chessboard Latin America countries, free from any ideological questions that determined their actions, changed radically.

- Additionally, the emergence of regional blocks such as those of Central and Eastern Europe compelled the Latin American states to take into account the new dynamics in the world trade system and to search for a new strategy of insertion into the international economic system in order to prevent a possible marginalization.²⁴ A cornerstone of this shift could be traced back to 1986 when two major competitor countries of Latin America, Argentina and Brazil, decided to put an end to their traditional rivalry. This happened partly in order to impede a nationalist backlash in both countries; however, the result was an Act of Integration which reflected, in the most characteristic way, the shift towards a new realism within Latin America Countries (LAC) international affairs and also the abandonment of old sub-regional domination dreams.²⁵

Regarding the internal requirements for a successful economic reform process and the achievement of sustainable development, the most crucial objectives were:

- i. “an improvement in productivity and competitiveness
- ii. a substantial increase in the value and dynamism of the export sector
- iii. a considerable rise in savings and investments, tax reform, and
- iv. environmental protection policies”.²⁶

In our attempt to illustrate the most prominent differences between the ‘old’ and the ‘new’ regionalism, we came across some really interesting analyses. From a critical perspective, as Barbara Jenkins argued, the most obvious contrast of the new regionalism with the old one was “its neoliberal perspective on regional integration through the exclusion of labor and the formal rejection of any measures to encourage

²⁴ *Ibid.*

²⁵ Jean Grugel - Marcelo de Almeida Medeiros, “Brazil and MERCOSUR” in Jean Grugel - Will Hout (eds), *Regionalism Across the North-South Divide – State Strategies and Globalization*, London: Routledge, 1999. pp. 54-55.

²⁶ Osvaldo Sunkel, “Development and Regional Integration in Latin America: Another Chance for an Unfulfilled Promise?” in Björn Hettne - Andreas Inotai - Osvaldo Sunkel (eds), *The New Regionalism and the Future of Security and Development*, London: Macmillan Press, 2000, p. 67.

economic development in smaller states”.²⁷ Indeed, as can be emphasized, neoliberal economic reform packages have led to a considerable expansion in exports based on natural resources and cheap labour, activities in which Latin American countries have comparative advantages, and also to a large increase in imports.²⁸

From another perspective, the defining difference between the new regionalism of the 1990s and earlier experiences, was the policy environment in conjunction with the changing political *status quo* and the transition to more democratic types of government, something which diminished the international frictions that characterized the military regimes, whilst at the same time bringing closer the LAC governments and civil societies. In other words, the coincidence of severe economic crisis and transitions to democratic rule has resulted in a significant politicization of economic policy.²⁹ In effect, the new regionalism was inserted into a framework of policy reform that promotes open and competitive private market-based economies in a modern democratic institutional setting. Economic liberalization and democratization became the primary objectives for most Latin American countries.³⁰ The first outcome was the creation of a new political forum, the Mecanismo de Consulta y Concentracion Politica Latinoamericana, better known as the Rio Group. Within this high-level permanent consultative mechanism, Presidents of several Latin American countries meet regularly to discuss policies of common interest. However, skeptics argue that in practice, there are no clear cases for practical political co-operation in many areas, such as environmental sustainability.³¹

Perhaps the most dramatic change that took place was the gradual shift during the 1990s from the traditional intra-regional focus for integration (South-South) to growing interest in inter-regional (North-South) agreements that commercially link

²⁷ Barbara Jenkins, “Assessing the ‘New’ Integration: The Mercosur Trade Agreement” in Kenneth P. Thomas - Mary Ann Tetreault (eds), *Racing to Regionalize Democracy, Capitalism and Regional Economy, International Political Economy Yearbook*, Vol. 11, 1999, p. 36.

²⁸ Osvaldo Sunkel, “Development and Regional Integration in Latin America: Another Chance for an Unfulfilled Promise?”, *op.cit.*, p. 67.

²⁹ Stephan Haggard, *Developing Nations and the Politics of Global Integration*, Washington: The Brookings Institution, 1995, p. 77.

³⁰ Myriam Martins Gistelinck, *The Influence of Brazil’s Developmental Projects on its Positioning in the Negotiation of Regional and Bi-regional Trade Agreements*, IIEB Working Paper 19, October 2005.

³¹ Osvaldo Sunkel, “Development and Regional Integration in Latin America: Another Chance for an Unfulfilled Promise?”, *op. cit.* p. 67.

industrialized countries in reciprocal free trade, often in conjunction with ambitious functional cooperation programs. This would have been politically inconceivable before the new policy framework that emerged in Latin America.

As in the past (in a negative way), another crucial catalyst to the dynamic of Latin America's 'new regionalism' was "the announcement in 1990 of an Enterprise for the Americas (EAI) on the part of President Bush led to a flood of initiatives on the part of LAC aimed to secure for themselves tariff-free access to the US".³² Bush's 'Initiative of the Americas' had the intention of a Free Trade Zone from 'Alaska to Tierra del Fuego'. The beginning was made with the creation of NAFTA in 1992 (signed in 1992, came into operation on 1st January 1994). President Clinton reaffirmed US intentions in December 1994, at the end of the Summit of the Americas, when the NAFTA countries invited Chile to join their association.³³

Back to history, the concept of 'open regionalism' was first elaborated by Gert Rosenthal, President of the ECLA between 1985 and 1997. He himself defined the concept of the new regionalism as the process of growing economic interdependence within a regional framework imbued with economic liberalization and deregulation, and aiming to improve the competitiveness of the states in the region and worldwide.

Nevertheless, it would be wrong to consider the 'open regionalism' only as a means of trade liberalization. Indeed, the new process aimed also to create tighter bonds between those states that have not only a common economic background but also a common historical, cultural and social heritage. Thus, it could be correctly assumed that even at an embryonic level, the 'new regionalism' has some political aspirations with more or less a specific foreign policy approach.³⁴ However, there are some differences of opinion here. A striking example is that of Diana Tussie, according to whom, the 'new-regionalism' is a process derived mostly by markets and less by policy, or "by flat or even enlightened bureaucrats".³⁵ Few, if any, of the new regional

³² *Ibid*, p. 67.

³³ *Ibid*, p. 69.

³⁴ Myriam Martins Gistelneck, *The Influence of Brazil's Developmental Projects on its Positioning in the Negotiation of Regional and Bi-regional Trade Agreements*, *op.cit.*

³⁵ Diana Tussie, "In the Whirlwind of Globalization and Multilateralism" in William D. Coleman - Geoffrey R.D. Underhill (eds), *Regionalism and Global Economic Integration. Europe, Asia and the Americas*, London: Routledge, 1998, p.93.

associations could be considered a bloc. Consequently, Tussie concludes that this process of regional integration is in fact a product of the globalization of economic activity.³⁶

Furthermore, upon closer inspection, it is obvious that in terms of trade growth there was a great boost in Latin America during the 90s, especially in intra-regional trade. In numbers:

- Since 1990, the value of intra-regional exports has grown by 18% a year on average, compared to 9% for extra-regional exports.³⁷
- Additionally, the GDP of the region grew 29% between 1990 and 1997 and the quantum of total exports rose 72%, thus increasing, as some experts have stressed, by more than one-third the export ratio of Latin America.³⁸

To conclude, it is important to underline the two specific commitments that Latin American states had to undertake in order to promote the new process effectively. Firstly, there had to be a clear commitment from participating states towards regional integration with neighboring countries in order to make possible the insertion into the international economic system – a commitment that went beyond the simple instrumental approach of using the ‘regional market’ to protect its own industry. Secondly, the external direction of the regional integration initiatives required a vigorous and strategic participation in hemispheric and multilateral world *fora* where the preferential trade agreements would function as building blocks of the wider initiatives.

However, it is worth mentioning the other side of the same coin. Thus, from another point of view, PTAs may increase transaction costs ultimately inflicting welfare costs upon the region. As Pitou Van Dijck wrote “although PTAs may have supported trade liberalization programmes, the emerging layers of preferential linkages with different

³⁶ *Ibid.* p. 93.

³⁷ Robert Devlin - Ricardo Ffrench-Davis, *Towards an Evaluation of Regional Integration in Latin America in the 1990s*, Paper presented for the Conference ‘Regional Economic Integration and Global Economic Cooperation: The Challenges of Industrial, Transitional and Developing Countries’, organised by FONDAD, The Hague/Netherlands, 18-19 November, 1997.

³⁸ *Ibid.*

rules of origins, preferential margins, exclusion lists and timetables contribute to the complexity of the liberalization process”, with possible negative results in the future.³⁹ Thus, the question that needs to be answered is whether the strong optimism deriving from the new wave of PTA’s concerning trade growth will have an effect on trade and exports liberalization.

One thing is for sure. During the last ten years, regionalism has re-emerged as a major issue on the policy agenda. In the Americas, the new Common Market of the South (MERCOSUR, 1991) and the North American Free Trade Association (NAFTA, 1994) were created while old Preferential Trade Agreements (PTAs) like the Andean Pact (ANDEAN) and the Central American Common Market (CACM) started a process of renewal in the late 80’s and early 90’s.

³⁹ Pitou Van Djick, “Meeting Asia and Latin America in a New Setting” in Pitou Van Djick - Gerrit Faber (eds), *The External Economic Dimension of the European Union*, The Netherlands/Hague: Kluwer Academic Publishers, 2000, p. 302.

Objectives of the new regionalism

- Strengthening structural economic reform: The overarching motive of the new regionalism is to create a strategic policy tool to reinforce the structural economic reform process in a period of highly competitive globalization.
- Economic transformation: The reciprocal openness, guarantees of market access, preferences and other aspects of a regional scheme can provide new opportunities for export experience and diversification and thereby, over time, serve as a strategic stepping stone to compete more effectively in a global economy.
- Attracting Foreign Direct Investment: By creating a larger liberalized rules-based market with locational advantages, a regional agreement can distinguish member countries and help them compete for and attract FDI.
- Geopolitics: A group of like-minded countries can use a regional agreement to establish a safety net for fragile democracies, promote disarmament and peace among neighbors, and enhance bargaining power in international *fora*.
- Functional regional cooperation: Following the example of Western Europe, where growing interdependence through trade has served to promote a political agenda of certain partners for deep integration, Latin American countries are trying to adjust a plethora of policies and activities between them.

5. The case of Mercosur

1. The story so far

On 26 March 1991, Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asuncion, establishing Mercosur, and declaring the aim of constituting ‘a common market’ by 31 December 1994 (Article I). At that time, most Latin American countries were engaged in switching development strategies from import substitution to export orientation. Within the Treaty, four special goals were outlined, setting the framework of the initiative:

- a) “establishing the free circulation of goods, services and factors of production
- b) adopting a common tariff and trade policy
- c) coordinating macroeconomic and sectoral policies and
- d) harmonising domestic legislation”.⁴⁰

Article V of the Treaty explained how these goals were to be achieved.

- a) Initially, there would be progressive, linear and automatic tariff reductions, and non-tariff barriers would be eliminated.
- b) Additionally, coordination of macroeconomic policies was needed in conjunction with the establishment of a common external tariff (CET).
- c) Finally, there would be sectoral agreements to free factor mobility and to establish economies of scale. Of course, these goals were only to be achieved by the effectiveness of intergovernmental means.

The period between 1991 and 1995, was a transitional period for the Southern Cone of Latin America. Several summits were held during this period in order to negotiate the common external tariff rate and resolve tensions that had arisen as a result of

⁴⁰ Andres Malamud, “Mercosur Turns 15: Between Rising Rhetoric and Declining Achievement”, *Cambridge Review of International Affairs*, Vol 18, No 3, 2005, p. 422.

asymmetries.⁴¹ During this period of transformation, the average level of tariffs in Latin America was dramatically reduced unilaterally from about 45 per cent in the late 1980s to about 13 per cent in 1995, and non-tariff barriers were eliminated on a broad range.⁴² Between 1991 and 1995, intra-Mercosur trade increased by 26% and the share of intraregional trade of Mercosur countries increased from 8% to 21% during the same period.⁴³

On 17 December 1994, the Protocol of Ouro Preto was signed and Mercosur took a permanent institutional structure that was to remain virtually untouched for a decade. The Protocol also provided Mercosur with an international legal character and defined its juridical bases. However, despite the original plan, Mercosur had not become a common market. At best, it had established a scheme for a customs union.

Moreover, the Treaty of Asuncion and the Protocol of Ouro Preto, together with another three protocols, constitute the institutional foundation and juridical framework of Mercosur. They deal with economic integration (content) and institutional structures (form). They do not deal with aspects that have attained greater relevance in other regional perspectives, such as regional citizenship, social cohesion and democratic decision-making.

As far as the institutional structure of Mercosur is concerned, it consists of six 'organos', but only two of them are major intergovernmental organs where decisions are made by consensus.

- The highest political decision making body is the 'Consejo del Mercado Comun' (CMC-Common Market Council). The Common Market Council is composed of Ministers of foreign affairs and economy; it is the highest-ranking body, responsible for political direction.

⁴¹ Karl Kaltenthaler - Frank O. Mora, "Explaining Latin American Economic Integration: the Case of Mercosur", *Review of International Political Economy*, Vol. 9, No. 1, 2002, pp. 72-97.

⁴² Heinz G. Preusse, *Mercosur-Another Failed Move Towards Regional Integration?*, Oxford: Blackwell Publishers, 2001.

⁴³ Karl Kaltenthaler - Frank O. Mora, "Explaining Latin American Economic Integration: the Case of Mercosur", *op. cit.* pp. 72-97.

- The other high-ranking body is the Common Market Group (GMC). This is the implementing organ coordinated by the ministers and made up of representatives of parastatal organizations.⁴⁴

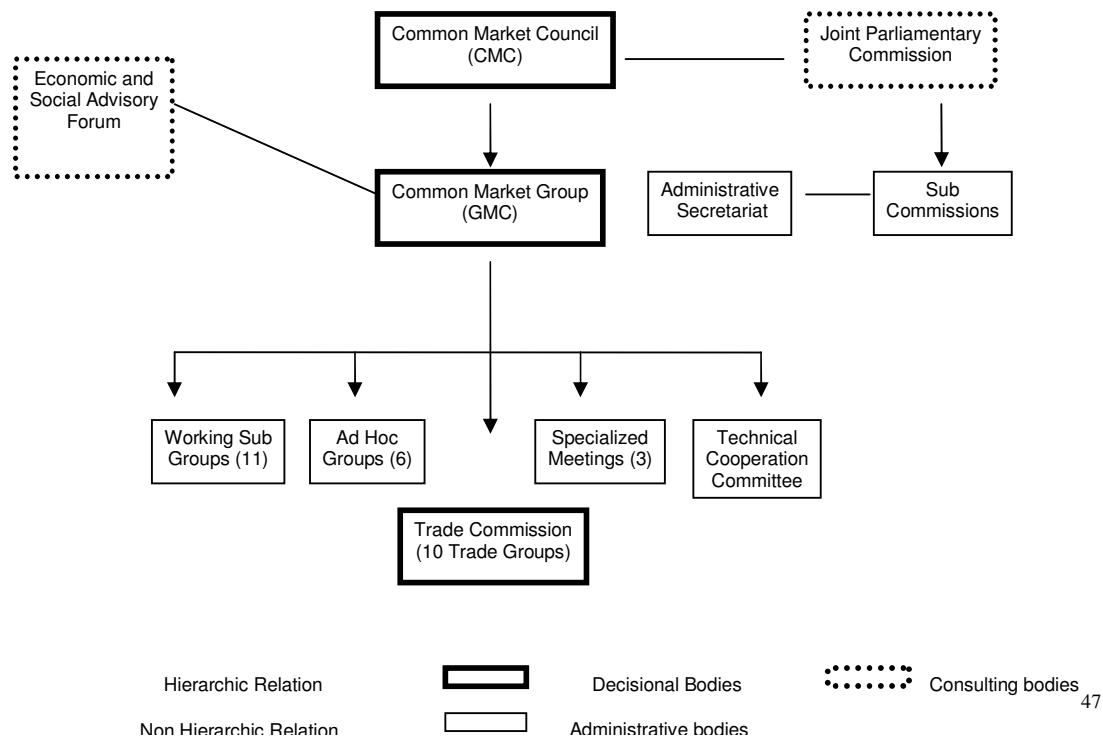
Unlike the EU, Mercosur lacks any influential supranational institutions; indeed, its decision-making process is inter-governmental rather than supra-national.⁴⁵ Moreover, in December 1994, the Joint Parliamentary Commission made up of legislators from the member countries and the Advisory Forum on Economic and Social Matters were created. Neither body has the authority or capacity to make decisions; they only have responsibility for monitoring and making recommendations. In a nutshell, Mercosur lacks influential coordinating institutions to make decisions. Power and decision-making authority rests with each member state, particularly the presidents and foreign and economic ministers represented in the CMC.⁴⁶

⁴⁴ *Ibid* pp. 72-97.

⁴⁵ Heinz G. Preusse, *Mercosur-Another Failed Move Towards Regional Integration*, Oxford: Blackwell Publishers, 2001.

⁴⁶ *Ibid*.

Mercosur's Institutional Structure



When the Customs Union was implemented in some way in 1995, tariffs were eliminated for about 90 per cent of all tariff lines among member states, and 85 per cent of all tariff lines were included in the common external tariff (CET).⁴⁸ Giving an overview of the development of Mercosur trade between 1990 and 1995, we can observe that in the context of overall trade expansion at an average rate of 8.7 per cent in exports and 20.4 per cent in imports, intra-Mercosur trade expanded 28.4 per cent in exports and 26.6 per cent in imports. Thus, as Heinz Preusse correctly observed, due to this change in favour of intra-Mercosur trade the percentage of intra-Mercosur

⁴⁷ Andres Malamud, "Presidentialism and Mercosur: A Hidden Cause for a Successful Experience" in Finn Laursen (ed.), *Comparative Regional Integration*, Hampshire: Ashgate, p. 55.

⁴⁸ Heinz G. Preusse, *Mercosur-Another Failed Move Towards Regional Integration?*, Oxford: Blackwell Publishers, 2001.

exports relative to total exports increased from 8.9 billions in 1990 to 20.3 billions in 1995.⁴⁹ (Table 1)

TABLE 1
Mercosur Exports and Imports 1990-1995 (Billions of
US\$)

	1990	1991	1992	1993	1994	1995	
X Total	46.5	46.0	51.6	54.3	62.9	70.2	
X Intra	4.1	5.1	7.2	10.0	12.0	14.2	
X Extra	42.4	40.9	44.4	44.3	50.9	55.8	
M Total	31.6	36.7	40.8	51.6	63.7	79.4	
M Intra	4.5	5.5	7.5	9.8	12.5	14.4	
M Extra	27.1	31.2	33.3	41.8	51.2	65.0	
<i>X Intra</i>							
X Total	8.9	11.1	14.0	18.5	19.2	20.3	
<i>M Intra</i>							
M Total	14.1	14.9	18.5	19.0	19.5	18.1	
	<i>Percentage Change</i>						
	1991-95	1990	1991	1992	1993	1994	1995
X Total	8.7	3.6	-1.3	12.3	5.3	15.7	11.4
X Intra	28.4	11.3	23.7	41.4	39.5	19.7	17.8
X Extra	5.8	2.9	-3.7	8.6	-0.3	14.8	9.8
M Total	20.4	13.9	16.1	11.1	26.6	23.4	24.7
M Intra	26.6	8.4	21.9	38.3	29.9	27.2	15.5
M Extra	21.5	14.8	15.1	16.4	25.9	22.5	27.5

Notes:

X = Export, Intra = Mercosur intra-regional trade.

M = Import, Extra = Mercosur extra-regional trade.

Source: Inter-American Development Bank.

In 1995, with the implementation of the Treaty of Asunción (TOA), many officials were very optimistic for the future. The average external tariff was set at 11 per cent and covered 85 per cent of all customs lines. There was also a plan to face the remaining exceptions in a ten-year period, further harmonising macroeconomic and trade policies between the state members. However, exogenous factors, such as the Asian crisis and its side effects, were an important obstacle to a favourable and continuous development in terms of trade and economic growth. During the second half of the 1990s export kept on growing in 1996 and 1997, but shrank in 1998 and slumped in 1999.⁵⁰ The same also happened to imports until 1998. Nevertheless, on the positive side, total exports grew faster during the 1995-1997 period than in the early 1990s, due to a strong increase in extra-Mercosur trade. (Table 2)

⁴⁹ *Ibid.*

⁵⁰ Heinz G. Preusse, *Mercosur-Another Failed move towards Regional Integration?*, op. cit.

TABLE 2
Mercosur Exports and Imports 1990-1999 (Billions of
US\$)

	1990	1995	1996	1997	1998	1999	
X Total	46.5	70.2	75.2	83.6	81.4	69.9	
X Intra	4.1	14.2	17.1	20.8	20.4	13.9	
X Extra	42.4	55.8	58.1	62.9	61.0	56.0	
M Total	31.6	79.4	88.9	105.7	103.4		
M Intra	4.5	14.4	17.9	21.6	22.2		
M Extra	27.1	65.0	71.0	84.1	81.2		
<i>X Intra</i>							
X Total	8.9	20.3	22.7	24.8	25.1	19.9	
<i>M Intra</i>							
M Total	14.1	18.1	20.1	20.4	21.4		
	<i>Percentage Change</i>						
	1997-95	1995-97	1995	1996	1997	1998	1999
X Total	8.7	10.0	11.4	7.4	11.2	-2.6	-13.7
X Intra	28.4	19.9	17.8	20.3	21.7	-1.7	-31.6
X Extra	5.8	7.3	9.8	4.1	8.1	-2.9	
M Total	20.4	18.5	24.7	12.0	18.9	-2.2	
M Intra	26.6	20.1	15.5	24.5	20.4	2.8	
M Extra	21.5	18.2	27.0	9.2	18.5	-3.4	

Notes:

X = Export, Intra = Mercosur intra-regional trade.

M = Import, Extra = Mercosur extra-regional trade.

Source: Inter-American Development Bank.

During this initial period of Mercosur, the group signed its first Free Trade Agreement (FTA), in June 1996, with Chile. This agreement's goal was primarily the automatic elimination of all tariffs, and on a secondary level, the prohibition of implementation of new trade restrictions, committing the parties to identify and dismantle non-tariff barriers (NTBs).⁵¹ Moreover, in December of the same year, Mercosur proceeded to another free trade agreement with Bolivia. As in the Chile-Mercosur agreement, the FTA with Bolivia included a number of schedules for tariff elimination.

As already mentioned, Brazil and Argentina were the leading members for Mercosur, and it has been documented that most of the new trade policy measures that came into effect on the sub-regional level were implemented by those two states. However, in

⁵¹ Roberto Bouzas, "Mercosur's External Trade Negotiations: Dealing with a Congested Agenda" in Riordan Roett (ed.), *Mercosur: Regional Integration, World Markets*, London: Lynne Rienner, 1999, pp. 82-83.

1995 and 1996, Brazil raised import tariffs from outside countries unilaterally to 70 per cent on an extensive number of consumer durables. Moreover, early in 1998 Brazil introduced a new scheme of prior licensing on agricultural (dairy), pharmaceutical, chemical and food products. In addition, Brazil later added new quality certificates for another 170 industrial goods.⁵² Argentina introduced new import control measures in March 1999, ‘involving detailed specification and a priori declaration procedures of imports’, measures that seemed quite similar to the Brazilian prior licensing system. In addition, Argentina also applied anti-dumping measures more frequently, using them both internally against Brazil mostly and externally against the EU and China.⁵³ Undoubtedly, these initiatives produced some dangerous cracks to the institutional building of Mercosur.

The period between 1999 and 2001 was a very crucial one for the existence of Mercosur. In 1999, Brazil decided to devalue its currency considerably against the US dollar, while Argentinian President Menem had made monetary equivalence with the dollar a priority of his strategy. Argentina, for the moment, stopped applying the common external customs tariff, which had in the meantime further been elaborated in the framework of Mercosur, and thus suspended the effect of the customs union. Uruguay and Paraguay consequently also established unilateral external tariffs.⁵⁴ The Argentinian economy, which was not strong at the time, went further downhill. In 2002, under strong economic pressures, Argentina abandoned equality with the dollar and was forced to cease payment of the national debt, which by then had increased. The government of Argentina then faced the deepest ever economic, political and monetary financial crisis in its history. The ‘tango crisis’ created a tidal wave of reactions throughout the region. The Uruguay banking sector – traditionally a sanctuary for Argentine capital – was also affected by the crisis. Brazil faced diminishing economic growth, but managed to limit the damage. For a while, it seemed that Mercosur’s fate had been sealed but, due to new political developments and the region’s continuous economic improvement, the prospects for Mercosur changed for the better again. The election of Lula da Silva and Kirchner as Presidents of Brazil and Argentina respectively, forecast renewed vigor for Mercosur. At the

⁵² Heinz G. Preusse, *Mercosur-Another Failed Move towards Regional Integration? op.cit.*

⁵³ *Ibid.*

⁵⁴ John AE Vervaele, *Mercosur and Regional Integration in South America*, SEW, Tijdschrift voor Europees en Economisch Recht, December 2003, pp. 406-416.

meeting of the Mercosur Heads of State (17 June 2003), it became clear that for both of the newly elected presidents, Lula and Kirchner, deepening the integration in the framework of Mercosur was a primary political objective. Their common agenda reflected the new eagerness for a stronger and deeper cooperation with tangible outcomes.⁵⁵ At a special summit in October, projects were discussed ensuring that the integration within Mercosur was both strengthened and accelerated.

A great step forward for strengthening Mercosur's international role was made on July 8, 2004 when, after eight years, five protocols, and a decade of unsuccessful attempts, Venezuela joined the Common Market of the South. Venezuela was admitted as an associate member during a marathon meeting of the presidents' summit that took place in the Argentinian city of Puerto Iguazú, on the border with Brazil and Paraguay.⁵⁶ The final act was played out on 20 July 2006, when the 30th summit was held. During this two-day summit, Venezuela, the world's fifth largest oil exporter, was declared a formal Mercosur member. Following the introduction of Venezuela, Mercosur had more than 250 million people and a gross regional product of 300 billion US dollars. Under the membership agreement, Venezuela will have free access to Argentine and Brazilian markets in 2010, to those of Uruguay and Paraguay in 2013, and will open its own markets by 2012.⁵⁷

Undoubtedly this move will provide Mercosur with another negotiating advantage. Venezuela's insertion will revitalize Mercosur's political role, as a regional group on the international scene. The question that remains is whether the President of Venezuela, Hugo Chavez, will harmonize his policies with the other members. Were that to happen, Mercosur would acquire a very strong political voice, something it has been blamed for not having.

⁵⁵ *Ibid.*

⁵⁶ <http://www.venezuelanalysis.com/articles.php?artno=1214>

⁵⁷ http://english.peopledaily.com.cn/200607/21/eng20060721_285462.html

2. Political or not? Challenging the debate.

Does Mercosur have a political agenda? Is there any fruitful discussion for political cooperation? These are questions of great concern, though perhaps not very apt, as the Treaty of Asuncion was strict and quite clear in leaving almost no room for misunderstanding by abstaining from any reference to political issues. It has been very common for many analysts to confuse the political motivation of the agreement with political means and goals. Indeed, the wave of democratisation of the mid 80s was the precursor for the creation of Mercosur, but the Treaty abstained from referring to political institutions and social actors, focusing entirely on economic and trade issues.

The confusion surrounding the nature of Mercosur can be traced to the mid 90s. People tended to believe that Mercosur represents an end itself rather than a means targeting to increase economic efficiency and economic growth. Additionally, it has been instrumentally depicted either as a political panacea or used as an economic scapegoat or smoke screen to distract attention away from domestic political and economic weaknesses.

After the global financial crises of 1995–99, Mercosur attained an epic figure in the eyes of the progressive representatives of Latin America. It came to be seen as a symbol of resistance to neoliberalism, which was promoted by the US hemispheric free trade initiative. This newly-shaped association of developing countries was seen as a political tool capable of promoting social rather than merely economic goals, and able to combat the neoliberal approach to regional integration. According to these progressive thinkers, Mercosur should make a 180 degree shift in its priorities, leaving behind the conservative market-based project and bringing political and social dimensions to the fore. It is in this context that the participation of civil society and the establishment of a regional parliament have become such persistent rhetorical features—but no more than that.

On the other hand, conservative-liberal thinkers were more sceptical about the economic dimension of the project. They were afraid of Mercosur becoming a

customs union rather than a free trade area. It could be assumed that here lies a similarity with the EU, because as in the EU integration case progressive voices have defended deeper integration while conservative voices have advocated widening the scope of trade liberalisation. The difference is that the founders of the EU envisioned it as an ambitious political construct, something which is reflected in the most characteristic way in its far-reaching treaties, whereas Mercosur treaties have been exclusively about economic integration. Those who defend Mercosur, therefore, are supporting something that does not exist and that is, moreover, different from what the founding treaties set out as its goals.

Not being nihilists, we would argue that despite the fact that Mercosur seemed to have no specific political intentions, it is actually a dynamic, politically motivated move with clear orientations. The two leading parties, Argentina and Brazil, gave great emphasis to the ‘democratic clause’ as a vehicle for a further coordination. Moreover, the political coordination efforts of Mercosur countries cover a wide range of issues, but have been more successful in relation to two topics of special interest to the United States policy for the region:

- a. the disarmament of the area, and
- b. the maintenance of formal democratic regimes –open to external political and economic influence.⁵⁸

Obviously, these goals were set under the underground guidance of the US. In reality, things were quite different. While in the past (before the TOA) presidential diplomacy in the Mercosur states had led to unprecedented coordination of foreign policy, in the mid 90s the situation changed somehow. In short, there were many economic and political commonalities during the first phase of democratization in the Mercosur countries, and particularly between Argentina and Brazil. Commonalities, which were focused on various foreign affairs issues such as the crisis in Central America, the Uruguay Round of negotiations on the General Agreement on Tarrifs and Trade,

⁵⁸ Samuel Pinheiro Guimaraes, “The International Political Role of Mercosul II” in Helio Jaguaribe - Alvaro de Vasconcelos (eds), *The European Union Mercosul and the New World Order*, London/Portland: Frank Cass, 2003, p.121.

nuclear non-proliferation regimes, and so on.⁵⁹ Nevertheless, the new governments that came to power in Argentina and Brazil in 1989 and 1990 brought a reorientation of foreign and domestic economic policies. By the end of the Cold War, Argentina and Brazil came to view the new world order from different perspectives. The new Argentinean government moved toward a special relationship with the United States, while Brazil preserved a foreign policy stance that valued autonomy in world affairs. During the last part of Itamar Franco's administration (President of Brazil 1992-1994) Brazil changed its perceptions about the new world order. As Monica Hirst characteristically wrote, "relations with Washington gradually became less ticklish" while the idea that Brazil had "a role to play as 'consensus builder in the international community'" grew.⁶⁰ In a nutshell, commonalities in world politics were no longer a fact. For Argentina, it was vital to harmonize economic integration with regional cooperative security. On the contrary, for Brazil, the TOA was perceived as a first step toward establishment of a free trade area throughout South America, while cooperative security schemes were to be avoided, and the expansion of the NAFTA to South America could not overshadow Mercosur.

However, following the global trend of regional blocks, relations among Argentina, Brazil, Paraguay, and Uruguay, were motivated more by economic interests than by common foreign policy goals. As a matter of fact, the Presidents of Argentina and Brazil and their closest aides, usually refer to Mercosur as a 'strategic alliance', as 'destiny rather than choice', as 'the dynamic axis of South American integration' and even as 'the most transcendental political decision in our history'.

Despite the clear (more or less) economic direction of Mercosur, its political dimension seems to lack an objective. The constant controversy that surrounds its present and future has led many analysts to refer to a lack of focus. As Ivan Bernier and Martin Ray wrote, "Mercosur was built on fragile footing: With its twenty-four articles covering twelve pages and its five brief annexes, the Treaty of Asuncion set out what are at best a simple series of flexible principles establishing relations between member states, an institutional body with limited powers, and minimal rules

⁵⁹ Monica Hirst, "Mercosur's Complex Political Agenda" in Riordan Roett (ed.), *Mercosur, Regional Integration, World Markets*, London: Lynne Rienner, 1999, p.36.

⁶⁰ *Ibid.* p.37

concerning the liberalization of trade and the establishment of a customs union”.⁶¹ This explains the rather odd title of the first report of the Mercosur Technical Secretary of July 2004: ‘A Focus for the Process of Regional Integration.’

From this lack of focus, and also from the continuous crises of the period 1999-2001, derives a crucial question for Mercosur’s existence. The answer can be given in terms of the convergent strategic interests of Mercosur partners.⁶² Geopolitics plays a fundamental role concerning the continuation of the coalition. In fact, the parties of Mercosur had correctly recognised that a group of like-minded countries can use a regional agreement to establish a safety net for fragile democracies, promote peace among neighbours and enhance bargaining power in international *fora*. Definitely, Mercosur’s negotiating power will increase with the addition of Venezuela (July, 2006), but only if there is a blending of common thoughts and interests.

⁶¹ Ivan Bernier - Martin Ray, “NAFTA and Mercosur: Two Competing Models?” in Gordon Mace - Luis Belanger (eds), *The Americas in Transition*, London: Lynne Rienner, 1999, p.73.

⁶² Laura Gomez Mera, “Explaining Mercosur’s Survival : Strategic Sources of Argentine–Brazilian Convergence”, *Journal of Latin America Studies*, Vol. 37, No. 1, 2005, pp.109–140.

6. Bi-regional relations

Interregionalism is not a new phenomenon in the arena of international relations. Already in the 60's and early 70's during the first wave of regionalism in the middle of the Cold War, the European Union (European Community (EC) then) set up a group to group dialogue. However, the concept of interregionalism or transregionalism for other scholars, has not found an absolute definition yet. Consequently, it is very difficult, and risky as well, to try to create a framework for this trend, especially when we consider the type of bonds between the regional blocks. Indeed, it is quite interesting to evaluate the reasons that drive nation states to create interregional instruments which are weakly institutionalized and legally non-binding. The answer could be found between the lines of the definition of interregionalism made by Ralf Roloff. According to him, interregionalism is defined as a process of widening and deepening political, economic and societal interactions between international regions.⁶³ We would stress that the major scope mentioned here, above all, is the economic one, and especially the improvement of trade relations between regions, which would add depth to their progress.

Thus, this chapter will try to illustrate the progress of interregionalism between the Mercosur and the triad (US, EU, ASEAN).

6.1. EU and Latin America

Despite the strong and diachronic historical and cultural links between Europe and Latin America, in the past the formal cooperation initiatives between the two regions have been mostly low-profile and mainly centred on individual countries rather than on a sub regional concept. During the first wave of 'old regionalism' the relations

⁶³ Ralf Roloff, "Interregionalism in theoretical perspective" in Heiner Hänggi - Ralf Roloff - Jürgen Rüländ (eds), *Interregionalism and International Relations*, London/New York: Routledge 2006, pp. 18-19.

between the two regions were as described above. However, a shift occurred when the Latin American countries decided to adopt new economic policies and methods known as the 'new regionalism'. The need to reconstruct their local economies on a more open and market based model, aspiring at the same time to realize social equality and to ensure the existence of the newly formed democratic institutions, drove Latin America to the path of 'open regionalism'. During this period, EU-Latin America relations seemed to flourish at both the economic (mainly) and political level. It is crucial to illustrate the EU-Latin America approach on a historical basis and within the framework of four steps.

Initially, in 1960, when the Latin America Free Trade Area (LAFTA) was founded, both sides – Latin American countries and EC – agreed to a wide framework of cooperation regarding the sectors of trade and politics. In 1969, due to the foundation of the Andean Pact, the two regions continued to collaborate on a great deal of issues. The main objective of these first steps was to strengthen the Latin American countries, in counterbalance to the rapid economic growth of the United States of America. For fear of losing their competitiveness, the European countries contributed to LAFTA's development, a move which resulted in constraining the United States' power. The failure of LAFTA gave birth to the second generation of agreements between the two regions. In the mid 80s, the decision of Brazil and Argentina to put an end in their continuous struggle, as far as the leading role in the regional integration process is concerned, facilitated the region in focusing on more important economic and political issues. The corollary was the beginning of the Mercosur agreement which established other types of relations with the EU, not only in economic terms but also in political ones.

In addition, the third stage in the relations between Latin America and the EU was introduced in the period 1990-92, when Brazil, Argentina, Paraguay and Uruguay, agreed to the establishment of Mercosur, a new type of agreement at the international level, which could support its long term development goals. The European Union embraced Mercosur, so as to substitute the former, relatively weak agreements for a new, more vital framework which would focus on integration and regional cooperation with respect to democratic values and principles.

In 1995, during Madrid's European Council, the two regional blocs concurred in the creation of the European Mercosur Framework Cooperation Agreement (EMIFCA). This constituted the fourth generation agreement, representing the official institutional framework of the EU-Mercosur relationship.

In summary, throughout the process of Latin America's regional integration, the European Union contributed in several ways. During the 80s, numerous changes in world politics along with historic events of paramount importance persuaded the countries of South America to strive for democracy and stability. Consequently, due to their inexperience, those newly formed democracies strongly expressed their preference both for interregional policies and the open market.

It can be easily deduced by a sequence of facts, how the EU affected the political situation during this period. With the San José Process, the European countries used their superiority as a civilian power to offer not only economic incentives, but also political ones and auxiliary support for institutional structures.⁶⁴ Additionally, institutions which traditionally had influenced those countries, such as the Catholic Church and the social democratic parties, played their own instrumental role.

6.1.1 Institutional Framework and Relations between EU and Mercosur

The 1995 agreement mainly included the further liberalization of the goods and services trade. The goal of EMIFCA was the creation of a union that was able to comply with the regulations of the World Trade Organization. The negotiations continued until 1999, when in Brussels, a new agreement of Interregional Connection was put into practice. New instruments were developed, aiming to efficiently cope with the daily agenda:

- a) A bioregional subcommittee on cooperation
- b) Three subgroups accountable for specified sections (sub-group on economic cooperation, sub-group on social and cultural cooperation) and

⁶⁴ Panos Tsakaloyannis, *The External Dimension of the European Union*, Athens: Athens University of Economics and Business, 2004. pp.88-100.

c) Three technical groups (TGs) responsible for trade issues.⁶⁵

Moreover, both sides have agreed to follow a common framework as far as the free trade of commodities, the states' commissions and the investments are concerned.

The two pillars of EU-Mercosur relations

Economic and Commercial Cooperation

Mercosur was the fourth biggest economy in the world after NAFTA, the EU and Japan. The addition of Venezuela in 2006 made Mercosur a bigger market than NAFTA. In addition, Mercosur's yearly 3.9% rate of development places it amongst the three most rapidly developing countries in terms of economic growth. Thus, EU-Mercosur relations are of great importance considering the economic growth of these regions. The EU absorbs a considerable amount of Latin America's exports and, concomitantly, the Union represents 26 per cent of Mercosur external trade, becoming its leading partner.⁶⁶ There has been considerable growth in the trade of goods. From 1990 to 1998, EU exports to the South American bloc increased by 375 per cent, while the Union's share of exports from Mercosur rose from 14.4 per cent to 21.6 per cent during the same period, resulting in a major trade deficit for the Southern Cone economies. For LA countries during the crucial period between 1999 and 2001, economic relations between the two regions seemed to freeze in terms of economic growth. However, the capital flows between the two regions have remained at high levels since then. Specifically, the EU is the leader in FDI, especially in the service sector such as financial services and telecommunications.

The main aim of the EMIFCA was the establishment of a Free Trade Area to make commercial transactions easier. During the agreements, the liberalization of both commodities and services seemed to be a matter of great significance. Moreover, in order to increase effectiveness in business cooperation, the two Unions set up the Mercosur Europe Business Forum, whose meetings are being held regularly, so that

⁶⁵ http://www.sice.oas.org/TPD/MER_EU/MER_EU_e.asp

⁶⁶ Sebastian Santander, "The European Partnership with Mercosur: A Relationship Based on Strategic and Neo-liberal Principles", *Journal of European Integration*, Vol. 27, No.3, 2005, pp. 285-306.

not only can its members negotiate, but they can also strengthen their influence over policy makers (governments and NGOs).

With regard to the structure of the trade, the Southern Cone countries export a large quantity of processed foodstuffs, raw materials and agricultural products, while the EU supplies Latin America with industrial products, notable for their highly added value. Consequently, the trade structure between Mercosur and the EU bears a strong resemblance to the North-South economic relations.⁶⁷

Unfortunately, this leads to the thorny issue of bioregional relations. The Common Agricultural Policy, in combination with numerous grants in the Union's agricultural product exports, provokes an extremely strong reaction from Latin American countries, since their main export commodities are agricultural.

What is more, the tax system which has been adopted by the European countries, widens the gap between the two regions. This system imposes considerably high taxes on products which are produced in Latin America, such as beef, sugar and fruit to name but a few. Such taxes usually make importing quite difficult or even prohibit it altogether.⁶⁸

Political dialogue

The EU has always expressed its concerns over political issues. Hence, between the two parties there has been established a framework agreement of Joint Declaration. The oldest forum for political discussion is the San José Dialogue, where both parties agreed to hold a ministerial meeting every two years. Then, in the Rio Group-EU, the two participants discussed a variety of subjects, including the main Latin American problem, which is the European protectivism and low Latin American competitiveness.

⁶⁷ *Ibid.* pp. 285-306.

⁶⁸ Panos Tsakaloyannis, *The External Dimension of the European Union*, *op. cit* pp. 88-100.

Generally speaking, the issues that concern both regions during the dialogue are not of such great political importance. The major concern of the EU is the incorporation of serious, sensitive matters such as social inequalities, the exploitation of women and children, the war against drug trafficking and corruption into the political dialogue. These problems constitute an obstacle to the relationship, as countries like Brazil have always refused to include such topics for discussion, while Europe continues to insist on the enforcement of civil society in Mercosur countries.⁶⁹

Cooperation in certain fields

Briefly, the EU and Mercosur are partners in many other fields, especially focusing on assisting Latin American countries in further development. A considerable number of programs are being applied to sectors such as technology transfer, strategic alliances, joint ventures, etc. In addition, there are programs that aim at modernizing the energy systems and the regional energy integration. One of the most popular programs is the ALFA, by dint of which the EU is endeavouring to contribute to Latin America's scientific, academic and technological development.⁷⁰

To conclude, Mercosur constitutes a top priority for the EU, both for economic and geopolitical reasons. On the one hand, it is true that Mercosur is the fourth biggest economy in the world with a remarkable rate of development. On the other hand, the strengthening of both regions' relations heralds the Monroe Doctrine, according to which, the US has the monopoly of influence over Latin America. By the end of the Cold War, the EU was able to establish bonds with the countries of Asia and Africa, while North America, due to its geographic position, was constrained only to Latin America.

In general terms, the EU-Mercosur relationship is perceived by Mercosur as different to that of the US-Mercosur. Despite the great similarities between USA-Mercosur and EU-Mercosur as trade partners of Mercosur, there is some uniqueness in the relations between Europe and Latin America. The EU tries to break the North- South division

⁶⁹ *Ibid.* pp.88-100.

⁷⁰ Monica Rubiolo, *EU and Latin America: Biregionalism in a Globalizing World*, No. 7, Giessen, January 2002, available at www.uni-giessen.de/zeu/Papers/DiscPap7.pdf

by supplying Mercosur with economic resources thus enhancing the development of its institutions. On the contrary, the US has reduced its economic aid, based on the “trade not aid policy”. What is more, the US is trying to approach each country individually and not the Mercosur as a whole. At the same time, the EU aims to shape a strong Mercosur enabling it to influence the economic governance of the global world economy. Furthermore, the EU’s relations are not only limited to economic fields, but they are also expanding in areas that have little to do with trade.

By promoting, through implementing programs, the values of democracy, culture, human rights, social justice, development and good governance, the EU strengthens its position as an economic power. The EU perceives itself as a civilian power and the characteristics of the Mercosur-EU relations support this perception. In terms of absolute gains, the EU seeks that the EU and Mercosur both get absolute gains from the relationship.

It becomes obvious that throughout the interregional process of Mercosur, the EU played an instrumental role not only as an economic partner but also as a pattern to imitate in terms of integration. To be more specific, the states that founded Mercosur, followed the same steps as the EU did, in order to achieve a more integrated whole. In its initial stage, a customs union was adopted. After the consolidation of the economic relations, the Union was expanded into a Common Market with a common external tax system. Even the time chart that has been followed bore resemblance to the one that the EU had used. Within twelve years, the common market should have been established as the EC was.

As far as the institutions and the main targets of both unions are concerned, Mercosur differentiates itself from what the EU has supported. In both regions, the role of the leader country belongs to the main economic power with the largest population.

The main difference lies in the fact that in Europe, Germany aspires to promote a European federation; in Mercosur, Brazil which is the main power, reacts aggressively to the option of a federal system. This resistance can be easily explained in three ways: Firstly, Brazil is the same size as the US; secondly, it has a great industrial foundation; thirdly and more importantly, Brazil is rich in natural resources.

As a result, Brazil can be perceived as a distinct continent which meets all the requirements for becoming a great regional power.

6.2. Latin America and Asia: FEALAC

The fact that Asia and Latin America are two regions with no obvious links is widely accepted and can be analyzed as follows: First of all, the two regions have no reason to consider each other as linked in any way because of the significant geographical distance.⁷¹ What is more, historical reasons have not allowed close cooperation since Latin America and Asia have experienced slower economic growth than North America or Europe. Therefore, in order to create a framework for cooperation, Latin America and Asia – especially the East Asia – had to overcome the disadvantage of no former commercial relations and the absence of traditional ties.

During the Cold War, the direct and all-encompassing influence of North America Central and Latin America, as well as the regime of colonialism which was a *status quo* in East Asia, left no room for financial development, thereby making the idea of bilateral cooperation impossible. However, a new optimistic beginning for the two regions emerged at the end of the Cold War. An enormous transformation took place on several levels, giving the green light to inter-regional cooperation which would bridge the gap between the two geographical areas.

It is widely recognized that the 80s were a transitional period for Latin America and East Asia. The countries of these two regions saw economic self-recovery as a priority, leaving aside the possibility of relations with any partners outside the region. At the time, measures for regional cooperation were still seen as a way of reducing dependence from the world economy and particularly from developed countries.⁷²

⁷¹ Akio Hosono, “Towards Closer Cooperation between East Asia and Latin America: FEALAC and Other Initiatives” in II Jornada Sobre Triangulación España, América Latina y Asia-Pacífico Cooperación entre Asia-Pacífico, América Latina y España, Barcelona, Eds Casa Asia, 2002, p. 4.

⁷² Ramiro Pizarro, “Comparative Analysis of regionalism in Latin America and Asia-Pacific”, in Santiago de Chile, *Serie Comercio Internacional*, 1999, pp. 29-30.

However, the 90s arrived with a total shift in view, since the two regions started considering cooperation with each other as one of the ways to improve their financial and social status.

Nevertheless, East Asia and Latin America followed two different paths on their way to economic transformation and development. “Latin America countries enacted three major reforms:

- (1) abandonment of interventionist strategies that helped bring about serious economic crises in the 1980s,
- (2) liberalization of trade and capital flows and
- (3) deepening of the privatization of state-owned enterprises”.⁷³

On the other hand, Asian countries followed a different route, as they focused on expanding their trade through “market-led integration” which was not based on formal agreements.⁷⁴

Towards the end of the 1990s, Latin American countries showed a tendency to expand their financial activities outside the barriers of the region. As a result, they supported the creation of a bilateral Free Trade Area in cooperation with Asian countries, recognizing the promising prospects of a future collaboration. Mexico and Chile, in particular, were the first to suggest the formation of FTAs.

The areas in which Latin America and East Asia were activated as a first step towards cooperation were trade and Foreign Direct Investment. As far as trade is concerned, at the end of the 90s, interesting conclusions in reference to the relations between the two regions were indicated. The share of Latin America in total East Asian exports had stabilized at around 2% or 3%, while the share of East Asia in total Latin American exports reached 10%. This asymmetry proves the importance of East Asia for the countries of Latin America. There is, of course, a logical explanation for the situation described above. The theory of international trade asserts that the regions’ trade is competing. In addition to that, the geographic distance does not – in any way – encourage trade between Asia and Latin America. The overall deduction is that

⁷³ Shoji Nishijima and Akio Hosono, *Modes of Economic Integration between Asia and Latin America*, available at: www.rieb.kobe-u.ac.jp/~nisijima/modeforintegration.PDF, p. 1 and 13.

⁷⁴ *Ibid.*

these activities have been problematic, nevertheless new hopes arose in the context of expanding interregional trade. According to Akio Hosono and Shoji Nishijima “economic liberalization can change in product varieties and qualities (differentiation) which can provide a large chance for the two regions”.⁷⁵

In considering the role of Foreign Direct Investment, it is clear that the less-developed economies have inadequate opportunities for secure investments and stable relations. Japan was probably the only Asian country that tried to approach Latin America as an area for FDI. The results were not encouraging at all because of the rivalry with the US and several European countries which reckoned Latin America to be the most important future market with expanding networks thanks to regional integration. At the same time, the major part of the FDI in Latin America went into Caiman Island, Bermuda and Panama, boosting relations inside the region, while taking advantage of tax havens. We ought to mention that the period we are referring to (1997-1999) was particularly tough for the Asian economy because of the currency crisis in 1997 and the subsequent domestic financial instability.⁷⁶

Generally speaking, Latin America and East Asia have made significant efforts to create bonds between them, although the reality has brought many obstacles. It is a well-known fact that the two geographical regions have many differences. On the other hand, they share a common goal – to improve their economic and social status, contributing at the same time to global prosperity.

The establishment of FEALAC (Forum for East Asia – Latin America Cooperation) came as an answer to the previous demands, trying to overcome the difficulties and bringing the two regions closer to each other.

In October 1998, Singapore Prime Minister Goh Chok Tong proposed the creation of EALAF (East Asia – Latin America Forum), in order to bring together the leaders of Asian and Latin America countries. The first meeting of EALAF was held in 1999

⁷⁵ Akio Hosono - Shoji Nishijima, *Prospects for Closer Economic Relations between Latin America and Asia* in RIEB Discussion Paper Series No.121 Revised, 2001 (Revised 2003), pp. 11-13.

⁷⁶ Yasheng Huang - Randall Morck - Bernard Yeung, *ASEAN Countries, External Threat and FTAA*, <http://web.mit.edu/yshuang/www/research/images/ASEAN%20countries%20external%20threat%20and%20FTAA.pdf>, p. 10.

(September 1-3) in Singapore, while the inaugural Ministerial Meeting of the Forum was held in Santiago, Chile on the 29 and 30 March, 2001.

Thirty countries participated at the meeting, during which it was decided that the official name of the forum would be “Forum for East Asia – Latin America Cooperation (FEALAC)”. China, South Korea, Japan and ten ASEAN countries (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) were among the participants representing Asia, as well as Australia and New Zealand representing Oceania. On behalf of Latin America, the countries that were present were Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela. It is also worth stressing the presence of El Salvador, Costa Rica and Cuba, which were accepted by the summit as members.⁷⁷

The establishment of FEALAC was based on the theoretical demand of integration as a means for economic survival in the difficulties of the globalized world. The special bonds between the two regions were pursued in order to create a strong confederation that would be able to contribute to global prosperity. At the same time, Latin America and East Asia would seek political, social, cultural, academic and economic development along the terms of cooperation on every single level.

The idea of FEALAC and its subsequent implementation is a dynamic effort to overcome the differences between the two regions and to prove them to be complementary to each other by reaffirming their similarities.

The rationale and the strategy of FEALAC are aimed towards two different but strongly linked directions:

a) On the one hand, the Forum intends to strengthen the relationships between the two regions in order to cooperate in the areas of politics, economics, education, culture, science and technology.⁷⁸

⁷⁷ Akio Hosono, *Towards Closer Cooperation between East Asia and Latin America: FEALAC and Other Initiatives*, *op.cit* p. 2

⁷⁸ Greg Tegart, *Patterns of Innovation Across FEALAC Countries* (Prepared as an Australian Contribution to the FEALAC Strategic Forum), *ANCLAS Papers*, Paper No. 1, Canberra, 2002, pp.30-33

b) On the other hand, the special ties that will be created among the members of the Forum are expected to contribute to global peace and prosperity.

The main goals of the Forum, as far as intraregional and interregional relationships are concerned, are to achieve a closer and more productive cooperation. The countries forming the Forum are, generally speaking, developing countries that share many similar concerns and are open to new ways of improving their current situation.

The members of FEALAC are willing to establish closer relations on all levels including economics, trade investment, finance, science, technology, environment protection, culture, sport and people-to-people exchanges.⁷⁹ In addition, one of the key objectives is to increase the political dialogue among the two regions and the members in multiple ways. Exchanging experiences in the areas of economy and society could prove extremely useful for further partnerships. It will also establish the foundations on which a new era of collaboration will be based. That is why it is important to mention that the Forum expects mutual understanding and trust from its members.

Leaving aside the relationships among the member states of the Forum, it is considered necessary to go on and analyze its objectives as far as international issues are concerned. The idea of the Forum is affiliated with the insurance of global peace and stability. The powerful connections among the members are expected to create a common ground of interest which will exclude possible conflicts, since the countries will work together and support the same ideas.⁸⁰

The basic theoretical principles on which the harmonic function of the Forum is based are, generally speaking, in accordance with international law. Since the goal is to achieve cooperation among the members, there have to be legislated rules that will create the preconditions for an effective interaction.

⁷⁹ Shoji Nishijima - Akio Hosono, *Modes of Economic Integration Between Asia and Latin America*, *op.cit.*, p. 25

⁸⁰ The Ministry of Foreign Affairs of Japan, Framework for a Forum for Dialogue and Cooperation between East Asia and Latin America, available at: www.mofa.go.jp/region/latin/fealac/index.html

First of all, the Forum is forward looking and future oriented, making clear the intention to obtain a secure and powerful place in the game of international economy. Participation at the Forum is voluntary, meaning that no country will be obligated to become a member. According to the FORUM: “Membership [...] is open to all sovereign states committed to promoting better relations and linkages between East Asia and Latin America. New members shall be admitted on basis of consensus”.⁸¹

Moreover, the Forum is informal and flexible in its working procedures, providing its members the opportunities to discuss their problems and find the most appropriate solutions without having to adhere to any protocols for procedure.

In order for the Forum to be able to ensure a successful partnership, with trust and respect among the members, there are two *sine qua non* principles. Mutual trust can be found in many levels, for example as far as territorial integrity is concerned. Every country considers national security to be its most important priority; therefore respect for each other’s sovereignty inside the Forum is necessary. In other words, no country has the right to interfere in any other member’s internal affairs. The Forum also believes in mutual respect for each other’s unique cultures, traditions and social values in order to preserve the special character of each member.

Last but not least, equality, mutual benefit and the common goal of development is established by taking all decisions by consensus. In this way, every single member has a voice and is able to express its views on matters that concern the regions.

On the other hand, from a negative perspective FEALAC’s contribution to global governance in terms of institution-building can only be characterized as trifling, especially if one considers the unreasonable and unfruitful absence of summits that underlines the low priority that FEALAC has for both East Asian and Latin American countries. This disappointing aspect indicates that, in fact, FEALAC constitutes only a second-best device for strengthening mutual relation between the two regions.⁸²

⁸¹ FEALAC Young Parliamentarians Forum 05, available at: www.fealac-ypf.com

⁸² Linda Law, “*The Forum for East Asia – Latin America Cooperation (FEALAC)*” in Heiner Hänggi - Ralf Roloff - Jürgen Rüland (eds), *Interregionalism and International Relations*, op.cit., p.91.

The probable the reason for such a negligible outcome is the undeniable role of the United States as a negative external factor. Clearly, one of the main goals of bi-regional relations is a successful strategy of diversifying foreign relations to ease the quasi-hegemonial status and impact of the United States. Thus, even the fact that the US seems to be flexible with such kinds of transregionalism, in reality, it tends to tolerate those forms only as long as they remain on a low level in terms of institutionalization and do not pose a direct threat to any vital US interests.⁸³

6.3. NAFTA and Mercosur

The geographical division of the Americas is noticeable. This large region is divided into two major parts. On the one hand, there is North America and on the other, Latin America and the Caribbean. Nevertheless, the geographical division is not the major issue in the region. The crucial point is the different paths to economic development that the two parts have followed. Indeed, the latter part has tried to separate itself from the sphere of influence of the former; however, with the end of WWII and the creation of NAFTA, countries from Central America and the Caribbean became more “north American” due to geopolitical and economic reasons while the Southern Cone created its own bloc in the form of Mercosur.⁸⁴

As far as economic integration is concerned, during the 60s there were some attempts both in the Caribbean and South America. The milestone was the creation of an economic system with a reduction of tariffs between members and the creation of a common trade barrier against non-member countries. Such attempts were the Latin American Free Trade Association (LAFTA), the Central American Common Market (CACM), the Caribbean Free Trade Association (CARIFTA), and the Andean Pact. In the political sphere among Latin American countries, the Contadora and Rio Group and the Organization of American States were created. The Southern Cone Common

⁸³ Jörn Dosch, “*Southeast Asia and Latin America: A Case of Peripheral Inter-Regionalism*” in Jörg Faust - Manfred Mols - Won-Ho Kim (eds), *Latin America and East Asia – Attempts at Diversification*, Münster: LIT Verlag, 2005, p. 192.

⁸⁴ Argentina, Brazil, Paraguay and Uruguay.

Market (MERCOSUR) was established in 1991 with plans for free regional trade, and the North American Free Trade Agreement(NAFTA) in 1990 between the USA, Canada and Mexico.

Through the trade liberalizations and regional accords there has been an increase of trade and investments throughout the hemisphere, across north to south and, south to south. Although this helped some countries, for some others it brought interdependence of labor market impacts, short-term economic stability and disparities in productivity and income levers. The impacts from trade liberalization are greater on smaller countries than on larger ones, and larger impacts are more obvious on Latin America than the US. Smaller economies are much more dependent on trade than larger ones.

What is more, the dependence of Latin American markets on US trade rather than vice versa is worth mentioning.⁸⁵ The US is the largest creditor in Latin America and economic support is one reason why Latin American countries look to the United States and wish to join the NAFTA. The destination of Latin America's exports is the United States and every country exports a vast percentage of its GDP to the US, (except for Argentina) – more than the average for the entire Latin American community combined, while US exports go outside the continent or to Canada and Mexico (the NAFTA countries). However, moving from north to south the dependence on the United States decreases and intra-Latin America trade increases. But as far as the imports of all Latin countries are concerned (apart from Mexico), they choose the Latin America community over the US. In recent years and following the establishment of Mercosur, exports have increased within Latin America and have almost replaced the US as the export partner.

The US bloc (and NAFTA) and the Mercosur bloc found themselves competing for the membership of Chile and Peru. Both sides wanted to include Chile in their association as part of their expansion. NAFTA's plans for southward expansion died⁸⁶

⁸⁵ R. A Hinojosa- Ojeda - J.D. Lewis - S.Robinson, *Convergence and Divergence between NAFTA MERCOSUR and MERCOSUR: Overcoming Dilemmas of North and South American Economic Integration*, Working Papers Series 219, Washington D.C.

⁸⁶ The Chilean-Canadian free trade agreement did not help for accession to the NAFTA.

when Chile finally signed with Mercosur⁸⁷ as an associate member. Chile did not want, and does not want, to be locked in and prefers to remain open to all blocs. Similar are the cases of Bolivia and other countries of the Andean Community. In addition to the Chilean case, Peru answered positively to the US invitation, although Mercosur tried to reach an agreement.

Most countries prefer to stay in the Latin American bloc because they continue to face problems caused by the US. Nations like Brazil, Chile, Cuba, and Guatemala are familiar with the policy of the US and are doubtful of reaching any agreement with the US. A characteristic example is that of Fidel Castro in Cuba, who is on the US black list, and also the case of Chile where the US brought Pinochet to power, a strongly ambiguous leader, accused of torturing people. In Guatemala, the US army sold guns to rebels. Invasions, assassinations and coups are only some of the involvements of the US in South America. That intervention in the region has not been forgotten so that the political elites and public opinion are critical of the option of a new integration involving the whole continent called Free Trade Area of the Americas.

The Free Trade Area of the Americas (FTAA) is a project created by President Clinton in 1994. Its purpose is to eliminate or to reduce trade and investment barriers among all the countries in America except Cuba. The main topics of interest for the participant countries throughout the period of negotiation were market access issues, agriculture, services, intellectual property rights, subsidies, antidumping and countervailing duties, government procurement, investment, competition policy and dispute settlement.⁸⁸ The main policy target is how to arrive at zero trade barriers and, more specifically, to eliminate tariffs on industrial and agricultural products. As far as economic development is concerned, FTAA intends to combat corruption, help governments against lobbyists and help them with their problems.

The proposed agreement was considered an extension of NAFTA and was introduced during the Summit of the Americas in December 1994, in Miami, where thirty-two

⁸⁷ Signature of the Treaty of Assuncion

⁸⁸ *OAC Economics Seminars: The FTAA and its Effects on its Member Countries*, available at <http://frankyng.latest-info.com>

countries agreed on free trade principles. The negotiations were delayed due to the “pesos crisis” and in 1998 the thirty-four countries agreed on the single underlying principle of the negotiations.⁸⁹ In 2003 at the Miami summit, these principles had not been taken into account, with the resulting “FTAA à la carte” meaning that countries could adopt levels of commitment with one “common set of rights and obligations shared by all countries”.⁹⁰ Although the negotiations were to be completed in 2005, there was no agreement because the most important players in the negotiations (the US, Brazil and Argentina), had other priorities (such as NAFTA and Mercosur), while other important participants, such as Mexico, Chile and Canada used the US leadership as a vehicle to sign agreements with other countries in their region.

The postponement of the agreement was mostly caused by the reluctance of countries to reach agreement. Some countries and their people see the FTAA critically and skeptically after taking into consideration their history with the United States, and the negative impacts of NAFTA. One of the main critics is Venezuelan president Hugo Chávez, who has described it as an “annexation plan” and a “tool of imperialism”. The skepticism flows from the results being seen in NAFTA. The NAFTA experience shows that the citizens have been badly affected. The problem is that the nations of Latin America are in a more vulnerable position as poverty remains a major issue. Moreover, governmental authority is under threat as its ability to protect the environment, agriculture, services and its own people will be reduced.

The effects on labor are expected to be dramatic, not so much for the country itself but for the people, the workers. FTAA is profitable for the businesses as low cost labor ensures low prices for consumers and therefore more sales. What FTAA provides is an entrance to business and not a powerful economy and better living standards, as gaps will remain between the Latin America countries and the USA. Another issue being discussed is the environmental impact. The investment policy does not take into account for environmental and social costs, as it promotes energy consumption, over-use of national resources and the pollution of land and water. Usually international trade agreements overrule domestic laws designed to protect the environment and civil society.

⁸⁹ “nothing is agreed until all is agreed”.

⁹⁰ Miami declaration 2003.

On the other hand, the business community expects a lot from such an agreement. The lobbies will play an important role during negotiations. Some of them want to enter the other countries' economies and get better deals for their products. Some others wish to press for protective measures that will secure them at a national level. Consulting groups have been created in order to advise companies on the state of the economy in every country, so that they can acquire benefits from them. Some companies want the agreement because they think that they will get rid of the protectionist policies.

The negotiations for Free Trade Area of the Americas consist of a mixture of commercial and political agendas. Mercosur countries negotiate as a group while the NAFTA countries negotiate as individuals. The different agendas of the US and Brazil pose an obstacle to the negotiations.⁹¹ The US has offensive interests in eight of nine negotiating areas and defensive interests in two: anti-dumping and agriculture.⁹² These issues are the main offensive interests of Mercosur. The defensive agenda clashes with US agenda regarding intellectual property, investments, services and government procurement.

These two main organizations are different – NAFTA is a trade agreement and Mercosur is intending to become a common market. However, “they have similar accords, as both entail extensive liberalization of trade and investment regimes. Both treat foreign investors from member countries as local investors, and have serious negative implications for member countries”.⁹³

The US has seen the FTAA as an extension of NAFTA and an opportunity to export. Moreover, for the US, it means a reduction of unemployment and poverty. The Mercosur countries want a FTAA in which all blocs would have a vocal role so that it would be the center in South America and could balance the north bloc. Trading interests and shifts on US restrictions on sugar and citrus products are part of the

⁹¹ They are the representatives of their blocs.

⁹² Myriam Martins Gistelink, *The Influence of Brazil's Developmental Projects on its Positioning in the Negotiation of Regional and Bi-regional Trade Agreements*, IIEB Working Paper 19, October 2005.

⁹³ Karen Hansen-Kuhn, Free Trade Area of the Americas, *Foreign Policy in Focus*, Vol.3, No.6, 1998, available at: <http://www.fpiif.org/pdf/vol3/6ifftaa.pdf>

Mercosur agenda. The US strategy is based on bilateral talks with the purpose of dividing the Mercosur countries and reducing their power, especially the influence of Brazil in the region.⁹⁴ On the contrary, Brazil insists on one single underlying principle and prefers to group the preferences of the rest of countries under one umbrella.⁹⁵

⁹⁴ The agreement in San Jose specifies that countries can negotiate as blocs despite the will of the US

⁹⁵ This part of the strategy has not yet been completely successful.

7. Conclusion

To sum up, Mercosur's road to regional integrations appears to be quite difficult regarding the different perceptions that member-states have. Undoubtedly, Mercosur is a very effective vehicle for the member-states, especially the stronger ones, to promote common interests – either economic or political; however, many obstacles are created during the regionalization process. Problems come from within (problems deriving from historical rivalries), especially if we consider the economic interests of major powers on the international scene (especially the US) that a regional bloc could affect.

In the same way, bi-regional relations seemed quite challenging, but also problematic for the same reasons. That is why, for example, the relations between Latin America and Asia within the institutional framework of FEALAC have yet to flourish. It is very difficult to estimate if things will change in the future, especially if the international system remains unilateral. If so, every possible attempt for closer cooperation at a regional level, or an interregional level will clash with the interests of the United States. The rules of the game must change in order for regional integration to take another more dynamic orbit.