

Zentrum für Europäische Integrationsforschung  
Center for European Integration Studies  
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**MERCOSUR and its  
Current Relationship  
to the European Union**  
Prospects and Challenges  
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# **MERCOSUR and its Current Relationship to the European Union**

Prospects and Challenges in a Changing World

## **1. Introduction**

The year 2011 represents an historic moment for Latin America and especially for MERCOSUR (Mercado Común del Sur) which will be completing two decades of effective regional integration among four countries of South America (Argentina, Brazil, Uruguay and Paraguay). The particularity of this process and the reasons for its relative success can be explained by different approaches, of which the following stand out. First, throughout its two decades of existence, MERCOSUR has managed to maintain a climate of unprecedented democratic governance and political openness as compared with the patterns of other developing countries. Second, despite the institutional and economic limitations, the regional bloc maintained a stable structure of negotiations internally among its Member States, both bi- and multilaterally. Third, the cooperation has brought more international trade and economic benefits for its members, thus allowing the consolidation of the regional economic bloc as a unit. This has attracted new members in a process of enlargement which, though still nascent in its concept, points to a greater dynamic of South American integration. In this perspective, MERCOSUR, and especially Brazil, will be the driver of the dynamic of intra-Latin American cooperation. Finally, although the global financial crisis has been devastating in the major developed economies, in the Latin American and particularly MERCOSUR countries, their stable

macroeconomic frameworks, effective control over the financial and banking sectors and their tradition to manage crises, contributed to mitigate its effects, and stimulate a more rapid economic recovery. This set of features has made the region a pole of growth not only for international trade and flows of Foreign Direct Investments (FDI), but also for strengthening the regional integration process. The recovering of Latin American and Caribbean (LAC) countries from the international financial crisis is expressed not only in terms of the performance of its macroeconomic aggregates, but above all by return to growth in trade flows of goods and services with the rest of the world which contributes to strengthen the intra-regional trade, especially in the countries involved in regional integration processes. In this context, MERCOSUR has become the source of this dynamic process of cooperation and therefore the driver of the dynamics of intra-Latin America trade.

Moreover, the recovering of trade in the region showed the advance of a less intense trade with traditional partners, and increased trade with new trading partners, especially in Asia and Africa. This, in turn, helps to decrease the dependence of the region on the United States and the European Union (EU) as the main destination of their exports. Even so, the LAC not only maintained its position on international flows of FDI, it has in recent years become the main destination for such flows originating from the EU, surpassing even China. Again, in this context, MERCOSUR, especially Brazil, is the main driver for the strategies of European multinationals in the region. Therefore, this paper aims to scale the impact of the changing patterns of trade and FDI on the relations between the EU and MERCOSUR. Notably, we intend to discuss the new factors that influence the negotiations between both blocs, particularly the recent emergence of Brazil's new role as agent of dynamic change in the positioning of MERCOSUR in the international scene, and the shift of the axis of power of economic geography towards Southeast Asia and emerging economies. Moreover, it is important to stress that this study was developed from the perspective of analytical concerns and interests of MERCOSUR, and more specifically, Brazil. For this reason, data and analysis are placed in view of its relevance for understanding the prospects for regional integration in the

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long term and definition of its strategic partnerships. Apart from the introduction, the paper is divided into six more sections. In section two, we present a brief description of the construction and configuration of MERCOSUR. In section three, we discuss the elements that explain the dynamic of this regional bloc, particularly the measures to strengthen the Customs Union, its position in South America, and intra-bloc trade and flow of FDI. Section four will summarize and describe the main phrases of negotiations with the EU and the reasons for its current stagnation. In section five, we will address the case of Brazil in this context of regional integration and strategic partnerships. In the conclusion, we will present our main reflections about the need for a strategic alliance between MERCOSUR and EU, in a context of multilateral cooperation affected by successive economic and political changes.

### ***2. MERCOSUR: Twenty Years after the Treaty of Asuncion***

Although the South American experiences with regional integration date back to the 1960s, the reasons that have frustrated such attempts include the inability of the countries involved to link their decisions within the larger goal of integration of trade liberalization and economic development. More or less constantly, the debate was limited to minor problems of technical and diplomatic character, often resulting in a certain excess of internal rules. Only since the Integration Treaty of 1988 signed between Brazil and Argentina, which formed the basis for MERCOSUR, (with Uruguay and Paraguay joining the Treaty of Asuncion in 1991), can we see a new landmark in the quest for regional integration, to which Venezuela joined later.<sup>1</sup> The initial objectives of MERCOSUR were very ambitious. One of those objectives was the formation of a Common Market which is still considered a priority for the economic and political success of the regional bloc.

1 On July 4, 2006, the Protocol of Adhesion of the Bolivarian Republic of Venezuela to MERCOSUR was signed. Venezuela's full membership still depends on the ratification of this Protocol by the Parliament of Paraguay.

Among these, the main ones are those linked to classical mechanisms of implementation of a Common Market, particularly the elimination of tariff and nontariff barriers, free movement of labor and capital, free trade in services, the adoption of a Common External Tariff (CET) and, last but not least, the (attempted) coordination of macroeconomic policies.

In particular, the progressive deployment of the Customs Union in 1995 with the adoption of CET, aimed to guarantee a set of measures to ensure the continuity of MERCOSUR. Among these measures, we highlight the equality of conditions of all members in the intra-regional trade, and the insurance of a margin of preference for all members in relation to extra-zone trade. With such measures, the outcome will be to establish the necessary political impetus for the consolidation and expansion of the regional bloc. This would give unity in the positions to member countries in their trade relations with other actors, specifically in the negotiations with the EU and within the World Trade Organization (WTO). Moreover, since the 1990s, the general climate of economic and institutional changes that has permeated Latin America and MERCOSUR has been extremely positive, especially because of a broad policy based on democracy, trade liberalization and modernization of economic organizations. That is, the initial success obtained by MERCOSUR, particularly in the 1990s, attracted other members of the Latin American Integration Association (ALADI) to become associated with the block, such as Chile in 1996, Bolivia in 1997, Peru in 2003, and Ecuador and Colombia in 2004.

However, the second half of the 1990s was marked by successive crises which have had negative repercussions on MERCOSUR. Starting with the 1997 Asian crisis and the subsequent Brazilian devaluation in 1999, the intra-zone trade decreased gradually, reaching its lowest level at the time of macroeconomic turmoil in Argentina, with the peso devaluation and the end of its convertibility in 2002. Once this acute economic phase was overcome, economic and trade transactions rebounded - but they did not reach the pre-crisis levels. Only after the recovery from the global financial crisis, the intra-regional trade reached its level of the years before. Although in this context of economic crisis and minimal commercial prospects, some changes were made in the structure of MERCOSUR in order to provide

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greater efficiency, visibility and legitimacy of its institutional framework. These changes include the upgrade of the Administrative Secretariat to a Technical Secretariat, the creation of a MERCOSUR political direction body and its Presidency, the creation of arbitration and review tribunals, particularly the Permanent Review Tribunal, the establishment of a MERCOSUR Fund for Structural Convergence (FOCEM) to tackle infrastructure needs and asymmetries, and finally, the MERCOSUR Parliament. All of these changes, however, did not affect the intergovernmental organization of the legal and institutional structures that shaped MERCOSUR since its inception. MERCOSUR's main features are related to several principles, including the principle of sovereign equality among states, non-interference in internal affairs of States Parties, and the need for consensus for adoption of any decision. The outcome of such an organizational structure was an accumulation of overlapping instances, with low operative capacity and directly exposed to the diverse influences of internal economic and political circumstances of the Member States. Unlike the EU, which manages and articulates the process of trade and economic integration using supranational institutions, MERCOSUR's use of intergovernmental structure of governance reflects, among other variables, economic disparities, political and demographic differences among states within the bloc. In this context, the legal and institutional framework adopted by MERCOSUR has not deviated from the traditional instruments of international organizations, in particular, the organization has not contemplated any kind of mechanism for "shared sovereignty" as has been done in the EU.

### **3. *Current Developments of MERCOSUR***

Even with different institutional and operational drawbacks, MERCOSUR has recently (even before the financial crisis) showed a dynamic growth in two main directions. Firstly, the new developments of the regional bloc are concerned with the barriers that limited the functioning of the free trade area mechanisms. The set of measures adopted for this purpose were related to the liberalization of the service sector. Thus, in order to strengthen the integration and to promote intra-regional trade, a plan of action was approved in December 2008 for the liberalization of trade in the service sec-

tor. The plan has four stages with the aim of achieving full liberalization by the year 2015. This plan can be seen below in Table 1.

**Table 1: MERCOSUR - Plan of Action to further the Program for the Liberalization of Trade in Services.**

Year	Tasks
2009	Analyze the current situation in order to define least sensitive sectors (whose liberalization would not pose serious problems), as well as those of intermediate high sensitivity, and those whose regulatory frameworks could be harmonized or complemented.
2010	Consolidate the regulatory status quo of sectors where no commitments yet exist. Eliminate restrictions on market access and national treatment in the least sensitive sectors. Take steps to harmonize or complement regulatory frameworks in sectors where this is deemed necessary. Identify mechanisms to boost the share of less developed operators in the regional service market.
2012	Eliminate restrictions on market access and national treatment in sectors of intermediate sensitivity. Take steps to harmonize or complement regulatory frameworks in sectors where it is deemed necessary. Identify domestic regulatory measures that could constitute bureaucratic barriers to intra-zone trade, with a view to their elimination. Consider deepening MERCOSUR disciplines on domestic regulation.
2014	Eliminate restrictions on market access and national treatment in the most sensitive sectors. Finalize the process of harmonizing or complementing regulatory frameworks. Conclude the deepening of MERCOSUR disciplines on domestic regulatory and eliminate domestic regulatory measures that have been identified as bureaucratic obstacles to intra-zone trade.

Source: ECLAC, International Trade and Integration Division, Latin America and the Caribbean in the World Economy 2009-2010. A crisis generated in the centre and a recovery driven by the emerging economies, Santiago de Chile: United Nations Publications, 2010: 94. Online at: [http://www.eclac.org/publicaciones/xml/6/40696/LAC\\_Word\\_Economy\\_crisis\\_generated\\_centre\\_recover\\_y\\_emerging\\_economies.pdf](http://www.eclac.org/publicaciones/xml/6/40696/LAC_Word_Economy_crisis_generated_centre_recover_y_emerging_economies.pdf).

The second area of MERCOSUR's development in recent years has focused on the consolidation of the Customs Union and the establishment of

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operational measures and strategies to reduce regional disparities while creating a favorable environment for the integration of their industrial production chains.

During the summit of San Juan (Argentina) in August 2010 important measures for consolidating the Customs Union were adopted. This means that the appropriateness of different interests and perceptions of the Member States were analyzed, with the aim of promoting a common goal. The agreement reached during the meeting in Argentina included the gradual abolition of double charging of the Common External Tariff (CET), the adoption of a mechanism for distributing customs revenue and the adoption of a common customs code, known as the “Single Customs Document and the Manual of Procedures for Controlling Customs Valuation”. Furthermore, at the Summit of Foz do Iguacu (Brazil) in December 2010, a decision was finally made to establish a schedule for the elimination of exceptions lists to the MERCOSUR Common External Tariff within ten years.

In terms of developing a framework to stimulate the integration of productive supply chains and business cooperation, a Guarantee Fund for micro, small and medium sized enterprises was approved in December 2008. This fund aims to guarantee directly or indirectly the endorsement of the loans taken by these categories of companies engaged in activities aimed at the integration of their supply chains. In the initial program the total contributions of \$ 100 million, with Brazil's contribution was fixed at 70%, Argentina at 27% and Paraguay and Uruguay with 1% and 2% respectively.<sup>2</sup> This program strengthens the FOCEM, which was established in 2007, and which has promoted several investment projects in order to contribute to regional development, thereby reducing developmental asymmetries among

2 Economic Commission for Latin America and the Caribbean (ECLAC), International Trade and Integration Division, Latin America and the Caribbean in the World Economy 2009-2010. A crisis generated in the centre and a recovery driven by the emerging economies, Santiago de Chile: United Nations Publications, 2010: 69. Online at: [www.eclac.org/publicaciones/xml/6/40696/LAC\\_World\\_Economy\\_crisis\\_generated\\_centre\\_recovery\\_emerging\\_economies.pdf](http://www.eclac.org/publicaciones/xml/6/40696/LAC_World_Economy_crisis_generated_centre_recovery_emerging_economies.pdf).

*All internet resources, last date of access: July 2011.*

states and promoting new strategic investments. The Summit of San Juan reaffirmed this effort by approving nine additional projects summing \$ 800 million of resources allocated to areas such as energy and physical integration, sanitation works and productive integration.<sup>3</sup>

The third area of strategic measures to strengthen the integration and intra-regional trade is embodied in the approval of a plan of action in December 2008 for the liberalization of trade in the service sector. The plan aims to eliminate all restrictions on access to the domestic market, to harmonize the regulatory frameworks of all Member States, and seeks to eliminate all measures and administrative obstacles to the effective functioning of intra-regional trade.

Thus, decisions made in recent meetings of the MERCOSUR Commission point out a greater concern with operational issues relating to the establishment of effective management mechanisms for the deepening of trade liberalization and intra-regional trade in order to extend this process to the service sector. On the other hand, such measures were also adopted with the aim of creating new conditions for the effective functioning of the Customs Union. This demonstrates a more pragmatic policy by the decision makers, seeking to make the management mechanisms more effective for the purpose of the preservation of MERCOSUR's main goal, that of a geographic space of cooperation. This, then, is the context in which MERCOSUR developed during its 20 years of existence. On the one hand, the objectives proposed in the Treaty of Asuncion have not been fully achieved. There are still obstacles to tariff reduction, there was no significant advancement toward a more effective institutional consolidation, and there has been little progress towards the integration process and construction of a Common Market. However, according to Felix Peña<sup>4</sup>, this situation can not conceal that there are three areas in which MERCOSUR has accumulated a considerable stock of positive externalities: Despite some

3 Ibid.

4 Peña, Félix, "Es posible una visión realista pero positiva de la integración latinoamericana y del Mercosur?", in: *Diálogo Político*, 3/2010: Buenos Aires: Konrad Adenauer Stiftung, 2010: 193-205. Online at: <http://www.kas.de/wf/doc/2696-1442-4-30.pdf>.

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setbacks and uncertainties there is already a set of economic and trade preferences that have had a positive effect on the increase in intra-regional trade flows, the integration of production chains through cross-investments and the attraction of Foreign Direct Investment from outside the region. On the other hand, the current stage of MERCOSUR's new developments include a multiple development agenda (energy integration, infrastructure, and environment) that is not limited to only trade promotion, but enables the Member States to continue developing their economic structures, without blurring the autonomy of each state in the definition of its own international role in a new global context. Secondly, there is recognition and identification of the "brand" MERCOSUR, both by national populations, and in the context of international relations. Finally MERCOSUR has established itself as an integration model that has been and remains crucial to the deepening of regional political stability and democracy in the region.

In this context, one cannot assume that MERCOSUR is doomed to failure. Rather, it is still an ongoing process that does not correspond to pre-existing models of regional integration. Its continuing success is linked to a strategic process which is considered fundamental to the governance of South America. The composition of MERCOSUR reveals its vocation, that of setting up an environment of political stability and of encouraging economic integration on regional level. That is, there is a wider perception of the importance of MERCOSUR for the regional governance which transcends purely commercial issues. In this perspective according to Peña<sup>5</sup>, MERCOSUR would continue playing a major role in two separate but interrelated plans. On the one hand, the general framework of regional integration is still based on the principle of individual states as the major agents involved in international trade negotiations. On the other hand, MERCOSUR maintains the existence of institutional mechanisms that enable the region to express itself in global forums like the G20. That is, ac-

5 Peña, Félix, El barrio (Sudamérica) y el mundo 20 años después: ¿Mantienen vigencia la idea estratégica y los métodos de trabajo del Mercosur?, Newsletter sobre relaciones comerciales internacionales, Dec. 2010. Online at: <http://www.felixpena.com.ar/index.php?contenido=negociaciones&neagno=informes/2010-12-vigencia-idea-estrategica-metodos-trabajo-mercosur>.

According to Ferreira Simões<sup>6</sup> one cannot lose sight of MERCOSUR's character as both a political and strategic project, shared by Member States and their societies. In this way, MERCOSUR also acquires legitimacy in the political and economic international context. This is due to Brazil's position as an agent of dynamism in the structuring of an open and competitive space of integration. The aim of this integration is the building of new strategic alliances (China and Africa), without losing sight of its main traditional partners, the United States and the European Union.

#### **4. *Patterns of the Trade and Economic Relations of MERCOSUR***

The evolution of MERCOSUR as a regional economic bloc shows several trends and patterns over its two decades of existence. There was a boom period of commercial integration in the 1990s, largely reflecting the effects of the elimination of tariff barriers on intra-regional trade. The period of growth from 1994 until early 2000 characterized a systematic and gradual trend of trade liberalization by all Member States which, in turn, stimulated both intra-regional and extra-bloc trade flows. The coincidence of the two processes (creation of MERCOSUR and trade liberalization policies with third countries) contributed significantly to reducing the effects of trade diversion, showing an open model of regional integration inserted into the international economy.

During this period, data on the expansion of trade shows that MERCOSUR performed at an average export growth rate of around 5.3% for the period 1990-1999, and 11% for 2000-2009. This is considerably higher than the performance of the 1980s, which reported an export growth rate of only 5%. The growth rate of imports, which can be considered a proxy for the degree of trade openness, reported a negative rate of 4% in the 1980s, while in the 1990s and 2000s, the growth rate of imports registered positive per-

6 Ferreira Simões, Antonio José, Uma visão estratégica às vésperas de seu 20º aniversário, Cebri Dossie, Vol. 2, ano 9, 2010. Online at: [http://www.cebri.com.br/midia/documentos/dossie\\_simoes.pdf](http://www.cebri.com.br/midia/documentos/dossie_simoes.pdf).

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formances of 12.5% and 8.5% respectively.<sup>7</sup> On the other hand, the successive crises that have affected its members (Brazil and Argentina in particular) have contributed significantly to slowing the pace of further trade liberalization, making intra-regional trade insignificant in structuring the economic dynamics of the region. However, in the last three years, especially with the global financial crisis, there was a process of evolution of international trade within MERCOSUR and Latin America which points to three significant changes in the pattern of regional trade.

Firstly, the changes in regional trade pointed to the strengthening of Latin American trade with Asia and China in particular. Asia's share in exports from Latin America accounted for only 5% of the total in 2000, but rose to 14.5% in 2009 (China alone rose from 1.1% to 7%), thus exceeding the EU as the main destination for its exports. The commercial relations with Asia and China show the same performance with imports. Asia's share in total imports into Latin America in 2000 accounted for only 10.9%, but accounted for 25% in 2009. China had the largest increase with a rise from just 1.8% in 2000 to 12% in 2009. Taken together, this data demonstrate the growing shift in the strategic trade policy of Latin America from Europe to Asia.

Secondly, the data demonstrate a decrease in the role of traditional partners in international trade involving Latin America and the Caribbean (LAC). The United States and the European Union which accounted for 73% (61% U.S. and 11.8% EU) of exports of goods and services in 2000, now represent only 53% of total exports of the whole region (39.8% U.S. and 12.8% EU). Although the EU registered a positive change in relation to the year 2000, its participation in the exports to LAC has been decreasing gradually since 2007. The same tendency can be observed in relation to the origins of the imports into LAC. The United States and the European Union held 56% of total imports in the region, but by 2009 accounted for only 43%, as shown below in Table 2.

7 ECLAC, International Trade and Integration Division, Latin America and the Caribbean in the World Economy 2009-2010, op.cit. Online at: [http://www.eclac.org/publicaciones/xml/6/40696/xml/6/40696/LAC\\_Word\\_Economy\\_crisis\\_generated\\_centre\\_recovery\\_emerging\\_economies.pdf](http://www.eclac.org/publicaciones/xml/6/40696/xml/6/40696/LAC_Word_Economy_crisis_generated_centre_recovery_emerging_economies.pdf).

Thirdly, the changing patterns in international trade in LAC also affected the growth of intraregional trade. In the specific case of MERCOSUR, intra-regional trade grew by 40% during this period, indicating a stronger trend of regional integration (Table 2). This general trend of LAC foreign trade can also be observed more specifically in the case of MERCOSUR Countries. Exports to Asia and particularly China grew at average rates higher than the export to the U.S. and the EU. Likewise, as a destination for exports from MERCOSUR countries, China has grown at rates significantly higher than the US and EU, excluding the case of Paraguay. The same trend and performance may be registered in the regional distribution of imports from MERCOSUR countries (Table 3).

**Table 2: Latin America and the Caribbean: Main Export Destinations and Countries of Origin of Imports (Percentages of Total).**

<b>Exports</b>	<b>2000</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Latin America and the Caribbean	19.0	16.4	17.2	18.4	17.2
Asia	5.0	9.7	11.3	11.8	14.5
China	1.1	3.4	4.6	5.0	6.9
United States of America	61.0	47.6	44.0	41.4	39.8
EU	11.8	12.8	13.8	13.7	12.8
<b>Imports</b>	<b>2000</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Latin America and the Caribbean	15.1	18.9	19.1	18.9	18.8
Asia	10.9	22.2	23.0	23.5	24.9
China	1.8	8.4	9.6	10.4	11.8
United States of America	55.0	32.4	30.3	29.0	29.2
EU	12.1	12.8	13.3	13.5	13.8

Source: ECLAC (as above), 109.

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**Table 3: Latin America and the Caribbean: Evolution of Trade with the United States, the EU, China and the Rest of Asia, by LAC and MERCOSUR Countries (Percentage Changes in Value).**

	United States				EU			
	Exports*		Imports*		Exports*		Imports*	
	2009	2010	2009	2010	2009	2010	2009	2010
LAC	(33.8)	31.4	(28.9)	28.9	(34.9)	16.6	(27.6)	24.6
Argentina	(26.5)	(14.0)	(29.5)	18.3	(25.5)	0.4	(35.6)	55.6
Brazil	(43.7)	23.7	(14.1)	24.2	(27.8)	20.6	(22.5)	34.4
Paraguay	(22.5)	(9.9)	(30.3)	49.7	(55.7)	252.3	(39.6)	84.7
Uruguay	0.0	9.0	(6.8)	50.5	(31.2)	22.5	(51.8)	(11.5)
	China				Rest of Asia			
	Exports*		Imports*		Exports*		Imports*	
	2009	2010	2009	2010	2009	2010	2009	2010
LAC	(2.2)	44.8	(18.0)	42.5	(9.1)	37.5	(23.4)	40.8
Argentina	(17.6)	33.0	(35.4)	23.6	(0.1)	24.6	(31.4)	39.2
Brazil	42.7	27.4	(24.4)	59.0	12.5	30.0	(27.1)	59.9
Paraguay	(74.3)	6.3	(28.4)	79.8	(39.7)	(5.6)	(28.4)	69.9
Uruguay	(1.3)	102.0	(16.1)	42.7	(23.7)	62.7	(18.8)	46.7

(\*): percentage changes are related to the variation between January and June.

Source: ECLAC (as above), 61.

The dynamics of change affecting Latin America and MERCOSUR can also be observed by looking at the flows of Foreign Direct Investment (FDI). Although Latin America is ranked second among developing countries receiving FDI, its share in total flows has been decreasing since 2007, from 24% in 2007 to 21% in 2009. It is important to note that although the

participation of LAC has decreased in recent years, the position of some individual countries, especially Brazil, has grown significantly. Its participation has increased from 2% to 3% between 2007 and 2008, occupying the third position among the developing countries receiving FDI, according to data from United Nations Conference on Trade and Development (UNCTAD).<sup>8</sup> Considering the geographic distribution of FDI flows in Latin America, MERCOSUR holds the first position as the destination of global flows. Its position has been growing over the past two decades, from 36% in 2000 to 42% in 2009. It is important to emphasize that this position is largely due to the growth of FDI flows to Brazil which holds 34% of the flows destined for LAC and over 80% of the flows to MERCOSUR (Table 4).

**Table 4: FDI Inflows in LAC by Main Economies, in US\$ Millions and in % of total.**

	<b>2000-2005*</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
LAC	66370.00	74794.00	111844.00	131937.80	76681.33
MERCOSUR	36%	35%	38%	43%	42%
Mexico	34%	26%	24%	18%	15%
Chile	8%	10%	11%	12%	17%
Colombia	6%	9%	8%	8%	9%
Peru	2%	5%	5%	5%	6%
Total eight countries	85%	84%	87%	85%	89%
Brazil	29%	25%	31%	34%	34%
Brazil in the MERCOSUR	80%	72%	81%	79%	81%

(\*): Annual average.

Source: ECLAC (as above), 36-37.

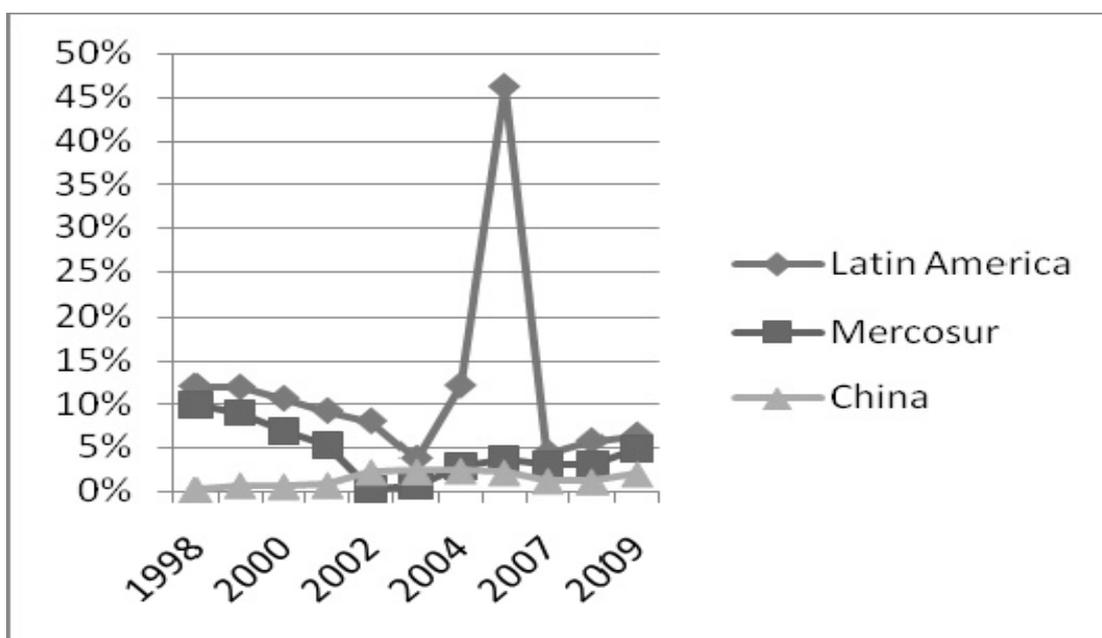
In terms of the distribution of FDI flows, the United States and the European Union are the main regions of origin. Due to the effects of the crisis, data showed a decline in U.S. investments in Brazil in favor of investments

8 UNCTAD, data base FDI statistics, 2010. Online at: <http://www.unctad.org>.

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from the Netherlands, Luxembourg, Spain and Japan. The same can also be observed in the case of Argentina. However, the U.S. maintained its leading position in countries like Chile, Colombia and Mexico. In turn, FDI from the EU and MERCOSUR in Latin America showed a different dynamic in comparison with U.S. investments. After a period of retreat the LAC, which is traditionally the main destination of FDI flows from the EU in the 1990s, consolidated its position since 2004. In particular, MERCOSUR has established itself as the main destination of EU FDI flows, outperforming China in this competition for investments by European multinationals, as can be seen in the figure below. That is, even with the economic and financial crisis (or maybe because of), European multinationals have kept Latin America, MERCOSUR and Brazil, as the main destination of their overseas investments. Investigating the causes of such a preference not fit within the limits of this work. However, such business strategies should be considered in the broader context of the negotiations between MERCOSUR and the EU and the changing patterns of international competitiveness of the LAC.

### Extra - EU FDI Outward by Main Regions.



Source: UNCTAD, Data base FDI statistics, 2010. Online at: <http://www.unctad.org>.

## **5. *MERCOSUR and the EU: The State of Negotiations and Alliance Perspectives***

Since its inception, the importance of relations between the two blocs can be perceived according to the opinions and views expressed by the foreign ministers of the four states of MERCOSUR in Brussels in April 1991, (i.e. just one month after the formal celebration of the Treaty of Asuncion). On that occasion, they emphasized the importance of their relationship to the European integrated space. For the EU, MERCOSUR became both, the key and strategic agent in its relationship to all of South America. Specifically in this sense, the regional integration in South America was positively evaluated by the Europeans for three reasons.

Firstly, because the constitution of a Customs Union and subsequently a Common Market will have MERCOSUR following the European integrationist experience. Secondly, because it served as a counterweight to the presence and interests of the United States on the continent, especially the formation of a Free Trade Area of the Americas which would stretch from Canada to Argentina. And finally, due to the size of its domestic market, particularly Brazil and Argentina, many European Multinationals had already or were planning to develop new investment projects.<sup>9</sup>

The result in 1995 in Madrid was the celebration of an Interregional Framework Cooperation Agreement between the European Community and MERCOSUR, with the objective of establishing a strategic bi-regional association. The main objective of this agreement was to prepare for negotiations aimed at liberalizing trade in goods and services to achieve a Free Trade Area between the two regions in accordance with World Trade Organization (WTO) rules. After reviewing the feasibility of the project, the

9 Lamy, Pascal, Regionalism and multilateralism in Latin America (Future relations EU – MERCOSUR and especially EU – Brazil), Speech at the FIESP (Federation of Industries of the State of São Paulo), São Paulo, 2001. Online at: [http://trade.ec.europa.eu/doclib/docs/2004/october/tradoc\\_119462.pdf](http://trade.ec.europa.eu/doclib/docs/2004/october/tradoc_119462.pdf).  
The long-term European perspective for MERCOSUR can be found in: Regional Strategy Paper, 2007-2013, European Commission, 2007. Online at: [http://eeas.europa.eu/mercosur/rsp/07\\_13\\_en.pdf](http://eeas.europa.eu/mercosur/rsp/07_13_en.pdf).

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European Commission submitted a draft negotiating mandate for MERCOSUR, in 1997, which was approved. As a consequence, in June 1999 during the First Summit Meeting of the Latin America-Caribbean bloc and the EU, negotiations began regarding a future inter-regional Association Agreement in an environment of high economic and political expectations for all of the involved parties. By November 1999 the Bi-Regional Negotiations Committee (BNC) was created and the first meeting occurred in April 2000 in Buenos Aires.<sup>10</sup> Its main objective was the establishment of the principles of negotiating as well as three technical groups to develop the negotiations in each of the following areas:

- a) Principles and objectives: Priority is given to cooperation in economic, trade and political relations, development of free trade between the regional blocs, and bilateral trade liberalization on a gradual and reciprocal basis, without excluding any sector and under the rules of WTO.
- b) Negotiations on political dialogue: Strengthening the political dialogue between MERCOSUR and the EU within the framework of the inter-regional Association Agreement.
- c) Negotiations on cooperation: Three working subgroups have been established: economic, cultural and social, and technical and financial.
- d) Trade negotiations: Agreement was reached on three general principles: broad negotiations and balanced outcome, no sector should be excluded, but the sensitivities of certain products and services should be taken into account in line with WTO rules, and the principle of single undertaking.

10 A historical description of the negotiations between the two regional blocs can be consulted in the website of the Brazilian Ministry of Development, Industry, and Foreign Trade (MIDC), which served as source for this paper. Online at: <http://www.desenvolvimento.gov.br/sitio/secex/negInternacionais/acoComerciais/mercUniEuropeia.php>. As well, the website of the European Commission offers a set of documents about the negotiations. Online at: [http://www.trade.ec.europa.eu/doclib/cfm/doclib\\_section.cfm?sec=151&langId=en](http://www.trade.ec.europa.eu/doclib/cfm/doclib_section.cfm?sec=151&langId=en).

In this context of negotiation, the following objectives in trade issues have been set up:

- bilateral and reciprocal liberalization of trade in goods and services;
- improved access to government procurement;
- open and non-discriminatory environment for investment, implementation of competition policy and mechanisms for cooperation, creation of common subjects of trade defense and establishing a mechanism for dispute settlement.

The fifth BNC meeting in July 2001 effectively started the negotiations, with the expectation that the Agreement would enter into force in January 2006. On that occasion, initial bids of both parties were presented. It is important to note that the peer review of these offers is a strong indication of the reasons which led to the stagnation of the negotiations.

According to a document from the Ministry of Development, Industry and Foreign Trade of Brazil (MDIC), the European Union's offer was considering 90% of all the imports of goods and services from MERCOSUR in accordance with WTO rules. But the main products of interest to MERCOSUR were in the areas of live animals, meat and meat preparations, dairy products, cereals and flour, vegetable oils, sugar, sweets and chocolates, drinks, pasta, prepared food and baked goods, preserves and fruit juices and vegetables, coffee and maté, feed products and tobacco, didn't make the proposal. For these items, specifically, there was no submitted proposal for tariff elimination, since agricultural commodities are subject to strong measures of protectionism in the context of the protectionist measures adopted by the EU, the tariff ad-valorem and the specific set of measures continuingly supported by the Common Agricultural Policy. On the other side, MERCOSUR's proposal to the EU accounted for all tariffs. Of this total however, a substantial set of items were considered sensitive, and therefore not included in the ten year tariff reduction schedules. These items that were considered sensitive referred mostly to the industrial sector which accounts for 68% of MERCOSUR imports coming from the

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EU.<sup>11</sup> Both proposals were regarded as insufficient partly because they are bound to economically and politically sensitive areas. MERCOSUR since it has a diversified and highly competitive agribusiness industry required the opening of the European agricultural sector. This however, is the object of an arsenal of protective measures and market regulation, due to political lobbyists involved pressuring their national governments. In this case, it is interesting to note that the Common Market Organization of specific sectors is not always advantageous for all EU states, as in the case of Market Organization for Bananas demonstrated.<sup>12</sup>

From the European perspective, MERCOSUR should review its list of sensitive industrial products, focusing on the significant import tariffs. The countries of MERCOSUR, and Brazil in particular, developed its industrial complex based on the national policy of import substitution. That is historically, the existence of heavily protected national industries from foreign competition by protectionist measures has always been a consensus among economic elites and high national bureaucracy. Thus, the opening of the regional market for manufactured products (by substantially reducing import tariffs) from the EU implies a significant change in the internal structure of competition in the MERCOSUR countries. This change may drive direct conflicts and new negotiations with the respective national industries. In March 2003, during the IX Bi-regional Negotiations Committee Meeting, MERCOSUR and the EU presented new offers.<sup>13</sup> The EU has improved its proposal to cover 91% of the trade with MERCOSUR. However, it did not set tariff reduction for 964 items considered priorities by the South American bloc. MERCOSUR, in turn, included 83.5% of trade with the EU in the schedule of tariff reduction within 10 years (as opposed to 32% of the previous offer). It is important to remember that to reach such

11 Ministry of Development, Industry and Foreign Trade of Brazil (MDIC). Data base on Foreign Trade, January 2011. Online at: <http://www.desenvolvimento.gov.br/sitiosecx/negInternacionais/acoComerciais/mercUniEuropeia.php>.

12 A community Law on the Common Market Organization for Bananas established a preferential treatment for bananas suppliers from former European colonies, particularly French and English, causing enormous damage to other European importers, like Germany.

13 MDIC, op. cit.

an offer, there had to have been a difficult and complex negotiating process in each Member State since coming to a satisfactory agreement between all parties is difficult. Again there was no consensus between the parties, and negotiations were stalled until May 2004 when the two regional blocs re-introduced new offers for reciprocal trade liberalization.

On that occasion, the EU submitted a proposal that included 90% of the goods, divided into five groups with different schedules of tariff reduction from zero to ten years. For some agricultural products (especially ethanol), quota-tariff barriers were offered; other goods were given a tariff-quota but without establishing the volume of negotiation, while other products were not even mentioned. In turn, MERCOSUR has improved its offer on goods, allowing for 90% of all goods to be included in the timetable for liberalization, including some concessions in the area of services.

According to an evaluation of the impact of the negotiations on both regional blocs, prepared by Kume et al.<sup>14</sup>, the estimates of gains for the EU exceeded by 40% the projected gains for MERCOSUR in general and Brazil in particular. This means that MERCOSUR will add around 947 million U.S. Dollar and the EU 1.325 million U.S. Dollar to their export revenues. The reason for this would be the inadequate agricultural liberalization by the EU, which creates an imbalance in the relations between both blocs. The European offer focused on expanding the quota (initially very low) to Brazilian ethanol. The proposal sought to cover the prospect of high demand for ethanol in Europe which would have to be met largely by imports. The other European concessions in the agricultural area were considered insufficient. For Kume et al.<sup>15</sup>, the clear inadequacy of the European offer to the MERCOSUR agricultural sector (and Brazil) is the main factor that will make it unfeasible to exploit the complementary aspects of economies in each bloc.

14 Kume, Honorio/Piani, Guida/Miranda, Pedro/Castilho, Marta, Acordo de Livre Comércio Mercosul, União Européia: uma estimativa dos impactos no comércio brasileiro, ANPEC (Brazilian Association of Graduate Programs in Economics), 2004. Online at: <http://www.anpec.org.br/encontro2004/artigos/A04A082.pdf>.

15 Ibid.

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In this sense, the term “Free Trade Agreement between the EU and MERCOSUR” would not be appropriate, because it was in itself, the negotiation of two separate agreements. The first agreement dealt with an extremely broad liberalization of industrial goods and the other being an agreement in the agricultural sector with restricted liberalization perspectives.<sup>16</sup> Thus, even through the chapters about “political dialogue” and “scientific-technical cooperation” have been completed, negotiations remained stalled, particularly because of disagreements related to the continually troubled agricultural sector. The crucial aspect of the interruption of negotiations between both blocs was the fact that both the MERCOSUR as a bloc and the EU, favored multilateral negotiations in the WTO as a way of accessing markets. This would also help to establish mechanisms that would reduce the degree of randomness in imposing anti-dumping measures, as well as to eliminate of export subsidies and reduce domestic subsidies to the agricultural sector.<sup>17</sup>

This stagnation of negotiations was shaken by the outbreak of the financial and economic crisis in late 2008. Moreover, the new prospective of commercial relations between the blocs gave rise to reopening of negotiations in March 2010. The goal was to formally announce the restarting of negotiations in May 2010, on the occasion of the VI EU-Latin America and Caribbean (LAC) Summit of Heads of State and Government in Madrid. The offerings for 2004 were incorporated and improved, but, as noted at that occasion, both blocs needed to continue to improve their original offers, moving towards a more open policy, especially in the sectors of economy that have been considered sensitive to trade liberalization. Calculations done by the European Commission and the Brazilian Ministry of Development, Industry and Foreign Trade (MDIC), estimate a free trade gain of 9 billion Euros, 4.5 billion for each partner. Furthermore, from the European perspective, the insertion of the automotive sector in the MERCOSUR offer would, for example, immediately result in an increased competitive ad-

16 Ibid.

17 Polónia Rios, Sandra/Iglesias, Roberto, *Anatomia do boom exportador e implicações para a agenda de negociações comerciais do Brasil*, in: Revista Brasileira de Comércio Exterior No. 85, Rio de Janeiro: Funcex, 2005.

vantage for European automobile companies' vis-à-vis American and Japanese competitors. For MERCOSUR, opening the European bovine meat and chicken sector for example, would bring considerable gains to the agribusiness industry of all member countries. The negotiations, however, are suffering setbacks. The European requirement for MERCOSUR to open 100% of the market for industrial goods, as already negotiated with Colombia and Peru, represents a point of divergence between MERCOSUR Member States. The decisive factor however has been European reticence regarding the opening of agricultural sectors due to the pressure exerted by a group of countries led by France which is strongly opposed to this action. From another perspective, this would not be mere trade liberalization rather; the increase in imports of MERCOSUR would have the consequence of cheapening of agricultural products for the consumer end in the EU. In the case of MERCOSUR, the limitations in the negotiations show little or no willingness to negotiate issues outside the sphere of trade liberalization, such as government procurement, intellectual property and geographical indication, services and investment and sustainable development. In particular, this last issue has always been considered by the countries of MERCOSUR as a reason for imposing non-tariff barriers both in bi-regional negotiations, and in the WTO. Moreover, difficulties remain in coming to a common position between the Member States. This is due to a measure of neo-protectionism in Argentinean trade policy, as well as the risks related to the full incorporation of Venezuela which is refractory to any trade liberalization agreements.

## **6. *Brazil and MERCOSUR - EU Agreement***

In 2007 the EU and Brazil signed a strategic partnership by which the EU recognized the economic and political leadership role of Brazil, particularly at the regional level. The issues to be worked on together were quite extensive, ranging from the promotion of multilateralism and human rights, to reduction of inequality and poverty, as well as environmental issues. More specifically, the partnership will develop cooperation in strategic sectors such as alternative energy, climate change, and civil aviation. It will also focus on reaching a conclusion in the negotiations over the joint EU -

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MERCOSUR agreement. In this sense, one of the specific objectives in negotiating with Brazil was to open a common channel for dialogue on the sidelines of the bi-regional negotiations (EU - MERCOSUR). Therefore, part of the plan was to hold bi-lateral annual summit meetings and to establish a plan of action. So far there have been four summit meetings, but nevertheless, the emphasis on bi-lateral relations was not reflected in the concession of reciprocal trade preferences, as mandated in the WTO. The return to EU – MERCOSUR negotiations in 2010, occurred in a political and economic environment quite different from that which prevailed at the time of its suspension in 2004. This can be attributed to the recent global financial crisis, which has more directly affected developed countries, thus causing a serious downturn in the EU, as illustrated in Table 5. At the same time, Latin America and the Caribbean have done well during this time of crisis. Although there was a Gross Domestic Product (GDP) reduction of 2.5% in 2009, Latin America was not responsible for the crisis and has not been its main victim.

**Table 5: GDP Growth by Principle Regions and Countries, in %.**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
World	3	-0,6	4,8	4,2
United States of America	0,5	-3,2	2,7	2,2
Euro Zone	0,6	-4,1	1,7	1,5
Developing Countries	6,1	2,5	7,1	6,4
Asia	7,7	6,9	9,4	8,4
China	9,6	9,1	10,5	9,6
Middle East and North Africa	5,3	2	4,1	5,1
Latin America and the Caribbean	4,2	-1,7	5,7	4
Sub-Saharan Africa	5,6	2,6	5	5,5

Source: International Monetary Fund (IMF), World Economic Outlook (WEO), Recovery, Risk and Rebalancing. Washington, D.C., October, 2010. Online at: <http://www.imf.org/external/pubs/ft/weo/2010/02/index.htm>.

One of the recent major landmarks in international relations is Brazil's new position as a regional and global actor among developing countries. In South America, MERCOSUR is no longer considered the only project of Brazilian interest. In this sense, the regional bloc remains an economic policy goal to be accomplished. However, the strategic goal of regional integration for Brazil will be focused on the design of Union of South American Nations (UNASUR). This will function as a political forum for Brazil as well as for all the other South American Countries. Moreover, at the global level, Brazil has played an important role. First, it has been able to overcome the effects of the crisis and to create effective conditions for long term sustainable economic growth. Second, the presence of China in Latin America with its position in bilateral trade with Brazil has transformed China into an important element for strategic cooperation in the region. In this sense the growth of emerging economies, especially China, has substantially changed the economic and political situation. This has resulted in an effective shift of relative power on the international scene, with obvious implications for the international trade relationships of MERCOSUR.

According to data from Latin American and Caribbean Economic System (SELA)<sup>18</sup> during the first decade of this century, China has substantially increased its trade relations with Latin America and the Caribbean. Chinese exports to the region increased by 8% and its imports increased by 12%. This continuous increase in trade between China and LAC led various specialized agencies, such as SELA, to say that, based on "the current growth in demand for our products in the United States, the EU and the rest of the world and [if] the demand from China grows only half the rate recorded in

18 Sistema Económico Latinoamericano y del Caribe (SELA), "Recent developments in economic relations between the People's Republic of China and Latin America and the Caribbean. Institutional and cooperation mechanisms for strengthening relations", (XXXVI Regular Meeting of the Latin American Council), Caracas: October 2010: 15. Online at: [http://www.sela.org/attach/258/EDOCS/SRed/2010/12/T023600004599-0-Recent\\_developments\\_in\\_economic\\_relations\\_between\\_China\\_LAC.pdf](http://www.sela.org/attach/258/EDOCS/SRed/2010/12/T023600004599-0-Recent_developments_in_economic_relations_between_China_LAC.pdf).

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this decade, this country would overtake the European Union in 2014 and would become the second largest market for exports from the region”.<sup>19</sup>

**Table 6: Brazilian Exports by Principle Regions and Countries of Destination.**

	Values in US\$ Million		% Changes	% Participation	
	2010	2009	2010/09	2010	2009
Asia	56273	40239	39,3	27,9	26,3
China	30786	21004	46	15,2	13,7
LAC	48005	35655	34,1	23,8	23,3
MERCOSUR	22597	15829	42,2	11,2	10,3
Other LAC countries	254,8	19826	27,6	12,6	13
EU	43130	34037	26,2	21,4	22,2
USA	19463	15740	23,2	9,6	10,3
Middle East	10525	7552	38,8	5,2	4,9
Africa	9262	8692	6,1	4,6	5,7
Eastern Europe	4788	3383	41	2,4	2,2
Rest of the World	10470	7697	35,5	5,2	5

Source: Ministry of Development, Industry and Foreign Trade of Brazil (MDIC). Data base on Foreign Trade, January 2011. Online at: <http://www.desenvolvimento.gov.br/sitio/secec/negInternacionais/acoComerciais/mercUniEuropeia.php>.

Table 6 registers the specific distribution of Brazilian exports by principle countries and regions of destination, showing the shifting pattern of foreign trade evolution. This shifting pattern shows China as the single largest destination of Brazilian exports, with 15% in 2010, and Asia as a region with 28%, thus leading all other countries, including Europe and the United States. The expansion of Chinese influence reinforces a trend manifest in recent years as trade with Asia begins to reduce the importance of traditional partners of Latin America, notably the United States and the European Union. In the case of the Arab Countries, as a consequence of an aggressive policy of export promotion for that marketplace, as developed

<sup>19</sup> Ibid.

by the Brazilian government, the data shows a positive increase of Brazilian exports. However, the most significant aspects of Brazilian exports are related to Asia and MERCOSUR. This is due to the substantial expansion of trade with China and the recovery of trade with Argentina, Brazil's third biggest destination country absorbing 7% of all exports. It should be noted that while the export revenues from the Middle East, Asia and MERCOSUR have increased significantly, those of the EU and the United States have decreased, even with the EU absorbing 21.4% of Brazilian exports. In relation to Brazilian imports, Table 7 below shows that despite a recovery in the level of importation from the EU, the percentage variation was significantly lower than that recorded for imports from China, or even the United States. This data indicates that, despite the substantial growth of Brazil and other MERCOSUR countries after the crisis, European companies are not getting meaningful and expanded access to the Brazilian market enjoyed by Chinese and Asian firms.

**Table 7: Brazilian Imports by Principle Countries and Regions.**

	Values in US\$ Million		% Changes	% Participation	
	2010	2009	2010/09	2010	2009
Asia	56141	36141	55	31	28
China	25591	15911	60	14	13
LAC	30933	22746	36	17	18
MERCOSUR	16612	13107	26	9	10
Other LAC countries	14321	9639	48	8	8
EU	39117	29224	33	22	23
USA	27248	20187	34	15	16
Middle East	4680	3142	48	7	3
Africa	11302	8466	33	6	7
Eastern Europe	3024	2105	43	2	2
Rest of the World	9193	57,9	60	5	5

Source: MDIC (as above).

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The above data demonstrates that the decline in trade with traditional partners (USA and EU), was accompanied by the substantial growth of trade with China. However, in addition to exports of Brazilian commodities, China's growth was directly associated with the adoption of new protectionist measures by the United States and the EU. These measures reduced exports of Latin American (and Brazilian) goods in these two markets, thereby creating the conditions to divert exports to other regions.<sup>20</sup> In this context, some analysts<sup>21</sup> suggest that the EU could pursue a position in order to guide the development of relations with MERCOSUR by strengthening the strategic partnership with Brazil. Thus, it could reuse the formula already employed for the Andean Community, through a framework of bi-regional agreement, and bi-lateral trade agreements with individual countries. This model would have the enormous advantage of opening the largest market in Latin America to European industrial products and, concomitantly, the EU would allow for the maintenance of political dialogue and cooperation with all countries in the regional bloc (MERCOSUR). This alternative, however, stumbles on the current Brazilian understanding of MERCOSUR as much more than just a project of trade liberalization. According to Simões<sup>22</sup>, MERCOSUR currently includes the strategic goal of integration, affirmation of a new center of power and emergence of a new world economic geography. Without discussing the scope of such an assertion, it does not seem feasible that Brazil would risk its position (and credibility) as a regional power in South America, to negotiate alone with the EU to get an agreement that would bring no benefits to other countries.

20 Cardoso, Eliana/Holland, Márcio, South America for the Chinese? A Trade-Based Analysis, in: OECD Working Paper No. 289, Paris: OECD Development Centre, 05/2010. Online at: <http://www.oecd.org/dataoecd/50/47/45183271.pdf>.

21 Gratius, Susanne, Brasil y Europa hacia 2015, in: FRIDE Policy Brief No. 49, Madrid: FRIDE, 02/2011. Online at: <http://www.fride.org/publicacion/886/policy-brief>.

22 Ferreira Simões, Antonio José, Uma visão estratégica às vésperas de seu 20º aniversário, op. cit.

## **7. Final Considerations**

Since the beginning of the negotiations process between MERCOSUR and the EU, there has been the perception on both sides that an agreement could bring mutual advantages. For the politicians from Latin America, Europe has been perceived as a cultural, economic and social reference, different from the United States in its conception of the Social Welfare State and international relationships. In this perspective, the EU was seen as an entity in favor of the peaceful and negotiated resolution of international conflicts. Furthermore, it supports multilateral organizations and bases its development on the establishment of a market economy and regional integration processes with social bias. For the EU, an agreement with MERCOSUR could expand its influence outside of traditional geographic areas. This furthers the EU's goal of the construction of a multi-polar world, with emphasis on regional integration and which is open to the actions of its economic agents.<sup>23</sup> The positions of the two parties clearly express political interests in the agreement. MERCOSUR is more occupied with creating a regional legitimacy for its regional integration project, and the EU is more interested in reaching a clear strategic positioning in the region.

The global financial crisis has imposed new conditions in the strategic alliances of both the EU and the countries of MERCOSUR. Moreover, the impasse in the Doha Round of discussions suggests a new agenda for international trade relations in which the strengthening of institutions, namely the strengthening of legality, is unlikely to be adopted in the short term. In this context, the various bilateral or regional agreements take on added importance because they provide a flexible institutional framework in the organization of international flows of trade and investment. That is, the failure of the Doha Round and the financial crisis led the EU to accelerate the resumption of negotiations with MERCOSUR, and projects a more strategic approach by the EU vis-à-vis Latin America and the Caribbean.

23 Kegel, Patricia Luíza, O quadro geral dos interesses comerciais e políticos europeus na América Latina e as perspectivas de um Acordo Mercosul-União Européia, in: Hofmeister, Wilhelm (ed.), *Direitos humanos e relações externas*, Anuário Brasil-Europa 2003, Rio de Janeiro/Belém: Konrad-Adenauer-Stiftung, 2004.

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In the case of bi-regional negotiations, some specific comments are important. With regards to MERCOSUR, it is necessary to emphasize that the deepening of trade and investment relations with the EU will necessarily require new discussions about the conceptual and operational model of regional integration. That is, the deepening of free trade area as well as the generation of a legal and institutional basis for the functioning of the Customs Union, are strong incentives to make the region a central focus of trade and investment strategy of the economic agents in Europe. The demographic and economic asymmetries among the MERCOSUR members may largely explain the lack of Brazilian willingness to accept the constraints of other partners (especially Argentina) in conducting its external trade policy. However, it is precisely the need to expand market access after the failure of the multilateral round that has convinced Brazil to agree to terms that it just recently considered disadvantageous. This position is not however unanimous. According to SELA<sup>24</sup>, it is necessary that Latin American countries start through their industrial sectors, a systematic process of integration into new global value chains, especially those which are taking shape in Asia centered on China. For this purpose, SELA<sup>25</sup> recommends a target policy to attract investment from Asia (and China) to the region and the formation of alliances between local actors and Asian stakeholders, with the aim of integrating the new opportunities for trade and investment in their international development strategies. However, this view does not mean relegating traditional partnerships to an inferior position. But, it certainly implies an understanding that the change in the geopolitics of global trade will have regional consequences.

For the EU, it is necessary to note that there is a historical difficulty in achieving consensus among all actors involved in agreements that are related to the agricultural sector. In the sense of the articulation of national and supranational decision-making, the Lisbon Treaty recognizes and institutionalizes the process to move the formulation and conduct of the Com-

24 SELA, Recent developments in economic relations between the People's Republic of China and Latin America and the Caribbean. Institutional and cooperation mechanisms for strengthening relations, op. cit.

25 Ibid.

mon Trade Policy into an exclusive competence of the Union. The consolidation of this trend stems from the globalization process and the consequent trade liberalization which implies a consensus among all the member states. However, in its absence, there is the responsibility of the organs of the Union to enforce common interests and strategies of negotiation.

On the other hand, the expansion of the powers of the European Parliament in monitoring the negotiations and ratification of agreements, involves the questioning of its ability for critical assessment in this specific matter. However, and most significantly, including the European Parliament implies taking an additional risk to turn the decision making process toward the political interests of the parties. This would therefore represent the politicization of the Common Trade Policy.<sup>26</sup> It may also mean, depending on political perspectives, greater participation and accountability of the European political institutions. In this context, the perception of the MERCOSUR countries is that the denouement of negotiations is highly linked to the European belief that economics play an important role in the renewed agreement. Thus, a rapid assessment of the negotiations history between the two regional blocs suggests that the EU still faces conceptual and operational problems in terms of establishing clear objectives and commercial strategies in relation to MERCOSUR and setting them in its Common Trade Policy.

So, by more carefully examining the evolution of economic relations between the two regional blocs, it can be observed that there is a discrepancy between the perspectives of the private sector and the political interests of the negotiators of the agreement. Moreover, the continuance of the conflict between the parties with respect to the agricultural topic suggests the need for a more pragmatic approach to manage and sustain short-term objectives as well as a political effort to develop a strategy of cooperation and partnership in the long-term.

26 Woolcock, Stephen, The potential impact of the Lisbon Treaty on EU External Trade Policy, in: European Policy Analysis, Issue 8, Stockholm: Swedish Institute for European Policy Studies, June 2008.

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In this context, the global changes that have shaped the patterns of international trade and investment have turned China and Asia in general into the engines for world recovery and growth. Thus, China has become the most important market for the commodities being exported from MERCOSUR, but also the main competitor of manufactured goods from the United States and Europe. This new international positioning of China in the global economy may affect not only the perspectives for growth in individual countries, but will affect the patterns of regional cooperation. Regarding this matter, the relationships between MERCOSUR and Europe will be analyzed with a view toward their strategic relationships to other partners in Asia.

This analysis will draw on the following considerations: Firstly, Asia became the main market for products from MERCOSUR which reduces the importance of traditional markets like the United States and EU. Secondly, this has generated a concern among the MERCOSUR countries that they may become overly dependent on exports to that region. Therefore, the need to diversify markets gives political incentive to reduce the resistance of these countries to opening up the industry sector. This may also reduce the ambitions of MERCOSUR in agricultural sector negotiations with the EU.<sup>27</sup>

From the European side, there is an urgent need to articulate an internal consensus among an enlarged Union with 27 members, each with different perceptions about what national interests need to be pursued. In this sense, it should be clear that a bi-regional agreement with MERCOSUR would present not only the consolidation of political relations with this region of South America. It would also represent on one hand an effort to recover its importance in traditional markets, while strengthening the industrial base of the regional block, as it is highly exposed to Chinese competition. And on

27 Polónia Rios, Sandra/Iglesias, Roberto, *A emergência asiática e a América Latina: implicações econômicas atuais e perspectivas*, in: Plataforma Democrática Working Paper No. 8, Rio de Janeiro: Plataforma Democrática, 2010. Online at: [http://www.plataformademocratica.org/Arquivos/A%20emergencia%20asiatica%20e%20a%20America%20Latina\\_Sumario.pdf](http://www.plataformademocratica.org/Arquivos/A%20emergencia%20asiatica%20e%20a%20America%20Latina_Sumario.pdf).

the other hand it means the recognition of the changes in the geopolitical trade field and its implications since the commercial deployment of MERCOSUR.

In order to conclude, it will become necessary in both blocs to change not only the positions of trade negotiations, but, above all, political perception in order to consolidate common interests and views in a changing world.





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