CURRENT CHALLENGES FOR THE EUROPEAN UNION AND THE MERCOSUL

When examining the role that integration plays in the re-organization of the international system, it is important to emphasize the main challenges faced by the two examples under consideration - the European Union and the Mercosul. It is appropriate, moreover, to note how these challenges were dealt with.

The European Union

The European model, the most developed integration process to date, is apparently undergoing a profound crisis of confidence. Its resolution will depend on Europe's response to major problems and challenges to the entire integration process. It is important to emphasize the way in which integration can contribute to tackling such challenges, be they internal or external. The success or failure of the European Union in dealing with the challenges it now faces will serve as a framework for other countries which seek increased stability, productivity and well-being through integration.

The Unstable Situation in Europe. With the collapse of the Soviet Bloc, Europe has undergone profound changes. The processes of democratic transition and the implantation of market economies in the Central and Eastern European countries have proved difficult to manage. Forms of extreme nationalist sentiment responsible for the re-emergence of war on European territory have reappeared. Further east in Russia and the Independent States, political and economic difficulties are aggravated by the fact that Russia is still a nuclear power. To the South, the Union is faced with a complex set of challenges. The growth of Islamic radicalism, feeding on precarious political, economic and social conditions in that region, has generated a situation of instability in the countries on the Southern Mediterranean border.

The creation of the European Union through the Maastricht Treaty represented an attempt to respond to these new challenges. It has now demonstrated the limitations on its capacity to deal with the latter. Europe's inability to solve the problem of the former Yugoslavia in the most flagrant show of weakness of European institutions, has shocked European citizens, setting off a crisis of confidence within the Union itself. The main objective in setting up the Union was to overcome historical rivalries between countries by building ties which would prevent them from waging war against one another. As armed

conflicts re-visit the frontiers of the Union, the latter's lack of power to prevent these conflicts leads to a crisis of confidence at the heart of the Union itself, thus affecting its own internal development.

The question of European security. The European Union and member states are endeavouring to re-think their defense and security policies. The collapse of the Soviet bloc has made it necessary to re-think what the objectives and functioning of the European security institutions should be. The conflict in the former Yugoslavia and the inability of all the European institutions such as the NATO, the EU, the WEU and the OSCE to deal with it effectively fully justifies the urgency with which this re-formulation of priorities must take place. This has precisely been one of the areas in which it has been most difficult to find the necessary common ground between the main actors.

The 1991 Inter-Governmental Conference on Political Union aimed precisely to respond to the challenges presented by the new situation in Europe. At the time there was an understanding that greater efforts would have to be made within existing Community structures in the areas of foreign policy, security and defense. Nonetheless, the priority remained the absorption of German Unification. The solution found by the Treaty of European Union was the creation of the Common Foreign and Security Policy, the second pillar of the Treaty operating outside the jurisdiction of the Community. As far as defense issues are concerned, the Treaty provided for the eventual creation of a common defense policy. The Treaty also enshrines the WEU as the institution charged with preparing and executing defense related decisions taken by the Union.

The establishment of the common foreign and security policy, the search for greater coherence between the latter and foreign economic policy, the possibility of launching joint actions, and the abandonment of the taboo surrounding defense policy has not satisfied Europe's new requirements even though it represents a step in the direction of greater political affirmation for the European Union.

Thus, the structure of European security institutions and the relationship between them remains a basic challenge. The limits which states impose on their involvement in the security and defense of Europe and the impact of the American position in NATO regarding this issue shows that there is a need to reinforce Europe's defense entity, the WEU, and its articulation with the European Union.

The Union's foreign and security policy must be capable of responding to the security and stability demands of the Central European countries. It should also reinforce its capacity for action in the South. Not just the near south but beyond, searching for new partners particularly in the areas undergoing integration processes.

The Resurgence of Nationalism. Another of the great challenges facing the European Union is the need to respond to the resurgence of nationalist movements at times radical in nature. Nationalist

movements, be they ethnically or religiously based have proliferated both to the east and south. The discourse of these movements is not only intolerant but often also violent. They find fertile ground in areas facing difficult transition processes, acquiring increasing importance and dangerous relevance.

The European Union has tried to support transition processes because it is conscious of the need to avoid the growth of this type of movement. Beyond basic political support, the Union has helped with association agreements and the establishment of free trade zones both east and south.

There is at the same time a return to values based on a nationalist identification. Groups guided by racist and xenophobic attitudes, targeting immigrants and refugees have arisen in all member states. Immigration has increased significantly over the last few years precisely because of the political and economic instability in the countries surrounding the Union. The emergence of racist or xenophobic attitudes is directly related with the economic crisis which hit Europe, increasing the number of jobless and increasing the relevance of these attitudes.

The Role of the Regions The issue of the role of the regions within the European Union's borders has arisen from the strengthening of European structures: the more political and economic powers are vested in European institutions, the more the various regions within each Member State feel that they are in a position to make themselves heard. In some cases they even feel they are in a position to present themselves as a nation and to fight for increased autonomy. This phenomenon is increasingly prevalent in Spain, Belgium and even in Italy and the United Kingdom. The Council of the Regions was created for the latter to participate in the integration process. It is a political forum which aims to bring the concerns and demands of the various regions closer to the decision-making centre.

Integration has proved to be effective in that it allows for the peaceful statement of the desire for autonomy by various regions, thus containing the radical phenomena of identity-based nationalism and allowing national minorities separated by political borders to live together in a democratic manner.

The Current Debate on Democratization. The process of the ratification of the Treaty of European Union and the whole debate it gave rise to posed an additional challenge for European integration: the need to make citizens participate in the process. This is the only way to guarantee public support for the new phase of integration. The construction of Europe requires that national and Union leaders pay greater attention to public perceptions of the European process. The so-called 'perceptive factor' is a key element for the development of the process of political integration.

The establishment of European citizenship, the strengthening of the role of the European Parliament with the introduction of the co-decision mechanism and the reference made to the role of national parliaments, the creation of the Council of Regions, as well as the establishment of mechanisms to

publicize the activities of community institutions, were some of the answers found to deal with this issue. They are, however, still inadequate. The introduction of the concept of subsidiarity to the Treaty, giving back part of the power concentrated in Community institutions to the member states and regions therein, was an attempt to allow for decisions to be made "as close to the citizen as possible".

The 1996 Inter-Governmental Conference will have to respond to the need for democratic control over the Union's legislative process and to citizens' demand for increased participation. It is essential to ensure citizens' support for the development of the Union. This can only be achieved through democratization and with the re-enforcement of popular participation. If it is to elicit popular support for the project, participation cannot be reduced to an *a posteriori* ratification through referenda or to subsequent ratification by the states which signed the Treaty. At a time when democratic values are spreading all over the world it would be incongruous to attempt to organize a union without democracy. It would be even more incongruous to expect European citizens to simply accept this. The resurgence of citizenship and democratic demands must be seen as concomitant with the development of the integration process itself. The latter has transcended its initial, almost exclusively economic and commercial nature, and permitted the democratic co-existence of national minorities separated by frontiers.

Economic Cohesion and Solidarity. Dealing with financial and economic crises is one of the most serious tasks facing the European Union. The future of the Union depends in large part upon the answers that Europe finds to meet this challenge. The decision to adopt a Single European Market and to head towards monetary union is an essential first step towards ensuring Europe's ability to compete in a world economy divided into powerful regional integration areas with multiple relations between them. It is also crucial for the achievement of macro-economic stability: monetary union can help to bring down inflation by removing monetary policy from national governments prone to internal political pressures; it can also eliminate the shifts in prices stemming from floating exchange rates, thus reducing uncertainty and threats to investment.

Monetary union, however, just like integration in general, is a promise of greater potential, not a guarantee for success or a panacea. In order for the Single Market to be a success, three related issues have to be addressed on the road to unification: the maintenance of social cohesion in the face of macro-economic adjustment inside and between member states, promoting international competitiveness without resorting to social dumping and other disloyal practices; and finally, combatting social exclusion and unemployment vigorously and directly.

The problem of unemployment is a real and serious one. There are almost 20 million unemployed Europeans today. Monetary Union should not be achieved at the cost of increasing the ranks of the

excluded. Rather, it should aim to reduce them. Social dumping is also a sure way to make citizens question the legitimacy of an integration process which only emphasizes social differences rather than attempt to eliminate them.

European Union can not be about effective competition alone. It must also be about retaining the European model of social protection, fighting exclusion, strengthening common policies which favour social cohesion and sustainable development. All this requires active policies at the local, regional, national, European and international levels. It also requires that a balance be struck between the financial objectives of monetary union and socio-economic priorities.

It should be noted that raising the social imperative to the level of the financial-competitive one is not a soft option or a socialist hangover; the markets are the first to recognize that the very survival of the European project depends upon social cohesion and stability. Beyond that, if Union does not deliver on its promises of growth with a social conscience and welfare, the ranks of European citizenry will shrink in a disillusioned and potentially dangerous process of re-nationalization. The European project was, right form the outset, one which emphasized the importance of solidarity; notably, the most economically successful nations of the Union are those which have most fully realized the aim of sustainable development widely understood.

It is not easy, however, to find ways to be competitive while financing the necessary structures for social cohesion at a time of economic crisis. Nonetheless, failing to respond to this problem represents a threat to the development of the European project.

The Old Question: Widening vs. Deepening? One of the greatest challenges facing the European Union is the question of widening. This means not only embracing rich members such as Austria, Norway, Sweden and Finland; it also means taking in the poor countries who insistently demand that they be considered part of Europe and members of the Union. Such is the case of Poland, Hungary, as well as the Czech Republic and Slovenia. Among the latter group are also the eternal candidates, Cyprus, Malta and Turkey.

The issue of widening vs. deepening becomes a dilemma when one links enlargement with the weakening and paralysis of institutions. Widening, however, requires a 'variable geometry' and gradualism. The process requires a constant understanding of the limits imposed by evolving circumstances on a case by case basis. When widening is rushed, one risks the dispersion of powers and the increased inefficiency of mechanisms.

It is important to remember that integration processes advance at a varying pace. One always has to take into account the complexity of concrete situations to account for differences rates. Political signals

and solidarity have to be extended right away. Economic initiatives and the creation of mechanisms for economic integration and the administration of joint interests lack maturity when one takes the disparate levels of development of each member into account.

The Mercosul

The Mercosul is the second international experiment in integration heading towards a common market. Given that it was only recently set up with the foundational Assunção Treaty of 1991, it still faces serious challenges. The process has only survived due to the determination of its founders and the growing interest of business sectors in member countries.

The Mercosul was born out of the *rapprochement* between Brazil and Argentina in the second half of the last decade. Its initial aims were political. It was meant to overcome the periods of rivalry and mutual suspicion between the two countries. As rapid political progress was made, economic bilateral relations increased. Initially, between 1986 and 1990, this implied a 'traditional' process of integration by sector or product. From 1991 onwards however, after the Treaty of Assunção and the incorporation of Uruguay and Paraguay as new partners, economic links became increasingly integrationist. Thus, the establishment of a key programme for commercial liberalization following a cronogramme for progressive reductions in tariffs leading to complete elimination of intra-regional tariff barriers by December 1994, as well as a commitment to the elimination of non-tariff barriers.

The volume of intra-Mercosul trade increased greatly due to the gradual reduction in tariffs from 1991 onwards. Trade grew from 3,700 million dollars in 1990 to over 10,000 million dollars in 1994. Today, Argentina's most important market is Brazil. The Mercosul now absorbs 15% of Brazilian exports. The main cause of intra-Mercosul trade expansion is the *convergence of trade liberalization policies between the four member states*. This has permitted the establishment of the necessary internal political consensus for the evolution of integration.

The Mercosul is also a means to attain longer term goals. One of these is the coordination of macro-economic policies among its members to prevent economic measures adopted by one country creating artificial advantages for economic agents. Another is the creation of a customs union which was actually initiated in January 1995. Finally, the aim is to arrive at a full common market. This will take some time to achieve as such a level of deepening requires the negotiation and establishment of supranational or communitarian instruments or institutions.

A customs union is a free trade zone which has a unified trade policy in relation to third countries and is juridically recognized at the international level. It increases the bargaining power of each of the member countries. This increased power is one of the factors which fuels the Mercosul's transition to a customs union. Another relates to the greater capacity to attract investment with the emergence of greater markets. *If during the first stage of the Mercosul's development trade volumes increased enourmously, it is to be expected that the second phase of customs unification will bring with it increased investment*. This will also be a product of the logic of economic globalization and of the division between countries of goods' production phases. The recent stabilization of the Brazilian economy is crucial for the above, as it will tend to favour external investment in the Mercosul.

The problems inherent in the economic differences between the four member states must be overcome for the establishment of a customs union and the key common external tariff. Such is the case with the policies affecting capital goods and computer technology in Brazil and Argentina. In the case of Brazil, economic policy supports local industrial development through the application of some tariff protection. In the latter case, policies encourage supply from developed countries through a zero tariff barrier and the reduction of the costs of other industrial sectors, particularly agriculture and livestock. The Uruguayan and Paraguayan tariff profile is similar to the Argentine. They are small nations directed towards trade rather than industry.

The difficulties of arriving at a common external tariff were overcome through the negotiation of transitional stages for tariff convergence for sensitive products in the sectors suffering from the greatest level of disparity. It was a complex process of negotiation through which negotiators sought and succeeded in offsetting Brazilian tariff reductions by increasing tariffs in the other three countries. This means that these markets are now more open to products coming from Brazil.

Other instruments of trade policy such as a customs code and rules about the protection of competition as well as public policies which distort competition, have been approved. Moreover, a new institutional structure for the Mercosul was established in January 1995. It largely maintains the inter-governmental organs and the mechanism for consensus-based decision-making established by the founding treaty.

As it becomes a customs union, the Mercosul is already acting as a sole entity when negotiating international trade agreements, be they the establishment of a South American Free Trade Zone, the negotiation of agreements with the European Union or the initiation of hemispheric integration as discussed at the Miami Summit. The debate at Miami resolved an issue which seemed to place the Mercosul in a dilemma; Argentina's ambivalence over whether to continue within the Mercosul or join the NAFTA. Given that hemispheric integration will proceed through convergence between existing

regional integration schemes and not through a gradual country-by-country adhesion to the NAFTA, the Mercosul has gained rather than lost relevance for Argentina.

Up to the present, the Mercosul was largely pushed forward by its member governments' political will. In many cases, these governments resisted the strong pressure coming from sectoral interests opposed to the liberalization which inevitably accompanies integration. *From now on, the role of society and its economic agents will acquire greater relevance*. Depending on the success of the adaptation to and involvement with the realities of integration, a challenge of greater magnitude can be considered: namely, the initiation of a third stage of integration for the creation of a full common market.

Brasil is recognized as the motor of the Mercosul. The continued success of the Plano Real is a condition for sustained growth. The consolidation and widening of the Mercosul will largely depend on Brasil's economic stabilisation, as it represents the largest local market for the exports of all its South American neighbours.