

# The EU and The Mercosul

## THE BASIS FOR MULTILATERAL ACTION

71. EU support for international regulation is credible: it is backed by its own experience. Europe is built upon supra-national foundations that have de-legitimated the concept and sanctity of absolute sovereignty. It should be remembered that the concept of humanitarian intervention was born in France, that it was a Spanish judge who requested the extradition of General Pinochet, and that the majority of European states supported intervention in Kosovo. If the EU develops a capacity to act in the realm of international defence and security it can develop a significant role in the construction of a post-hegemonic multilateral international order. The EU already exercises significant soft power as a civil power. Because of its economic weight, the attraction of its model and its development and co-operation policy, it can use economic power for political ends, relying on non-coercive means to find solution for long term regional and even international problems. However, as a civil power its options are limited.

72. The performance of the EU in crisis situations is still modest, as demonstrated by its timid and divided response to the Arab-Israeli conflict, and to the crisis in Yugoslavia. This impotence is the direct result of the EU being an exclusively civil power, and its concomitant dependence on US military power, strategy and willingness to intervene. The EU suffers a notable deficit in its enforcement capacities. It can sanction prevaricators with political conditionality, but it cannot intervene militarily when all other avenues have been exhausted. One of the pillars of the whole process is the consolidation of a European defence identity. This requires the committed participation of the UK, which is unwilling to take part in any form of federal van-

guard, not least because that would place the decision to use military force in the hands of other states or place it at the mercy of intergovernmental co-operation. Problems also exist with the consolidation of a common foreign and security policy. The Union's foreign partners would probably continue to feel the difficulties of not knowing who their interlocutor(s) is (are).

### *The Deepening Challenge*

73. For the EU to develop a new strategic capacity, it must first overcome a number of obstacles. The first of these is the challenge of deepening integration and preserving its unique social model in a context of globalisation. Although economic deepening has met with some success, with the establishment of economic union and the creation of a single currency, progress on the path to political union has been meagre in large part because states cannot agree as to the nature of such a union. The creation of a federation of democratic states based on the dual legitimacy of states and its citizens, which makes compatible a sense of national belonging with membership of a supranational community, is supported in Germany, France and Southern Europe, but rejected by the UK and the Nordic countries. The controversial idea of creating a 'hard core' or a vanguard of states to speed up the creation of a federation of states, however, has divided large and small states. The idea has been instinctively rejected by the smaller member states that see it as a thinly disguised proposal for the creation of a directory of states.

### *Widening and the Multicultural Challenge*

74. The problems of managing the Union will increase once new member states accede from the East. At the moment, there are important differences between the most likely candidates (Hungary, Poland and the Czech Republic) and the EU, primarily related to the free movement of labour and the liberalisation of agricultural trade and its impact on CAP and some producers in the EU. These problems will be overcome and negotiations proceed. What is perhaps more problematic is the wider question of the potential dilution effect of enlargement, as the EU could lose its power to act with so many new members, become politically diluted into a vast free trade area, and compromise political union. In this context, it would have to give up ambitions of acquiring an international political presence, compromising the future of a multilateral project.

75. Widening also presents the EU with important identity-related decisions. The identity of the Union is defined politically. Membership is available to all European democracies that accept the *acquis* and are economically prepared for convergence with and competition in the single market. Thus defined there are no clear limits on geographical limits on enlargement. Although this presents obvious problems, the EU cannot establish a civilisational identity without reneging on the concept of citizenship, and attacking its growing cultural, linguistic and even religious pluralism.

76. Europe is founded upon multiculturalism, which is a trump card in the formulation of international policy, particularly when people around the globe feel that a globalisation is a threat to cultural pluralism. Multiculturalism weakens nationalism, particularly religious nationalism, which presently constitutes the most threatening alternative to democracy. The consolidation of a democratic, pluralist and culturally diverse Europe affirms a universally appealing European model. The EU is a regional actor that upholds a model that can be universally appealing. The greater the 'internal' success with the consolidation of continental democracy, the greater the 'external' impact and prestige of the model.

## THE CONTRIBUTION OF THE MERCOSUL

77. In just a decade the Mercosul has affirmed itself as a credible actor internationally. It has been viewed as *the* example of South-South integration. It has established a sense of community: Mercosul politics are state policy for its members. It has acted as a force for democratic stability in the region. It has proven itself economically successful: in 1991-1997 intra-regional exports increased from just over US\$5 to 20 billion, with foreign direct investment (FDI) accompanying trade growth. The Mercosul can draw on a good reserve of political legitimacy (strong when anti-FTAA protest is taken into account) and on its power of attraction: both Chile and Venezuela aspire to full membership. If Venezuela fulfils the political conditions for membership, this would mean joining the region's largest economy and its largest oil producer, a coup for South-South integration.

### *Merco-scepticism*

78. The Mercosul is at a crossroads, however, given the current crisis, first set off by the impact of the Asian crisis in Brazil, and more recently compounded by

three year Argentine economic recession. Voices have been raised in favour its 'absorption' into the FTAA, such as those of Uruguayan President Jorge Batlle's, and that of some Chilean producers and Paraguayan industrialists. Others, such as former Uruguayan president La Calle have called for the temporary suspension of the Mercosul. The crisis is also partly a product of a wider ambiguity over the meaning of regionalism. For some, it is more about free trade than deep integration. Chile, for example, has retained the right to negotiate free trade agreements with other countries or sub-regions. It pressed for the early conclusion of the FTAA, in 2003, at the Quebec Summit of the Americas, ahead of the original 2005 deadline, which would reduce the scope for Mercosul consolidation. It is an ambiguity exacerbated by Article 24.

### *Collective Discipline and Institutionalisation*

**79.** Fiscal and macro-economic co-ordination and harmonisation have been frustrated by asymmetries between the member economies, and exacerbated by differing productive strategies. Argentina has opted for liberal, export-oriented policy, while Brazil has chosen to reactivate its industrial sector. The Brazilian and Argentine financial crises and exchange rate system alterations compound productive asymmetries. Unilateral tariff tampering has broken down collective discipline and slowed the consolidation of the common external tariff (CET). Collective discipline is essential ensure the survival of the group, and enable it to cope with multiple negotiation strategies (FTAA, EU-Mercosul and WTO) negotiations. The 1994 Protocol of Brasilia arbitration mechanism has been unable to issue effectively binding decisions, with presidential diplomacy needed to overcome differences. As the EU has shown, some supra-national arrangements would mean greater efficacy, less dependence on the goodwill of individual presidents, and a greater capacity to forge a common international policy.

### *Asymmetry and the Brazil-Argentine Axis*

**80.** There is a strong political asymmetry that also curbs the even development of the Mercosul. Brazil must find a balance between the negation of a hegemonic project and an acceptance of the responsibility inherent in its leadership: *power* and *responsibility* must be linked. This could mitigate Argentine ambiguities, which has often been an unpredictable partner, alternating talk of 'exiting' and of 'carnal relations' with Brazil, and adopting a 'go it alone' strategy. Its attempt to join NATO without prior consultation within the Mercosul is a case in point. A 'go it alone'

strategy makes it difficult to establish a solid strategic alliance between the two countries, which is essential for the affirmation of a strategic Mercosul identity. At the same time, the excessive power of the Argentina-Brazil axis has meant a *de facto* veto power that removes the other two members from the core of decision-making.

**81.** Uruguay is the country with the most educated population, the best income distribution of the four, and an exporter of qualified human capital disproportionate to its size. It wants more institutionalisation to give small members greater influence over the decision-making process and thereby affirm a common strategic project. Paraguay seeks political stability through the Mercosul, and its poor, unequal and often corrupt economic system is highly dependent on its neighbours. Promoting Paraguayan political and economic convergence is a key challenge for the Mercosul countries, which can increase the international credibility of the project.

### *The Democratic Deficit*

**82.** The Mercosul also suffers from a democratic deficit. Business participation in the Economic and Social Consultative Forum (ESCF) is still incipient, trade union actors are weak, and other civil society actors barely present. In response to ESCF demands, the Buenos Aires Charter of June 2000 commits member states to the incorporation of civil society actors into the integration process. Also innovative is the attempt to increase women's participation through the Specialised Women's Meeting (REM) of the Common Market Group (CMG). Despite these efforts, and much like the EU, a continued democratic deficit affects the Mercosul's capacity to launch an international multilateral project based on the values of democracy and shared sovereignty.

### *The Way Forward*

**83.** If the Mercosul is to play any internationally relevant role, or make any contribution to the new multilateralism, it must exist as an independent project with autonomous political aims. The clearer its project, the more the Mercosul can curtail the 'exit' and 'dilution' threats. The strategic projects that would best serve its interests are a partnership with the EU in the international arena, and adopting an active democracy and peace-promoting role in South America. The Mercosul should not view the EU as just another trade negotiating partner in a context of multiple free trade negotiations, not merely as 'leverage' to extract better FTAA conditions, although it is also both of these. It should recognise in the EU a qualitatively different partner, the

only integration project that aims to multilateralise US policy, and to create conditions for more equal participating in the international system.

**84.** Co-operating with the Andean countries for peace and democracy is essential. Not only are these countries the next frontier of an expanded Mercosul, but its ability to act positively to promote stability, peace and democracy on its periphery is the first tests of its potential international political relevance. The survival of the Mercosul does not only depend upon its own efforts, but on the capacity of the EU to definitively recognise it as a key international partner and to adopt a 'hands on' policy towards South American integration. The EU must adopt a policy of active encouragement of deep integration in South America.

## THE BASIS FOR BIREGIONAL ACTION

### *The Free Trade Agreement*

**85.** The EU and the Mercosul made a commitment to negotiate a Free Trade Agreement by 2005, with the December 1995 Interregional Framework Co-operation Agreement. The agreement covers trade in goods and services, as well as government procurement, investment, intellectual property rights, competition policies, trade defence instruments and a dispute settlement mechanism. The aim is to liberalise trade in all these sectors over 10 years. In June 1999 the EU-Mercosul Summit formally launched negotiations, set to end after the November 2001 WTO Ministerial Meeting. Five rounds of negotiations have taken place, under the aegis of the EU-Mercosul Bi-Regional Negotiations Committee (BNC). The fifth round produced the first substantive progress on trade issues.

### *The Liberalisation and Co-operation Packages*

**86.** At the fifth round of negotiations in July 2001, the EU put forward an offer for the liberalisation of agricultural and industrial products. For agriculture, products are divided into 6 categories, covering 80% of all Mercosul products subject to EU tariffs, (80% of all agricultural exports from the Mercosul are already entirely tariff-free). Only the last category (of sensitive products) will be conditioned by a preferential tariff system rather than phased and total liberalisation. For industrial products, the

EU offer covered 100% of products and full liberalisation within 10 years (although most products would be fully liberalised in 7 years), of which 47% (from the Mercosul) are currently subject to tariffs. The Mercosul is set to make a counter-offer in October, at the sixth round of BNC negotiations.

**87.** Co-operation talks have progressed substantially, under the aegis of the Sub-Committee on Co-operation (SCC). A Memorandum of Understanding was negotiated for the period 2000-2006. The financial package for bilateral regional horizontal co-operation with Mercosul-Chile totals € 282 million, of which € 48 million is destined for the Mercosul as a common market. The prospect of the extension of co-operation to new areas, notably education, is a clear possibility.

### *The Main Difficulties*

**88.** The main stumbling blocks to be overcome reflect the North-South divergences found within the WTO. The Mercosul is wary of the sixth category of 'sensitive' agricultural products, which includes cereals, olive oil, milk products, meat, tobacco, sugar, and some processed fruits and vegetables. Steel and textiles are also sticking points. At the same time, while the EU is keen to negotiate service sector liberalisation, government purchases, intellectual property and investment, fearing stiff US competition in these areas, the Mercosul is unhappy about negotiating government purchases, and its demand for an anti-dumping agreement has not been well received by the EU.

### *The Economic Push Factors*

**89.** Despite the difficulties, there is much to be gained from overcoming them. There is much at stake in the EU-Mercosul relationship. The total value of trade flows between the two blocks rose from € 18.956 billion in 1990 to € 42.5 billion in 1998, an increase of almost 125%. UN figures on FDI flows to Mercosul and Chile in 1998-2000 indicate that European investments overtook the volume of US investments (US\$82.8 billion from the EU and US\$55 billion from the US). Circumstantial factors have also speeded up the negotiation impetus. In the recent past, the apparent stagnation of NAFTA and the FTAA process diminished the European impetus to 'capture' the Mercosul market. The unfavourable WTO context for liberalisation following the failure of Seattle also slowed down the negotiation impetus. The prospect of revitalised FTAA and WTO processes, however, have pushed forward negotiations. The im-

pact of recession and financial crisis in the Mercosul on EU-Mercosul trade is another push factor, as the EU trade surplus has declined, with the Mercosul importing more from the NAFTA countries.

### *The Political Strategic Pull*

**90.** If the EU and the Mercosul are to sustain the impetus, however, they cannot rely merely on circumstantial pressures and motivations. Essentially, both partners must attach a strategic value to the relationship. The EU needs partners to fulfil its vision of a regionalist world, and the Mercosul is the most appropriate partner to help it fulfil that vision. It is the only regional integration project that aims towards political convergence, attempts to go beyond inter-governmental co-operation and free trade, aims to create a common market, and participates as a bloc in trade negotiations. Given its democratic vocation, and its ability to alter relations of enmity between Brazil and Argentina, and its power of attraction, the Mercosul is a credible political project. For the Mercosul, the EU is also an important partner. The EU takes the Mercosul seriously. It identifies it as a potential partner for the establishment of a more balanced international system based on the essential pillar of regionalism. By contrast, the US tends to disdain the 'integration option', viewing the Mercosul as a form of 'trade deviation', a vehicle for Brazilian regional hegemony, which should be absorbed into the FTAA. For the EU, by contrast the greater the affirmation of the identity of the Mercosul within the Americas the better.

**91.** The EU and the Mercosul share similar attitudes and values. Both place at the centre of their political diplomacy the values of peace in democracy and diversity, human rights, as well as a shared commitment to preserving the environment and creating a more socially just society. There is agreement on working methods: both favour multilateralism, both have implicitly and explicitly recognised the need to share and limit sovereignty as a way to forge more effective global governance and to increase the capacity of single nation states to contribute to international rule-making. Both agree that open integration projects are an indispensable part of multilateral governance. Both have shown a willingness to accept and promote the participation of new, civil society actors in policy-making. Both share a similar attitude to key issues.

**92.** As far as globalisation is concerned, a pragmatic liberalisation is sought, to avoid the dissolution of integration projects into vast free trade areas. The EU seeks compatibility between the demands of a new economic order and the defence of the social cohesion at the basis of its integration model; the Mercosul, a post-globalisation



integration model, seeks a controlled and pragmatic liberalisation. Despite opposition to Kosovo, attitudes in the Mercosul to intervention in East Timor were favourable. Both groups have supported the ICC as part of the Like Minded Group. There are points of tension over universal jurisdiction and conditionality, but the Mercosul is not opposed shared sovereignty in principle; rather, it is wary about letting go of a key instrument for autonomous action when more powerful international actors are at stake. It is in this 'mixed' scenario (basic agreement on founding principles but divergences on a case-by-case basis resulting from different interests and levels of international power) that the EU and the Mercosul must launch into an action oriented agenda for the European Union-Latin American Summit in Madrid in 2002. What position should they adopt with regard to the new multilateralism, and how can they best advance their interests in a world poised between an old and new sovereignty?

#### KEY CONCEPTS

- If the EU develops a capacity to act in the realm of international defence and security it can develop and significant role in the construction of a post-hegemonic multilateral international order
- The creation of a federation of democratic states based on the dual legitimacy of states and its citizens makes compatible a sense of national belonging with membership of a supranational community
- In just a decade the Mercosul has affirmed itself as a credible actor internationally
- The Mercosul is viewed as the example of South-South integration
- The main political challenges are the Argentine-Brazilian relationship, the asymmetry between member countries, the differing aims that each country has within the Mercosul, and the democratic deficit
- Fiscal and macroeconomic co-ordination and harmonisation have been frustrated by the huge asymmetries between the member economies
- As with the EU, the democratic deficit also affects the Mercosul's capacity to launch an international multilateral project based on the values of democracy and shared sovereignty
- If the Mercosul can define a strategic identity and a capacity to co-operate to promote peace and stability on its periphery, its chances of surviving dilution are also greater