MA in Politics and Economics of Contemporary Eastern and Southeastern Europe

EU- MERCOSUR Relations

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Abstract

The emergence of a new, decentralized international system, after the end of the Cold War era, has given way to new forms of regional integration and interregional interaction and cooperation, realizing new forces in the international arena and enabling the forming of economic and political alliances. The cooperation of the European Union with the countries of Mercosur originates from Mercosur’s establishment as a regional bloc and is considered on the most important processes of interregional cooperation globally. However, the EU – Mercosur lengthy negotiations have encountered significant difficulties over time. The present study aims at investigating the nature of these negotiations, their origins and present status, the obstacles that they have encountered and their importance for the concept of interregionalism in modern international relations and politics.

Keywords: European Union, Mercosur, regionalism, interregionalism, integration, neorealism, neoliberalism, international relations
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1. Introduction

Europe and South America preserve trade ties since the continent was discovered and colonized. The South American lands were very rich in raw materials, with such goods that did not exist or thrive in Europe, such as coffee or the cocoa plant. However trade is not only a way to cover needs or gain access to goods lacking in local markets, but also a way of cultural and technological interaction between parties, a way of supporting economies or even for establishing further political ties. According to Barry Eichengreen and Douglas A. Irwin (1998), international trade faces significant challenges, in the modern world, due to the rise of regionalism, a fact that sets a number of questions and issues under investigation: How is the domestic welfare affected? How these parts shape the big picture of trade competition and cooperation between states and regions? How important are the arrangements used in regional agreements, regarding their effects on international trade? These arrangements cannot only reorient the exports but also influence the markets. The change in the market can affect also politically and rearrange the framework again. The typical example of these cases is that the new arrangement is even more formal. The main question on this, is how these arrangements could offer profit to all parties. On the other hand, can these arrangements turn competition between markets or economies into policies that are fruitful for all parties?

European and Union and MERCOSUR member countries (Argentina, Brazil, Paraguay, Uruguay, and Venezuela) have accepted this range of challenges, firstly in their interior environment by establishing common market or zones of special trade agreements and since 2004 the two parties have been in procedures to deepen their trade relations too. Europe and these countries are considered to be “natural partners” that are linked by a “strategic

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1 Even though it is uncertain to what extent and in how much time, these ties to the “mother country” had evolved to trade relations between markets (Barry Eichengreen, Douglas A. Irwin, 1998)
2 Writer and Professor of Economics and Political Science in Berkeley University
3 Professor in the Social Sciences, Department of Economics, Dartmouth College Hanover
partnership” (Maihold, 2007). However, as already mentioned the trade relations between them are not new and during the last decades European Union has been evolved into a global player.

Today, in the globalized financial environment, the significance of trade arrangements is high, not only due to the crisis that some economies face, but also due to the possibility that this affects other economies too. On the other hand the elasticity or the solidness of rules established in the internal environment of regionalized players plays a significant role: the extent up to which a possible trade agreement can protect a certain market is questionable. This could explain not only the long term procedures followed in the EU- MERCOSUR case, but also the studies carried, where certain variables were used and scenarios checked in order for each party to decide whether a possible agreement could be a wise financial strategy.

1.1 Mercosur

Mercosur is a trade agreement signed in 1991 between Argentina, Brazil, Paraguay, Uruguay and Venezuela, aiming on establishing a common market, in which the free movement of goods, capital, services, and people could be guaranteed. In addition to the four founding members of Mercosur and Venezuela, there are five countries with associate member status. These countries are Bolivia, Chile, Colombia, Ecuador, and Peru. As associate members, they are able to join free-trade agreements but do not receive the benefits of the customs union. The main idea, behind the establishment of Mercosur, is that the expansion of each country’s domestic market is of vital significance for the socioeconomic welfare of each one separately, as well as for the whole of the region and the member states of the organization. The acronym comes from the Spanish “Mercado Común del Sur” which means Southern Common Market.

The Treaty was the result of a concept, of which the central idea was the cooperation through regional and market integration of the South American countries, but it was not the first attempt aiming in establishing market and institutional integration between countries of South
America. The idea of the “Dependency theory” (Prebisch, 1981), the notion according to which wealthy states exploit poor and underdeveloped state economies and become wealthier, while poorer and underdeveloped “leave” their resources to flow to wealthier economies, was a theory introduced by Raúl Prebisch⁵, former director of the Central Bank of Argentina and later executive director of the Economic Commission for Latin America (ECLAC or CEPAL) (1950). The first regional agreements were signed under his presidency (1960)⁶ and can be characterized as an extension of the “import-substitution industrialization” (Baer,1972) policies, constituting the Latin American Free Trade Association (LAFTA)⁸, formed with the signing of the Treaty of Montevideo by Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay, aiming (United States Tariff Commission), aiming on abolishing the duties and other restrictive regulations of commerce of goods (not services) between the above countries, while preserving their own customs administrations and tariff systems with respect to imports from outside the region. By 1970, it expanded to include four more countries: Bolivia, Colombia, Ecuador and Venezuela. To support and organize the attempt, the organization was structured to include three institutions: the Council of foreign Ministers, a conference of all participant countries and a permanent council. LAFTA was used to organize the supplies of regional goods and the needs in other goods, to reduce trade costs and to promote regional specialization, ultimately aiming at attracting investments.

⁴Socioeconomic theory based on the assumption that less developed economies get exploited by the more developed. Prebisch used the “core and the periphery dichotomy” to indicate imperialist relations within the international economic system

⁵ Raúl Prebisch, 1901-1986, Argentine economist, writer, President of the Central Bank of Argentina, executive director of the Economic Commission for Latin America

⁶ The creation of the Central American Common Market, the Central American Bank for Economic Integration, and the Secretariat for Central American Economic Integration (SIECA)

⁷ “ISI” is an option for the underdeveloped or less developed economies to reach higher economic results by exporting food and raw materials and importing manufactured goods. Import substitution consists of establishing domestic production facilities to manufacture goods which were formerly imported

⁸ Also “Asociación Latinoamericana de Integración”, “Associação Latino-Americana de Integração”
In May 1969 the leaders of Peru, Bolivia, Colombia, Ecuador, and Chile signed the “Andean Pact”\(^9\) agreement, while Venezuela joined the pact in 1973. The agreement focused on market integration through implementation of joint development programs at industrial level and the protection to third countries and institutional integration, built on functionalist and neo-functionalist schemes (International Democracy Watch, Centro Studi Sul Federalismo). The Pact remained in force until 1989, when the member countries modified the goals and structure of the Pact to create the Andean Community (Cariilo Tudela & Li, 2004).\(^10\)

In the Treaty of Asuncion, signed in 1991, Brazil, Argentina, Uruguay and Paraguay agreed to establish a common market, a trade bloc\(^11\): MERCOSUR aimed to establish a duty free common market, focusing on macro-economic convergence and the establishment of a common judicial policies framework, into a customs union, negotiating in “a collective way” (Miguel Rodríguez Mendoza, 2012)\(^12\), preserving fair competition between the member states. In 2007 MERCOSUR

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\(^9\) Also known as “Cartagena Agreement”

\(^10\) The Andean Community represented the design of a new integration strategy that could also support the countries’ liberalization process, which led to the formation of FTA, a free trade area in 1992, an imperfect customs union adopted in Colombia, Ecuador and Venezuela

\(^11\) The largest member is Brazil
signed an agreement with Israel in 2007, with Egypt in 2010 and with the Palestinian Authority in 2011. However, the most important economic relationship of Mercosur, outside South America, is with the European Union (Rodriguez-Mendoza, 2012).

Mercosur is one of the biggest trade blocs worldwide after NAFTA, EU and Japan (Connelly, 1999), representing a market of more than 200 million people. However, the member states do not share a common currency, unlike EU and as a result there are different exchange-rate regimes (Maniam, Leavell & Mehrens, 2003). This is especially the case with Brazil, Mercosur’s biggest member state, which has used devaluation as measure for deflation and prices fall or even for arranging imports and exports. Argentina’s peso was pegged to the U.S. dollar between 1991 and 2002 in an attempt to eliminate hyperinflation and stimulate economic growth. Even though the possibility of creating a common currency would be helpful for the member state, there was significant internal conflict for this issue. For example Argentina’s former economy minister, Roberto Alemann stated that it could not be possible to share the common currency, mentioning that “you cannot create a single currency out of four countries that do not have their own money. It would be like turning four sick people into one healthy person” (Mandell-Campbell, 1998).

1.2 European Union

European Union could either be seen as a supranational economic organization or as a political, institutional federation with a range of goals and a certain structure, designed to support those goals. The history of the European Union starts after the end of the Second World War, aiming to exceed the devastation caused by the war in Europe, by establishing alliances, a strategy that was also useful as protection from further military conflicts between neighboring European countries (Europa.Eu)\(^\text{13}\). The main goal was to establish a lasting reconciliation among

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\(^{13}\)The French foreign Minister Robert Schuman, who first proposed the ECSC, introduced his proposition as a measure that would "make war not only unthinkable but materially impossible"
France and Germany through economic, social and political bonding, which could also lead not only to military security, but also to economic growth\textsuperscript{14}.

The first step towards this direction was the supranational (Kiljunen, 2004) organization of the “European Coal and Steel Community”, a new type of political entity, at first including Belgium, France, Germany, Italy, Luxembourg and the Netherlands, which was established by the “Treaty of Paris” in 1951. The member states constituting the common market for the raw materials of coal and steel could neutralize the competition for at least these natural resources, which are necessary and essential for industrial development and production. Seven years later, in 1958, the European Economic Community –ECC- and the European Atomic Energy Community –EAEC- were established by the Treaty of Rome. The member states were the same as in the ECSC, aiming to establish a framework of economic integration through a common market and a customs union between the member states and their institutions. The “Merger Treaty” or “Treaty of Brussels” was signed in 1965- despite the fact of being inactive before 1967. The objective was to merge the existing institutions, as the EEC, EURATOM and ECSC each had independent structures\textsuperscript{15}, a fact that complicated the efforts to fulfill the aim of multilevel integration.

In 1985, Jacques Delors, president of the European Commission, suggested a seven-year plan focusing on the promotion of a larger industrial and commercial single market that could compete with the US. The main problem, according to Jacques Delors, was the restrictions in free movement of products and working capital between the member states. According to Andrew Moravcsik\textsuperscript{16} “the European Community (EC) is experiencing its most important period of reform since the completion of the Common Market in 1968” (Moravcsik, 1991), referring to the “single European Act”, the outcome of Jacques Delors proposal and the procedures followed.\textsuperscript{17} The common foreign and security policy (CFSP) along with the economic and monetary union (EMU), became the milestone of negotiations for the Maastricht Treaty (Dinan, 2014). In 1992, the

\textsuperscript{14} Matthew J. Gabe, Encyclopedia Britannica, European Union- European Organization, updated 07/07/2016

\textsuperscript{15} Both the ECSC and EEC were later incorporated into the European Union while the EAEC maintains a distinct legal identity despite sharing members and institutions.

\textsuperscript{16} Professor of Politics and director of the European Union Program at Princeton University

\textsuperscript{17} The document of the proposal, Jaques’ Delors “White Paper” was approved by European heads of government in 1986
“Treaty of Maastricht” was signed, but it became active in 1993 at the same time as the single market. Areas such as common foreign policy and security issues, elements that introduced the aspect of a political union, were covered and it was one of the determinant actions leading towards the Monetary Union. The main aim of the Treaty was of great importance for European Integration: the member states agreed to preserve tight fiscal policies and maintain low debt and annual deficits\textsuperscript{18}, conditions that were considered to be necessary for the future introduction of the “euro” as common currency. In addition, the Treaty introduced the three pillar structure, which resulted in the establishment of the European Union: common foreign and security policy, police and judicial cooperation and the EEC (third pillar).

The establishment of the European Economic Area in 1994 provided the free movement of goods, services and people in the countries that were part of the single market (EEA Agreement, Main Part, 1994). One year later (1995), the Schengen Agreement was signed, an agreement that guaranteed free moving without carrying passports between seven members states of the EU: Belgium, France, Germany, Luxembourg, the Netherlands, Portugal and Spain. This gave a notion of a united EU, without borders.

In 1999 the common currency was adopted by eleven member states. Nowadays some of the member states have entered the monetary union, while others still avoid participating in it. Until 2007 many countries acceded (not necessarily adopting –or having adopt till nowadays the euro currency): Austria, Finland and Sweden in 1995, Slovenia, Poland, Slovakia, the Czech Republic, Estonia, Latvia, Lithuania and Hungary in 2004. The same year Cyprus and Malta also joined the EU, while in 2007 Romania and Bulgaria joined. Slovenia joined the EU in 2013.

In 2001, negotiations between the member states resulted in the Treaty of Nice that aimed not only in institutional change but also in establishing a further expansion and empower the union’s legitimacy (Dinan, 2014). One of the main goals of the Treaty was the reform of the institutional structure, but it also involved discussion for the prospect of a establishing a common constitution, or even the possibility of transforming EU to a single (state) unit.

\textsuperscript{18}(1) Debt<60\%GDP and (2) annual deficit<3\%GDP
In 2004, the leaders of the member states signed the “Constitutional Treaty”, aiming to strengthen the legitimacy and effectiveness of EU’s, by improving the decision-making and deepening the political integration within the union. Another aspect of the treaty is its “social and cultural dimension” (Grötsch & Schnabel, 2013), as matter of convergence by establishing common values\(^\text{19}\). Two main points of the Treaty were the Charter referring to Fundamental Rights\(^\text{20}\) and a new way of decision making, the “Qualified Majority\(^\text{21}\)”.

Three years later, in 2009, the “Treaty of Lisbon” came into force optimizing the existing legislative frameworks under which decision-making and policy approval was made: the introducing of concept of “double majority” and the Chartres of Fundamental Rights, the prolonging of the term of the President of the European Council and the potentiality for a member state to leave EU or even rejoin were some of the changes made.

2. Theoretical Framework

2.1 Neorealist and neoliberalist approaches in international relations

In order to better understand the theories of regionalism and interregionalism, it is necessary to briefly examine the two of the most prominent mainstream theories of international relations, which form the basis of the study of the above issues: realism / neorealism and neoliberal institutionalism.

The realist school of international relations is a dominant theoretical approach in international relations, having significantly influenced its theory and methodology. Realism and neorealism attribute prime importance to the concept of anarchy: according to realist theorists,

\(^\text{19}\) According to text of the Treaty: “.. EU should...drawing inspiration from the cultural, religious and humanist inheritance of Europe”

\(^\text{20}\) Certain rights for EU citizens into a certain EU law

\(^\text{21}\) “A qualified majority (QM) is the number of votes required in the Council for a decision to be adopted when issues are being debated on the basis of Article 16 of the Treaty on European Union and Article 238 of the Treaty on the Functioning of the European Union. Under the ordinary legislative procedure, the Council acts by QM, in decision with the Parliament.” [http://eur-lex.europa.eu/summary/glossary/qualified_majority.html](http://eur-lex.europa.eu/summary/glossary/qualified_majority.html)
the international system lacks a central – overseeing authority and, thus, only consists of relations between individual sovereign states in a condition of anarchy, in which the place of each state in this system is relevant to its power (Dunne & Schmidt, 2004: 143). Moreover, realism recognizes the state as being the legitimate representative of the collective will of the people, as well as being the main actor in the international system. A central idea regarding the actions of states in the international arena is the idea of national interest. Realism asserts that nation – states behave in ways that are relevant to human behavior nature and, thus, their actions are based on self-interest and the desire for acquisition (or maintenance) of power. For this reason, realism reject the idea that actions can be defined by a universal moral principles: no state will decide to sacrifice its own national-interest to serve universal morality and will always try to maximize its power and better its place in the international system (Morgenthau, 1993). For this reason, the state’s actions in the international arena are characterized by a constant competition and conflict, which may manifest in many ways, such as economic competition, political conflict or even armed conflict, whereas the development of cooperation and alliances are also seen as means to maximizing the states’ power (Mearsheimer, 1994). The state-actors actions are characterized by rationality, since they aim at maximizing expected utility and reducing marginal utility: each state-actor calculates the costs of all alternative action plans, before making a decision (Keohane, 1986). Moreover, state-actors base these decisions not only in their national interests, but also on their relative strength against one another, within the international system, tending to avoid conflict with more powerful states: since the international system is characterized by anarchy, national security is perceived as serving national interest, which can only be achieved by the acquisition of more power, in order to exert more influence in their international relations (Donnelly, 2000). Therefore, the acquisition of power is a fundamental goal of the state-actors, being a prerequisite of their survival. In this context, international relations consist of interactions between independent state-actors, based on rational decision-making, aiming to maximize their power, in relation to other state-actors, leading to decisions which can be located in a spectrum of cooperation and competition / conflict, depending on what position serves better their national interests (Donelly, 2000).
The most prominent theory of neo-realism is *structural realism*, which was by Kenneth Waltz (1979). In contrast to classic realism, which interprets international relations on the basis of the similarity of states behavior to human behavior, structural realism focuses on the effect of *structure* of the international system arguing that this structure is what influences and shapes the states’ foreign policy choices (Waltz, 2000; Lamy, 2004: 182). However, neorealism maintains most of the basic elements of classical realism, such as the importance of acquisition of power and the element of statism. However, even though neorealism maintains the idea that nation-states are the most important actors in the international system, it also considers the importance other international actors (international organization or institutions), as factors that may be affecting the main actors’ decisions (James, 1995). Moreover, even though classical realism considers military power as being the dominant type of power in international relations, neorealism assert that power is defined as the combined capabilities of a state, giving more prominence to economic and financial power, compared to classical realism (Lamy, 2004: 182).

Neoliberal-institutionalist theories are also prominent in mainstream theories of international relations. According to Knepper (2012), neoliberal institutionalism maintains the idea of the existence of anarchy in the international system. However, it asserts that this state is more likely to result in a *complex interdependence* between actors, than past forms of interactions, such as open conflicts between state-actors. Moreover, neoliberal institutionalism rejects the idea that states are the main actors in international relations, asserting that this characteristic is no longer relevant in the contemporary global politics. In contrast, modern international relations include a multitude of channels of interaction, also including non-state actors, such as multinational corporations, NGOs, IGOs and regional / interregional institutions. Additionally, neoliberal institutionalism reject the idea of the prominence of military power, which is a main feature of classical realism (but also maintained in neorealism, even though it is not considered the most prominent form of power): neoliberal institutionalism rejects the use of military force in international relations altogether, considering it to by an ineffective policy instrument. Furthermore, neoliberal institutionalism rejects the idea that national security takes precedence over welfare, as in the case of realist theories, asserting that international politics are not characterized by a strict hierarchy of political goals or issues (Knepper, 2012).
2.1 Old and new regionalism

One of the main features of the dynamics of the modern world is the globality and intensity of regional integration processes. The revival of these processes has a number of direct qualitative characteristics which differentiate it from previous forms. The term *regionalism* refers to government policy initiatives for closer political and economic cooperation between states and other actors who are part of the same region. These forces constitute the main framework of regional cooperation / integration, including policies resulting from interactions between state governmental actors and non-governmental national and supranational actors (mainly national businesses, pressure groups and multinational companies). The term "regionalization" refers to all the integration processes that are happening in an efficient manner within one or more sectors of a geographical unit. This phenomenon has given rise to an intensification of relations between state and non-state actors, which, although part of the same region, these relations are not always political or institutional in nature (Bach & Hveem, 1998; Soderbaum, 2003).

According to William Wallace (1990), *new regionalism* is defined as the creation and maintenance of intensive, multimodal and multilevel relations between entities, which once acted autonomously on the international environment. It is a multidimensional form of integration, which includes economic, political, social and cultural aspects. Therefore, new regionalism is not only limited in creating areas of free-trade area or joint military operations and alliances. On the contrary, new regionalism constitutes a particular ideological construction, which sees regionality as a form of status quo in the modern world, which reduces conflict and social / political chaos both in global, and in local - regional level. The term new regionalism refers to a historically preexisting form *old regionalism*, which has undergone important alterations under the pressure of structural changes in the international relations system.

“Old” regionalism emerged in the period between the decades of 1950 and 1970. The regional integrations of that era was the result of several countries' initiatives, a policy based on
an anti-colonial stance and the need for co-creating economic conditions for growth and industrialization, among developing countries. Given the low level of development of the productive forces and the small scale of the market, the protection of domestic economies and the strategic choice of substitution of imports by domestic production was seen as a means that would lead to the rapid industrialization of these countries (Bhalla, 2016; Sunkel, 2000). These policies could not be implemented but only through state-led and state-controlled financial planning. Therefore, countries that participated in these forms of “old regionalism” were characterized by relative “introversion” and regionalism was seen as a means of achieving economic development and, thus, economic and political independence (Vayrynen, 2003).

However, the changes introduced by the end of the Cold War and the consequent worldwide prevalence of a neo-liberal capitalist model of economic growth, caused a change in the actual content of the concept of regionalism. Unlike previous forms of regional cooperation, new regionalism is a reaction to a newly established state of affairs, which is dominated by a model of economic liberalism and deregulation of markets worldwide, increasing interdependence of economies and the significant increase of access to information, through the use of new technologies. These features, which generally correspond to the concept of globalization, caused the emergence of a new types of problems, regarding the management and intervention capabilities of the once-powerful state agent. Regional co-operations based on the old model tried to respond to the new conditions, becoming more "extroverted". The protective tariffs which once were to be the vehicle of development of developing countries in the past decades, today becomes an obstacle to the development of free intra-regional and inter-regional trade, preventing foreign direct investment and undermining competitiveness, thus undermining the main modern conditions of economic growth of a country (Inotai & Sunkel, 1999; Soderbaum, 2003; Vayrynen, 2003).

Thus, “new regionalism” can also be characterized as “open regionalism”, reflecting the countries’ effort to be in connection (rather than isolation) the world’s economic and political life, urging them to develop agreements with regional economic poles, while in some cases cooperating with various regional and sub-regional blocs simultaneously (as in the case of Chile’s agreements with both NAFTA and MERCOSUR). At the same time entire regions conclude
cooperation agreements with other regions (as in the case of MERCOSUR with the European Union). From these multiple agreements, member states expect to gain access to various regional markets, especially in cases where regional blocks implement protectionist policies against non-members (Bhalla, 2016).

According to Frohmann (2000), the collapse of one of the two poles of the Cold War era, which admit international relations, liberated new forces in the international arena, creating conditions for the existence of new types of regional and interregional cooperation. These new incorporations could not exist in the environment of the Cold War era, when the majority of cooperations where established around the two major powers of USA and the USSR. Thus, the older form of center-and-periphery is gradually abandoned, giving way to new forms of cooperation: there are blocks of the center, encompassing the core regions of the developed world, such as in the case of European integration, and blocks of the periphery, encompassing peripheral regions. The blocks of the center have historically formed powerful economic conditions, as well as technological and social development in the context of political stability and are characterized by an effort to further strengthen these elements in order to maintain their dominance in the global arena. The blocks of the periphery, which have less stable political structures and exhibit a historical backwardness in terms of development, both economically, and regarding expertise and social development, are characterized by an effort to reduce the risk of marginalization in the global arena and at the same time to bridge the gap that separates them from the developed world, taking advantage of the new possibilities created in a globalized economic and communicative environment. The result of these efforts of adjustment to the demands of the modern globalized world is the creation of new regional and sub-regional blocks. The dynamic formed through these new regionalism processes in turn causes significant structural changes in the modern world, boosting multipolarity in economic and international relations (Hettne & Soderbaum, 1998; Fawcett, 1995).

2.2 Old and new interregionalism

According to Valle (2008), interregionalism as a phenomenon can be traced back to the early 1990s, being a relatively new approach of international relations, which caused an
increased interest on the topic, as evidenced by the numerous relevant studies (Grugel, 2007; Hänggi, 2000; Santander, 2005; Rüland, 2001; 2002; 2010; Söderbaum & Van Langenhove, 2005). The beginning of the 1990s were characterized by a significant increase in interactions between groups of states and regional organizations, leading in the emergence of an important interregionalist tendency. Continuing through the decades of 1990-2000 and 2000-2010, this tendency resulted in establishing important institutionalized relations between most of the world’s regions and subregions.

According to Hänggi (2000), interregionalism manifests in various ways, but can be categorized in three different forms: (a) relations between regional groupings; (b) biregional and transregional arrangements; (c) relations between regional groupings and single powers.

a. Relations between regional groupings involve group-to-group dialogues, as those traditionally held by the EU, and are considered to be form which is related to old regionalism. Examples of such interregional relations include the dialogue and cooperation between EC and the Association of Southeast Asian Nations (ASEAN), as well as between the EU and Mercosur. Relations between regional groupings are based on regular meetings at a ministerial or senior official level, aiming at developing joint projects and cooperations, around economic and trade issues.

b. Biregional and transregional relations are more recent, as a phenomenon, compared to the previously mentioned form of interregionalism, mostly regarding interregional relationship between major economic regions (especially in the case of North America, Western Europe and East Asia, also known as The Triad). However, biregional and transregional relations have also developed in other regions. This form of interregionalism has a more “diffused” character, compare to relations between regional groupings, often involving states that participate “individually” and may come from more than two regions. Examples include APEC (Asian-Pacific Economic Cooperation), with the participation of 21 Pacific, 15 East Asian, 3 North American and 2 South American countries, the ASEM (Asia-Europe Meeting), including 10 East Asian
c. Relations between regional groupings and single powers are considered to be “hybrid forms” of relationships, which are linked to interregionalism in cases where the said single power has a dominant position in the region (such as the case of the USA in North America).

According to Hänggi (2000), the emergence of interregionalism can be connected to the end of the Cold War era and the power balance between the USA and the USSR, which characterized international relations up to this point. Moreover, the emergence of globalization and the increase in regional integration policies created a challenging environment for most of the world’s countries, which sought to establish regional and interregional relations, in order to adapt to the new complex reality. Thus, the term new interregionalism was developed to describe interregional interactions in a neo-realist context: regional organizations, blocs and groups of states sought to establish new regional interactions, as well as maintaining old ones, in a struggle to find balance and new alliances, in a globalized environment lacking the clarity of the previous polarized world of the Cold War era (Hänggi, 2000; Valle, 2008), while the term old interregionalism refers to interregional that were established during the Cold War, which were essentially limited to EEC’s activity with various groups of countries or regional organizations. This prevalence of EEC regarding interregionalist processes was due to EEC being the most advanced process of regional integration at the time. Moreover, old interregionalism was characterized by a centralized system, in which EEC played the role of a center or hub, while other groups of countries were depended on it. On the other hand, interregionalism lacks a centralized character, being a process which involves different regional organizations and blocs, in a post-Cold War decentralized environment of international relations, thus having an increase impact on those relations (Valle, 2008).

According to Knepper (2012), interregionalism cannot be considered as an independent concept from regionalism. In the cases of new regionalist groupings, such as the case of EU and
Mercosur, any interaction between the two regional blocs is located on a higher, interregional level. However, the dependence of regionalism and interregionalism is evident in the fact that interregional process may significantly affect intra-regional relations, affecting the dynamics within each regional bloc.

According to Rüland (2001; 2002; 2010), interregionalism is characterized by five interrelated functions (balancing, institution-building, rationalizing, agenda-setting and identity formation) forming a theory of interregionalism which incorporates elements from neorealism, neoliberalism and social constructivism.

The function of balancing is based on the neorealist theory of international relations, seeing interregionalism as part of the nation-states’ or regions’ effort to acquire more power in the international arena. According to Rüland (2010), since the contemporary international environment is characterized by a reduced importance of military action as a method of acquiring power and an increased importance on economic – rather than military- power, interregional relations and economic – institutional arrangements have become increasingly significant. Thus, according to the author, the contemporary world features a paradigm shift on the concept of power, favoring institutional power and indirect control of international relations and resources through institutional arrangements and agreements. Thus, nation-states try to acquire more power in the international arena by cooperating and forming arrangements and agreements in a regional level, and blocs do the same in a an interregional level: both regionalism and interregionalism are seen as a way of balancing power between actors in the international arena. Moreover, this function of interregionalism is particularly evident in weaker (in terms of military power) states, which engage in interregional relationships in order to counterweight the power of stronger states, such as the US. In this sense, interregionalism can be seen as a method of creating a balance between weaker states, creating blocs, and stronger states, which act as independent actors, as well as a method for weaker states to avoid the possibility of being marginalized and lose influence in their own region (Rüland, 2010). In order to achieve the above objectives, regional blocs aim at protecting their place in the international market, by reducing their dependence on particular markets and opening up their trade relationships to new markets (Doidge, 2011).
The function of institution-building is based on the neoliberal-institutionalist theoretical approach on international relations, seeing interregional relations as being a manifestation of the concept of complex interdependence. The processes of interregional cooperation and the forming of interregional agreements creates a stable – institutionalized environment which enables nation-states and blocs to cooperate and discuss various policy matters, including not only economical or trade matters, but also socio-political and cultural ones. The creation of institutions that oversee this processes and the implementation of agreements and projects, enables blocs and regions to relate in a protected – institutionalized environment. In this way, the institutionalization of international politics creates a framework in which weaker and stronger states can related and cooperate by commonly accepted rules and regulations (Rüland, 2010), which in turn enhances the coherence and internal coordination of the regional blocs themselves, since regional organization must reach a level of agreement, in order to present their view in interregional processes and discussions (Hänggi, 2007).

The function of rationalizing is closely related to the function of institution-building, since it is also based on the neoliberal-institutionalist approach, seeing interregionalism as a framework that facilitates cooperation and dialogue between regional blocs (as well as seeing regionalism as being the same for nation-states), due to its adherence to specific rules, regulations, norms and common decisions. According to Doidge (2007), interregionalist processes tend to rationalize the discussions and the decision-making of regional blocs and global institutions, enabling them to overcome difficulties that characterize multilateral negotiations, such as the influence of major global powers and the difficulty to reach an agreement in global issues. In this sense, interregionalism tends to facilitate an equality between involved members states. Furthermore, interregionalism tends to decrease the influence or domination of major powers on the decision-making processes, an influence which may lead to abdication: the withdrawal of a major global power from multilateral negotiations in order to engage in bilateral negotiations, in cases where it believes that this type of negotiation may serve its national interests more effectively, since it is easier to put pressure on the other part. The membership of nation-states to regional institution that engage in interregional discussions enables them to confront major powers as a coherent – united bloc. Thus, according to Doidge (2007; 2011),
interregional processes enable the establishment of alternative levels of government, which are less likely to be dominated by major powers, while at the same time these institutions enable weaker countries to form a "counterweight" to stronger countries, facilitating their participation in multilateral negotiations.

The function of *agenda-setting* is related to the function of *rationalizing*, since it involves the forming of *coalitions* between smaller countries in a regional level that enables those countries to have a common agenda to defend in multilateral negotiations, a concept which is based on a realist understanding of alliances, as a strategy serving the collective common interests of a number of countries. Thus, interregionalism facilitates the formation of coherent blocs / coalitions that can defend their view on certain issues, against stronger actors, in an institutionalized framework, serving their common interests (Doidge, 2007). Moreover, interregional discussions facilitate the forming of coalitions between different regions in certain issues that are discussed in a global level (Doidge, 2011).

Finally, the function of *identity formation* is based the social constructivist approach of international relations, emphasizing the function of interregionalism as an identity – building process, based on the inter-subjective beliefs and collective meanings of the participating actors (Knepper, 2012). According to Doidge (2011), each participant in regional and interregional processes is also involved in a processes of identifying with others. Through this process, participating actors form regional identities, which in turn influences their attitude in interregional discussions.

3. Processes of regional integration in Latin America

The development of regional cooperation and integration conditions is the result of long historical processes in Latin America, the starting point of which was the period of struggles and wars for independence from colonial Spain and the formation of independent nation states,
during the 19th century. These conditions include several natural, socio-economic and cultural factors. Main factors are the integrity of the geographical area of Latin America and the almost continuous geographical proximity of the countries, as well as the common cultural heritage and identity, which is a composition of two components: the Iberian and Native American cultures. The result of this synthesis was the formation of a broad majority of mestizo population with common historical, institutional, linguistic and religious traditions. Moreover, significant factors are the existence of a common ruling class (a state and religious elite), originating from the same geographical area (Iberian aristocracy), as well as the common colonial past and struggles against colonialism and later imperialism and foreign involvement (Sunkel, 2000).

Thus, the countries of Latin America can be characterized by a common historical, cultural, socio-economic and institutional background. The above features are undoubtedly important factors regarding regional integration processes in Latin America. However, there are also several opposite factors, which negatively influence aggregation and integration processes. These negative factors that will be described are both geographic and historical in nature. As mentioned above, Latin America is can be seen as single, large geographical unit, extending from the south shore of Rio Grande to the Tierra del Fuego. Even though the geographical proximity of the countries seems to be continuous, it is in fact interrupted by the existence of two major natural barriers: the Andes mountain range and the vast jungles of the Amazon. These natural barriers impede access, not only from one country to another, but also to the inland areas of the countries themselves. This natural feature of inaccessibility to the inland areas creates enormous passage and communication problems on the East–West axis (Pacific Coast and Atlantic coasts) and the North–South axis. These barriers are a main cause the existence of underdeveloped regions, isolated from the economic and social developments, even in their own state (Aguilar, Ward & Smith, 2003; Scholvin & Malamud, 2014). The above geographical feature is also connected to a historical past of featuring significant fragmentation. According to Sunkel (2000), Latin American countries have a tradition of internal political, social and economic fragmentation, as well as mutual ignorance and indifference, while at the same time having a

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22 The term *Mestizo* refers to populations with a combined European (Spanish or Portuguese) and Amerindian heritage.
tradition of developing strong economic, cultural and political connections to the dominant forces of the given historical era. The era of Spanish colonialism was characterized by the exploitation of the colonies’ natural resources and an exclusive transport policy of such resources to the metropolis, including precious metals and agricultural products, as well as a simultaneous ban on trade between the colonies and the rest of the world. During the 19th century, after the victory of the anti-colonial forces, the local elite, in order to impose their authority, implemented politics of fragmentation, seeking the disestablishment of centralized colonial structures and the building of nation – states according got the European standards of the era.

The economic growth of the 19th century, the reduction of transport costs and the increased needs of the major capitalist powers of the era for raw materials, metals and food resulted in the establishment of large, mainly coastal and riverside towns, characterized by their unique links to major central economic powers, such as Great Britain. This characteristic resulted in furthering the distance between the Latin American countries, making economic relations between them even rarer, since commerce was dominated by Great Britain. Despite the economic growth of certain regions and social groups of the continent's countries, the outward orientation of their economies (import of manufactured goods and extraction of raw material) and the almost negligible inter-regional trade, combined with the already mentioned geographical features, resulted in non-developing the necessary infrastructure for inter-regional commerce and economic relations (such as railways and various forms of transportation). Moreover, the economic liberalism imposed by the British global naval and industrial superpower, which served the dominant economic classes in Latin America, undermined every effort for the development of economies of scale and the industrialization on the continent. The shift of power from Great Britain to the USA, in the end of the 19th century, did not change the above negative conditions for the development of regional and inter-regional commerce and economic relations (Sunkel, 2000).

During the Great Depression of the 1930s, the global economic situation has forced most countries to withdraw from the international trading and finance system, which was based on the stable relationship between gold and the British pound. The countries have isolated their economies through a particularly strict protective policy. This protectionism led to the
substitution of imports and the strengthening of domestic production. Thus the crisis of 1930s resulted in the industrialization and modernization of Latin American countries, through the imposition of protectionist policies. These conditions resulted in the emergence of new social forces and alliances, as well as the emergence of an organized working class, in a Keynesian social system. Therefore, the protectionist policies that were imposed in Latin America, as well as throughout the world, left almost no space for integration processes, since integration policies of that era were focusing on the internal, rather than the regional market (Coatsworth & Williamson, 2004; Love, 2005).

The policies of the old regionalism, which emerged between 1950 and 1970, were prepared by a significant increase in intraregional trade. A significant factor for this development was two World Wars and the focus on military production, mainly transferred from USA to Europe. This condition created enormous obstacles to the relationship of the economies of Latin American countries with their traditional suppliers of capital, technology and imports in Europe and the US. Thus, the economic crisis and the World Wars, resulted in the belief of the ruling elite of Latin American countries that industrialization, modernization, development, growth and coordination of intra-regional economic exchanges would be protective nets for a more independent place of these countries in the international arena.

An important factor in the formation of the policies of old regionalism in Latin America was the creation of the European Communities, even though they had a significantly different starting point, in terms of infrastructure and historical economic, social and technological development. Such policies began to be implemented, since the late 50s, through the creation of the Latin American Free Trade Association (LAFTA), the Central American Common Market (CACM), and later Andean Pact / Andean Community (AP) and the Caribbean Community (CARICOM). These efforts were the result of government initiatives and focused on the reduction of state protectionism at regional level. They included the introduction of a common external tariff, the reducing intra-regional tariffs, the harmonization of administrative procedures and the improvement of infrastructure. Nevertheless, intra-regional trade remained extremely low, compared to external trade (Edwards, 1993; Nogues & Quintanilla, 1993). The protectionism that characterized the domestic economy of these countries resulted mainly in the integration of the
internal market of each country separately, rather than a regional integration. Moreover, agreements aiming in strengthening regional integration and regional protection, seemed to have unplanned outcomes. Multinational companies, through the establishment of subsidiaries in Latin American countries, took advantage of the infrastructure and the extroverted economic environment that the countries developed to aid their domestic industry. The system of integration of the time, in contrast to the stated purposes of these policies, encouraged the linking of multinational subsidiaries with their holding companies. The oil crisis in the 1970s, the external debt and the resurgence of neo-liberalism in the 1970s and 1980s essentially inactivated regional integration institutions that were created, bringing an end to policies of old regionalism in Latin America (Felix, 1977; Jose, Esperanca & Martinez, 2011; Velde, Page & Morissey, 2005).

Thus, during the second half of the 20th century, Latin America was characterized by processes moving towards the creation of institutions for regional integration. These processes began in the late 1940s and early 1950s. These processes, which especially intensified after the Second World War, reached its peak with the creation of blocs and organization, such as LAFTA, in February 1960, the Central American Common Market (CACM), the Andean Pact in May 1969 and the Caribbean Common Market in July 1973. These organizations focused on adopting and implementing integration strategies, such as import substitution and protectionism. An important feature of this era’s policy is the exclusion of the USA and the increase of intraregional interdependence. In this sense, the strategy of regional integration was a means against the hegemony of the USA (Grugel, 1996).

An important step for the Latin American integration process was the Treaty of Montevideo, signed in 1960 by Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay, aiming to establish the LAFTA in the next 12 years. Achieving this goal was not been possible in its entirety, but only in part, by achieving bilateral agreements between the involved parties. A second meeting of representatives of Latin American countries was also held in Montevideo in 1967, aiming to establish a common market with characteristics similar to the European Common Market. A second Treaty of Montevideo was signed in 1980, changing the name to ALADI (Asociación Latinoamericana de Integración – Latin American Integration Association). Given the crisis and the stagnation that had characterized integration processes in the previous period,
ALADI adopted a minimum set of goals, focusing on the coordination and preparation of bilateral or multilateral trade agreements between Latin American countries. This step-by-step strategy was efficient, and through this process a higher level of cooperation was achieved, between the involved countries, through the creation of subregional integration institutions, largely based on existing “old regionalist” structures. Such institutions were: a) the Cartagena Agreement, which resulted in the establishment of the Andean Pact, including Bolivia, Chile, Colombia, Ecuador and Peru, b) the G-3 Free Trade Agreement between Colombia, Mexico and Venezuela c) the Free Trade Zone, including Mexico and five other Central American countries, d) several bilateral and multilateral agreements, such as between Chile and Argentina, between Mexico and Venezuela, and between Venezuela, Mexico and Argentina (Behar, 2000; Kaltenhaler & Mora, 2002; Malamud & Gardini, 2012). These agreements were facilitated by the policies initiated by countries in the region, in order to deal with their external debt, as well as by the democratization of their political systems. Regarding the economy, these policies had distinguished neoliberal characteristics, including market liberalization and promotion of the member countries’ exports through increased competitiveness, reduction of government spending, external debt, inflation and macroeconomic stability. Thus, these policies led to the significant strengthening of the private sector, including policies regarding the reducing of tariff and non-tariff barriers and the increasing of intra-regional trade (Behar, 2000; Kaltenhaler & Mora, 2002). The development of regional economic activity resulted in an unprecedented increase in the overall rate of intra-regional trade, which reached percentage of 20% of total imports and exports in the ALADI countries, while in certain cases, such as Brazil and Argentina, these rates more than doubled (Sunkel, 2000).

European Union had a significant role in shaping these developments, since - unlike the USA- kept a favorable attitude regarding the integration processes taking place in Latin America. Before the First World War, European countries had been the most important trading partners of Latin American countries, being the main providers of funds, technology and immigrants. Because of the war, European economic relations with the rest of the world experienced a period of great decrease a time in which Europe was replaced by the USA in this role. Until the 1970s, Europe was absent from the developments in Latin America, due to the re-construction era
following the Second World War and due to focusing on their own integration process. The European Communities began to show interest in the countries of the developing world, first focusing on Africa, mainly due to the influence of France and Great Britain, Latin America being seen as not "underdeveloped", nor sufficiently developed to be considered as an important economic partner (Grugel, 2004).

The early 1970s was an era of deepening relations between the two regions. In a political level, the "Brussels Dialogue" was established, which involved regular meetings between EC representatives and the Group of Latin American Ambassadors (GRULA) in Brussels. However, the results of these meetings were poor, summarized in the creation of a joint EC / Latin American committee, aiming to establish a dialogue on issues of common interest and economic-financial assistance to Latin America (Grilli, 1994). Only a few countries, namely the member states of the Andean Pact benefited from the Generalized System of Preferences and some bilateral agreements were achieved by these countries (Filipaios, 1996). These early relationships decreased in the early 1980s for two main reasons: the debt crisis in several Latin American countries, which resulted in the withdrawal of European investors, and military conflict between Great Britain and Argentina during the Falklands was, which led to the imposition of sanctions in Argentina, while at the same time the Latin American countries took its side (Heaney, Hooper & Jaugietis, 2002; Hoste, 1999).

However, in the mid 1980's, EEC had the opportunity to reestablish relations with Latin America and develop a new policy in this area. Several economic and political reasons can be identified in relation to this development. The region of Latin America represents a large consumer products market with over 500 million inhabitants. Although the majority live in poverty, 5% of the population belongs to the local elite, and 40% to the middle class, having considerable purchasing power. The Latin American countries are also major suppliers of metals necessary for the European market (Calvert, 1994). Other factors included the low cost of labor and the significant changes in the applied economic policy of the Latin American countries, resulting in abandoning protectionism. In the mid-1980s Europe began to emancipate from the USA, since until then, both Latin America and Europe were under the strong influence of the USA. The two regions, becoming more independent, were able to further develop their economic and
political relations. A second reason was the fact that Spain and Portugal joined the EEC in 1986. Until that time the interest of the EEC in the southern hemisphere was focused on countries that were former colonies of member states of the EEC, mainly France and the UK. Spain and Portugal, being equal members of the EEC, could now ask the same kind of aid to their own former colonies (Baldwin, 1997; Hoste, 1999).

Since 1990 there was a significant intensification of EEC/EU contacts with the Latin American countries and especially with the Rio Group, in order to deepen the democratization process on the continent. The Rio Group was established by six Latin American countries in 1986 as a political forum aiming in facilitating the discussion of topics of common interest between those countries. The Group gradually expanded to include 23 countries (all Latin American countries, as well as several countries of the Caribbean - the Dominican Republic, Jamaica, Belize, Guyana, Haiti, and Cuba). The dialogue between the EU and the Rio Group was institutionalized in 1990, in the form of meetings at Ministerial level. The EU-Rio Group meetings were the only form of political dialogue between Latin American countries and the EU, until the establishment of the EU – Latin America Summit in 1999. One of the aims of the Rio Group was the adoption of EU’s inter-regional and bilateral cooperation model, in order to be implemented in the case of Latin America, especially regarding commerce and regional and inter-regional economic relations. Thus, the cooperation with the EU significantly affected the deepening of cooperation and integration processes in the region, since EU functioned as a successful and effective model of regional integration. At the same time, for the EU, Latin America served as a means of upgrading its role in international relations.

4. EEC Trade Agreements with South American countries before the Maastricht Treaty

Since Maastricht is considered to be the cornerstone Treaty of the EU, the one that established the political and financial structure of this political formation, the history of European

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integration can be distinguished to a “pro-Maastricht” and a “past-Maastricht” period. The following subsection deals with the trade agreements EEC has signed with countries that subsequently became members of Mercosur, agreements that were signed until 1992.

Brazil is the first country to be investigated, in reference to its bilateral relations with EEC. The first trade agreements started in 1960, along with the establishment of stronger diplomatic ties. However the first agreement that was signed was the “Framework Agreement for Cooperation between the European Economic Community and the Federative Republic of Brazil” in 1992, which came into force in 1995. The objective of the Agreement was to expand and diversify trade between the two parties, through cooperation in commerce, economy, science, technology and finance. It is characterized as “very flexible and pragmatic agreement” (ec.europa.eu, 2016). The main focus of the agreement was the establishment of a broader cooperation, as already mentioned, in a range of sectors. The article No 5 of the agreement was dedicated to the development of trade cooperation and it describes the goals issued. It was considered to be matter of great significance, aiming at the facilitation of trade transactions and the effort to find methods in order to reduce or even to stave obstacles in the direction of establishing trade relations without tariff or para tariff barriers24. It is also mentioned, that all the rights and obligations of the two parties are issued according to the agreement between them and according to the GATT25. The exchanging of information also played very important role, aiming to facilitate an honest dialogue26 between the parties, so that any possible difficulties could be discussed as soon as possible. According to the article No 6, the means ready to be used towards the direction of deepening trade relations, were the promoting meetings, the exchange of entrepreneur contacts27, the cooperation between custom services, the simplification of frameworks and procedures related to trade, and a proximate response when violations of customs regulations are detected. Moreover, what it was considered to be very central issue was the matter of promoting information exchange that could facilitate trade. Another point of

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24 Based on international organizations, which already have accomplished some of the target issued by the Agreement
25 General Agreement on Tariffs and Trade
26 “constructive solution to the problem” according to the text of the Treaty
27 So as to identify products and services appropriate to be disposed in the other party’s market
the Agreement, was the promoting of activities beneficial to both sides by supporting organizations that operate in “trade engagements”. Referring to a point already mentioned – the exchange of entrepreneur contacts- highly recommended was the consideration of the opposite party’s interest regarding the market access to commodities. As the Agreement was concerned on a wider and deeper cooperation, it also included regulations, suggestions, aims and recommendations related to technology, science and agriculture. From a general point of view, all of these sectors are linked to the bilateral trade relations, because all of them are essential for the production and distributions of goods and services.

The second country to be examined is Uruguay, with which EEC signed a bilateral non-preferential agreement in 1973 (Domínguez Roberto, 2015), that was activated not earlier than 1984, because of the military dictatorship established in the country, until that point. EEC was interested in the whole region of Latin America, but especially the case of Uruguay gave special opportunities for bilateral trade bonding: diversification of production, modernization of the productive sector and public industries, development of investment potential, improved competitiveness and conservation of major ecological balances in the direction of sustainable development (http://europa.eu/). The main cooperation agreement was signed in 1991 and came into force in 1994, embodying the main strategy aspects of EEC towards countries of Latin America. The main goal of the agreement was the development and strengthening of cooperation on trade issues, technology, finance and investment. Moreover, the text of the agreement introduces a range of cooperation aspects, such as social issues, public health, government, food, and rural development and environment issues. It is considered to be a “third generation” agreement. In the article No 9 it is clearly mentioned that the two parties grant each other the greatest possible facilities in regard to the promotion of trade between them, while in article No 12 several issues are regarding trade cooperation are mentioned. Moreover a

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28 All of them serving the main goal
29 Very important to be mentioned and innovative for the era, was the mentioning in the Agreement for the intellectual property!
30 The agreement signed in 1973 belongs to a type of agreements considered to be not advanced, because of the EEC “high levels of protectionism” and the bad economic and political situation in Latin American countries (De Brito Barahona Alexandra, 2000)
31 As it is based on democratic (article No 1) principles and human rights (article No 1)
main goal to be achieved was the elimination of non-tariff barriers, the facilitating of trade transactions and customs services, the emphasis of solving problems of common or joint interest: intellectual and industrial property and related commodities. The simplification of procedures and frameworks is also clearly mentioned, as well as the guaranteeing of access of goods and services to the other party’s market. Similarly to the “Framework Agreement for Cooperation between the European Economic Community and the Federative Republic of Brazil”, activities such as the organization of “trade weeks” were seen as necessary, in order to stimulate the bilateral trade relations. According to the paragraph No 3 of the article, the authorities of the two parties, had to bind to the obligation if occurred, to support financially the promotion activities and the market studies on Uruguayan products of interest. The EEC has traditionally been Uruguay's main industrialized trading partner: In 1994 the EEC accounted for 18% of Uruguay's total imports, compared with 9% from the United States and 3% from Japan (European Commission, Press Release Database). According to the same source, the following are the EEC-Uruguay trade figures in ECU million:

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<tbody>
<tr>
<td>Exports</td>
<td>233</td>
<td>277</td>
<td>329</td>
<td>580</td>
<td>753</td>
</tr>
<tr>
<td>Imports</td>
<td>567</td>
<td>359</td>
<td>342</td>
<td>317</td>
<td>360</td>
</tr>
<tr>
<td>Balance</td>
<td>-334</td>
<td>-82</td>
<td>-13</td>
<td>263</td>
<td>393</td>
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As a result we can extract positive conclusions regarding the outcome of the EU - Uruguay cooperation.

Argentina, another MERCOSUR member, is a country with rich natural resources, diversified industrial base, highly educated workforce and an agricultural sector orientated in exports. All these characteristics, contributed in Argentina being considered to be one of the

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32 The main Uruguayan exports were meat and offal, wool, fruit, fish, prepared meat and fish products and other animal products; together, these accounted for 90% of the country's total exports to the Community.
largest economies in Latin America\textsuperscript{33}. This fact explains EU’s interest in establishing an agreement with the country. The trade relationship between the two parties started in 1963, when Argentina signed an agreement with the European Atomic Energy Community on the peaceful uses of nuclear energy, along with the exchange of information on the aspect of the possible problems caused by nuclear energy. The duration of this agreement was until 1983, which was set as its expiration year. This was the first attempt towards a cooperation in the field of technology, science and energy. In 1971, a non-preferential trade agreement\textsuperscript{34}, was signed: the facilitation of beef exports to EEC. However, the agreement did not continue\textsuperscript{35} after 1975, as a result of the crisis in the beef market, so EEC changed its strategy and adopted a new one against beef imports. Another prosperous field of trade cooperation between the two parties was textiles, a field in which the cooperation was regulated by the “Multifibre Arrangement”\textsuperscript{36}. The goal was for Argentina to access the community market. However, in the period 1983-1986 the EEC adopted new unilateral measures regulating bilateral trade in textiles. The main trade agreement signed by the two parties was the “Framework Trade and Economic Cooperation Agreement “, which entered into force in 1990. The main idea is described in article No 2: « The Contracting Parties shall grant each other most-favored-nation treatment in their trade in accordance with the provisions of the General Agreement on Tariffs and Trade. »\textsuperscript{37} The individual articles included in the agreement do not only support the main idea described in the second article, but also include details about the objectives of the Treaty. More specifically, the promotion of the development and the diversification of trade is described as main goal in the third article. The guidelines include the creation and function of new markets supplied with new products, the encouragement of scientific and technological progress as a result of cooperation.

\textsuperscript{33} The economy of Argentina is Latin America's third-largest,*1 and the second largest in South America(http://www.indexmundi.com/)

\textsuperscript{34} It came into force in 1972

\textsuperscript{35} Finally it was in 1980, when the Argentine government decided to withdraw.

\textsuperscript{36} MFA (Multifibre Arrangement) regulated the world trade in textiles from 1974 until 2004, imposing measures aiming to allow developed countries adjust to imports from developing countries

of the two parties, the incentives for joint ventures and the improvement of quality of life, referring especially to Argentina. For the EEC, Argentina played also a significant role, as it was already involved in integration procedures with other Latin American countries. The agreement underlined the significance of scientific, agricultural and technological cooperation, the cooperation in the field of energy and in industrial standardization.

Paraguay and Venezuela are the two countries left: Paraguay had not signed a trade agreement with EEC before Maastricht, nor did Venezuela. The interesting point in the trade relations between EEC and Venezuela, is the fact that not only the two parts did not have a special treaty or guideline according to which they manage to regulate the market and trade between them, but conversely, in 1994 EEC had issued an “Import Regime for Bananas” aimed against Venezuela, among other countries. EEC had been the largest importers of bananas in the world since 1988 (General Agreement on Tariffs and Trade, EEC Import Regime for Bananas, Report for the Panel, 1994). Major suppliers to the common market were Ecuador, Costa Rica, Colombia, Panama and Honduras. Between 1963 and 1 July 1993, the EEC maintained a consolidated tariff rate on bananas of “20% ad valorem”. Initial negotiating rights were held by Brazil. On 19 October 1993, the EEC notified the contracting parties in order to negotiate again the subject according to new provisions already adopted. However, an agreement signed in 1989, regulated the imports from ACP countries duty free, a regulation that gave clear advantage to those suppliers. According to the protocol of the Lomé Convention, the access to markets for the traditional suppliers should be guaranteed, so as not to become less favorable in the future. Venezuela, a country that produced and exported bananas was offended and reported it in the procedures prescribed. The result was negative for EEC and the Panel recommended that the common market should bring tariffs and conform to the obligations under the General Agreement.

38 “….to support the process of integration in which Argentina is engaged with Latin American countries, taking account of the problems raised by depressed border areas which make integration with adjacent countries difficult”, forth article
39 The main member states are Argentina, Brazil, Paraguay, Uruguay, Venezuela
40 Article XXVIII, paragraph 5
41 Lomé Convention
42 African, Caribbean and Pacific Group of states
Except for the official MERCOSUR members, there are associated states as well: Bolivia, Chile, Peru, Colombia, Ecuador and Surinam, economies that had established relations with the EEC.

Bolivia cooperated with the EEC through two kinds of relations: bilateral and regional\(^43\). EEC provided assistance to Bolivia, not only in the form of financial support, but also to technical issues, especially in the sector of rural development and infrastructure, as Bolivia suffered from natural disasters (http://ec.europa.eu/). Moreover, the cooperation was based especially in “succor projects”\(^44\). However, in 1984 the two parts signed an agreement on the energy sector, a result of the already issued framework agreement among EEC and Latin America that was extended and focused on Bolivia, a matter that the Bolivian Ministry of energy requested. The expenditure demanded of ECU was $ 200,000. In 1989 the two parties signed another agreement, promoting the industrial cooperation of the community with the member states of the Andean Pact. As Bolivia is a country rich in raw materials and agricultural products, it was of great significance for the EEC, to strengthen the ties in other sectors too, as this could be a great investment for the future. As a result, the adopted strategy focused on scientific, technological and energy cooperation. EEC financed research\(^45\) and programs combating drug addiction\(^46\). EEC had been Bolivia’s second largest export partner and Bolivia had been one of the major suppliers of zinc ores, tin ores, precious metal waste and scrap, lead ores and coffee (Eurostat).

\(^{43}\) As Bolivia was member of the Andean Pact

\(^{44}\) Some examples are: the flood protection program in Santa Cruz, the autonomous Peasant Development Program in Oruro/Potosí, the autonomous Peasant Development Program in La Paz, the lake Titicaca Program

\(^{45}\) "Science and Technology for Development" Program (1987-91)

\(^{46}\) EEC North-South Program to combat drug abuse (1987)
Chile had gradually improved its competitiveness in the markets and one way of achieving it is the bilateral agreements signed that also helped the country expand its exporting basis. The food sector was of high importance for the country, and EEC-EU not only imported those goods in large quantities, but also used protectionist policies to maintain this trade relationship (Nowak Lehmann, Herzer & Vollmer, 2007). The liberalization of the country’s economy, especially regarding trade, was achieved after 1975, when trade barriers were abolished and uniform tariffs were imposed, as a result of the policies of Augusto Pinochet’s military dictatorship, which implemented radical neoliberal economic reforms, to contrast Allende's leftist policies. However, despite the fact that EEC imported many goods from Chile, in 1979 followed the strategy of restrictions on imports of apples from the country as a protective measure on its own agricultural production. GATT was invited from Chile to investigate whether or not this decision was compatible with the agreed in GATT framework agreements and the result was an issued statement, according to which the two parties had to “continue their bilateral efforts to find a solution on this matter” (Report of the Panel adopted on 10 November 1980), similar to the directions/ conclusions of the Panel: « The Panel considered that the CONTRACTING PARTIES should recommend that the EEC and Chile consult bilaterally with a view to arriving at a mutually satisfactory solution». 

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In 1990, the President of the Council consulted the European Parliament for a regulation extending to Bolivia, Colombia and Peru of the “generalized tariff preferences applied to certain products”. EEC accepted the free entrance of industrial and textile products and the duties for this kind of goods could “no longer be reintroduced” (European Parliament, 1992). In reference to the agricultural products, the duties were totally suspended. EEC considered the agreement of high importance and along with it, it also introduced policies against the drugs problem of which the three countries suffered and had to spend a lot in order to face it.

5. MERCOSUR – EU Relations

5.1 MERCOSUR – EU relations from 1992 to 2010

EU cooperation with the countries of Mercosur, due to its significant development since its inception in 1991, is considered to be one of the most successful interregional cooperation efforts internationally. In May 1992 the first Joint Ministerial Meeting of EU- Mercosur was held in Guimaraes, albeit in an informal context. Beyond the signing of individual agreements between Mercosur member states and the EU, EU also signed and an inter-institutional cooperation agreement with Mercosur, aimed to strengthen regional integration efforts (Bajo, 1999). According to Santander (2002), these initiatives may have been caused by the coordinated USA efforts to create the «North American Free Trade Agreement» (NAFTA), which was considered antagonistic to European efforts for economic integration in the region. Additionally, the USA efforts were favored by Argentina, one of the most important member states of MERCOSUR (the other being Brazil), because of the close relations that USA maintained with the country.

Thus, antagonisms between USA and EU in trade issues directly affected the balance between NAFTA and Mercosur, as well as the development of EU relations with the four countries of the “Southern Cone” (Argentina, Chile and Uruguay), especially since these countries had not given up the possibility of signing an agreement with NAFTA or the possibility of joining NAFTA as full member, if it was expanded southward. On the other hand, European fears mainly concerned the impact of trade diversion of NAFTA against exports of EU member states
(Santander, 2002). These concerns were, of course, not unjustified. When Mexico became a NAFTA member state, EU lost a significant part of the Mexican market and, thus, desired to avoid a similar situation with Mercosur member states.

According to Santander (2005), EU and USA had significantly different perceptions and plans, regarding Latin America. USA saw integration projects in the region as temporary, while the EU had considered their long-term nature, seeking a more stable relationship with the emerging bloc. On the contrary, USA tried to cause destabilization in Mercosur, proposing in Argentina to join NAFTA, aiming to expand it southwards over time. Therefore, during this period, there seem to be two radically different views on interregional relations between EU – Mercosur and USA – Mercosur. USA’s aim was to weaken the newly established bloc, in order to expand its own interests through NAFTA, as well as to establish a free-trade area dominated by its own trade and commerce. On the other hand, EU focused on strengthening regional cooperation and integration in Latin America, in order to gain access to new markets, to export its own model of regional integration and to form new alliances with the Latin American countries (Santander, 2002; 2005).

Therefore, the EU focused on maintaining a strong political and economic presence as part of a "strategic partnership", through which it aimed on gaining more benefits than the NAFTA- and especially on ensuring its position as the leading importer of Mercosur. Regardless of the commercial antagonism between USA and EU, as a consequence of the creation of NAFTA and the possibility of the development of a Pan-American trade bloc, the development of EU cooperation with the Mercosur countries can be described by itself as a successful interregional cooperation effort. Since the creation of Mercosur in 1991, with the signing of the Asuncion Treaty (Argentina, Brazil, Paraguay, Uruguay), the rapid development of bilateral negotiations culminated in the signing of the EU - Mercosur Interregional Framework Co-operation Agreement in 1995, which included three domains: a) political dialogue, b) development of cooperation and c) trade and investment sectors, composing the framework of the 'strategic partnership' and inter-regional cooperation between EU and Mercosur.
Cooperation development between EU and Mercosur was launched in 1992 with the Inter-institutional Cooperation Agreement and strengthened by the Agreement of 1995, which provides for a series of sectorial bilateral cooperation arrangements promoting the regional integration of Mercosur. In Chapter III of the agreement it is stated that the two parties, driven by mutual interests and their mid-term and long-term economic objectives, promote economic cooperation in such a manner so as to help develop the economies, increase international competitiveness, strengthen technological and scientific development, improve living standards, establish conditions for the creation of jobs, improve the quality of working conditions and diversify and strengthen economic links between them. Additionally, in 2002 the European Commission adopted the «Mercosur Regional Strategy Paper», which refers to the strengthening of the internal market, as well as several institutions, such as Joint Parliamentary Commission, the Mercosur Dispute Settlement Mechanism, as well as including customs harmonization, statistical harmonization and macroeconomic harmonization between the two parties.

The fact that EMIFCA was signed during the Spanish Presidency in the EU Council reflects the importance of the joining of Spain for the initiation of negotiations between the two parties. EMIFCA was of particular importance for Spain, due to its cultural and historical connections with Latin America and it was seen as a reflection of the same integration process that enabled the establishment of the EU itself. Moreover, the importance of EMIFCA for Spain can also be attributed to its commercial interests in Latin America, since it became a major investor in Brazil, Argentina and Chile (Klom, 2003). EMIFCA is seen as the foundation stone of the relations between EU and Mercosur, since its main aim was the preparation of the negotiations between the two blocs, in order to facilitate free trade and liberalization of trade goods and services, according to the World Trade Organization rules and guidelines.

During the years from 1998 to 2001, various Latin American economies faced an economic crisis, a fact which was a significant obstacle to the negotiations between EU and Mercosur. The most important case was that of Argentina, whose crisis began in 2001 by the International Monetary Fund’s refusal to extend loans to the country, even though Argentina had applied the IMF’s policies since the 1980s, focusing on opening its economy to international competition, implementing various IMF-proposed neo-liberal policies. USA once again tried to
destabilize the development of Mercosur, taking advantage of the Argentinian economic crisis, by proposing bilateral trade agreements with the country, in order to undermine its relationship with Brazil, within Mercosur (Santander, 2002).

Another important factor that was used for the destabilization of Mercosur was the proposal for the creation of a Free Trade Area of the Americas (FTAA), an effort to eliminate trade barriers among all countries in the continent (with the exception of Cuba) and their integration into a single free trade area. The establishment of the FTAA was initiated by the Summit of the Americas, which was held in 1994, although the formal negotiations were initiated in 1998. However, the FTAA negotiations stalled in 2005, following disagreements, such as on the issue of US agriculture subsidies (expressed by Brazil and Argentina), as well as political opposition mainly voiced by the then president of Venezuela, Hugo Chavez, who called the proposed plan a “tool of imperialism” and an “annexation plan” (Carranza, 2004; Wainwright & Ortiz, 2006).

The issue of the FTAA reflects the importance of the US influence in Latin America, as a highly significant factor that also affected the EU’s stance and persistence in maintaining links and negotiations with Mercosur. As Doctor (2007) argues, an important motivation of the EU, regarding the maintenance of a close relationship with Mercosur, was to counter USA’s influence in Latin America and to make sure that Mercosur was a stable bloc and would not be replaced by FTAA or other US-backed regional structures. Similarly, both Mercosur and FTAA negotiations were also used by Brazil as leverage and means on pressure on EU and USA, respectively, in order to achieve a better deal, either way. In this sense, Mercosur played the role of a political alliance, a united bloc that had now the ability to confront major fist-world powers, such as EU and USA, by the use of these negotiations (Doctor, 2007). For the above reasons, the FTAA proposal and the subsequent negotiations had an important effect on the relationship of EU and Mercosur, with the EU providing political and financial support to the latter, in order to ensure the establishment of regional integration of Latin American countries modeled on its own regional integration processes. Thus, the EU is considered to be a model for Mercosur, ensuring its close relations with the EU.
In the years between 2000 and 2004, EU and Mercosur held 15 rounds of negotiations, led by the Bilateral Negotiations Committee (BNC), consisting of delegates from the two blocs. The negotiations began in April 2000, in the Argentinian capital of Buenos Aires, producing several conclusions, between the delegates, on general principles of negotiation, political dialogue and trade cooperation. However, at the same time, the first problems began to show, since it was shown that Argentina focused on developing a less detailed, short-term general framework, while the EU focused on a more specific - detailed, long-term general framework (Klom, 2003). According to Klom (2003), even in these first round of negotiations, certain important differences regarding the negotiation process were revealed, which would later prove to be a significant obstacle on reaching common conclusions and agreements. Moreover, according to the same author, a difference in negotiation culture was evident by the fact that the two teams of delegates were significantly different, regarding their consistency: while the Mercosur team consisted of high-level officials, favoring a top-down approach and agreement on general objectives, the EU team consisted of technical experts, favoring a down-top approach, where the agreements would be gradually built on long-term planning of the committee’s objectives.

The second round of negotiations was held in June 2000, in Brussels, involving the exchange of information between the two blocs, regarding the processes of integration in EU and Mercosur. The third round of negotiations was held in November 2000 in Brasilia was held in a more positive climate, compared to the problematic first round of negotiations of the same year, due to the inclusion of technical experts on the part of Mercosur, which engaged in discussion with EU experts on a series of issues. Even though the third round was seen as forwarding the negotiations, the discussion was once more limited due to the insistence of EU experts on a more “pragmatic” approach. Similarly, the fourth round of negotiations, held in March 2001, in Brussels, was also initially seen as a progressing step in various issues, such as public procurement, intellectual property and policies regarding economic competition. However, the fourth round was also characterized by internal tensions in Mercosur, revealing Argentina’s desire for transforming Mercosur into a free-trade area, as well as its desire to independently negotiate agreements with external partners. These conflicts within Mercosur negatively
affected the outcome of the fourth round of negotiations, regardless of the progress that had been made up until that point.

The fifth round of negotiations was held in July 2001, in Montevideo, characterized by EU’s desire to move forward the process, especially regarding the exchange of offers on tariffs. EU negotiators presented a tariff offer, as well as offers regarding services and governmental purchases. However, Mercosur did not present a counter-offer, a move which was seen by EU as a desire to delay the negotiation process, while Mercosur’s position was that a counter-offer was not possible, until the reaching of an agreement on methodology of negotiation. The EU did present a negotiation offer, while at the same time making clear its position to not sign trade agreements with individual countries, in order to put pressure on Mercosur for accelerating the process. The sixth and seventh round of negotiations were characterized by Mercosur’s inability (or unwillingness) to present a counter-offer deemed sufficient by the EU team, while the disagreement on negotiation methodology between the two parties continued, causing significant delay to the process.

The eight round of negotiations was held in November 2002, in Brasilia, setting as a priority the discussion of methodological issues regarding negotiation on market access for services, agricultural products and other goods. The two parties eventually reached an agreement on methodological issues, that had been a serious obstacle in the past, and progress was made in both the eight and the ninth round of negotiations in March 2003, in Brussels. However, during the tenth round, held in June 2003, in Asuncion, the issue of disagreement on negotiation methods reappeared, in discussions regarding offers on public procurements (European Union, 2003; Osthus, 2013).

The eleventh round of negotiations was held in 2003 in Brussels, characterized by the non-inclusion of any offers and the presentation of the “Brussels Program” by the EU team, a plan for holding a series of negotiating rounds and ministerial meeting in the next months, in order for an agreement to be reached with Mercosur (Santander, 2006). The twelfth round of negotiations, held in March 2004, in Buenos Aires, and the thirteenth round, in May 2004 in Brussels, involved a discussion regarding the so far proposed offers and set a goal for the
conclusion of negotiations in October 2004. However, the offers were not deemed sufficient by the two blocs and the negotiations eventually stalled (Osthus, 2013).

Several reasons can be mentioned, regarding the stalling of negotiations between EU and Mercosur. At first, during 2004 the EU was significantly expanded, including ten new member states (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia), reaching a total of 25 member states. This was seen as creating an imbalance of power, on the view of Mercosur. However, the main reason is considered to be the fundamental differences between the two blocs in the trade chapter. Nevertheless, several other factors played a significant role in the suspension of the negotiation processes, such as the methodology of the negotiations themselves. EU came to the negotiations already having a formed method formed by the negotiation of past regional agreements, requesting that the same rules that were applied in those agreements should also apply in the agreement between EU and Mercosur, which in turn was seen from the Mercosur as a lack of will on EU’s part (Osthus, 2013). According to Doctor (2007), imbalances in state and societal interests of each bloc, as well as imbalances in the importance of each region for the other region’s trade and commerce, were the main obstacles for the conclusion of the negotiations. Even though EU’s desire was the liberalization of industrial products, it rejected a wider liberalization including agricultural products, while Mercosur’s aim was to ensure greater access to the European market. More importantly, according to the same author, even though EU is Mercosur’s most important trading partner, Mercosur’s importance for EU is not equally high, causing a significant imbalance in the negotiations and enabling EU to manipulate them in a way that was at times perceived as “threatening” by Mercosur.

5.2 Mercosur - EU relations from 2010 to 2016

In May 2010, EU negotiated with Mercosur aiming the possibility of establishing a comprehensive trade agreement that would cover a wide range of good and services: industrial and
agricultural goods, intellectual property, trade and customs facilitation and the lifting of existing barriers on trade, aiming to improve the existing rules of trade between the two parties. Both sides agreed that they would benefit of such an agreement. The EU Trade Commissioner at the time, Mr. Karel De Gucht, stressing the importance of the continuation of the negotiations stated that “services and investment represent a significant part of our economic interests in the region” and that an ambitious agreement in these sectors would be of considerable value to EU services providers and investors. Our intention is to build upon offers expressed in the context of the DDA negotiations47 (http://www.esf.be/). The idea of rethinking the cooperation was set in a certain framework under the Spanish EU presidency, which played a key role, by pressuring in the direction of relaunching the negotiations, during the Latin America and the Caribbean Summit in Madrid on May, the same year.

The negotiations started in July 2010, in Buenos Aires. According to the “Foreign Trade Information System” and the documents relating to the Mercosur-EU first round of negotiations, the relaunching of negotiations was based on the discussion of the cooperative, commercial and political dimension of a possible agreement. The will of both sides, to reach a “balanced and fair agreement”48 was an important factor, at this point. The basic objective set on behalf of Mercosur was a strategy which was based on three steps: the establishment of working groups, the evaluation of the outcomes of the previous negotiations and the setting of new goals, along with each party’s position on them. As EU agreed on this strategy, the groups were defined, especially for the trade issues, and it was agreed that various issues should be discussed: market access on goods, rules of origin, barriers to trade, sanitary and phytosanitary measures, intellectual property

47 “Doha Development Round/Doha Development Agenda: part of the World Trade Organization’s (WTO) negotiations, begun in 2001 in Doha, Qatar, aiming to establish lower trade barriers and facilitate the increased global trade

48 Alfredo Chiaradia- Ambassador and National Argentinian Coordinator of the MERCOSURE and President of the MERCOSURE at the time, welcomed the relaunching meeting expressing the importance of the negotiations
rights/geographical indications, dispute settlement, trade defense, competition policy, customs\textsuperscript{49}, services / investment and finally public procurement.(Seventeenth Meeting of the Mercosur - European Union Bi-Regional Negotiations Committee, 29 June- 02 July 2010, Buenos Aires Argentina, Final Conclusions). Referring to the market access, a key point of the first round, was MERCOSUR’s presentation of specific drafts aiming to replace current articles on tariff peaks, export subsidies and domestic support measures, along with the EU’s preparation on drafts, concerning state enterprises and the evaluation of provisions, such as the Balance of Payments. Referring to the rules of origin negotiated in the first round, both sides agreed to the entry of new proposals exchanged by September of the same year. Other subjects discussed were the technical and standards regulations and the “Conformity Assessment”, for which EU made a non-binding presentation of the changes willing to make\textsuperscript{50}. Mercosur received information regarding regulation in the European market and also for the establishment of the regulatory practice in the inner market. A controversial issue brought to surface by Mercosur, was the matter of access of their products within the EU market as, which set a step for a next negotiation round. This round was a kind of link between the previous negotiations and the next ones. For example, referring to the “trade defense”\textsuperscript{51} the two parties had to verify or not if they had changed views on the matter relatively to the previous meeting. Moreover the matter of safeguards was set: EU agreed with the already established GATT framework, whereas Mercosur expressed the need of establishing a mechanism as bilateral safeguard, but EU rejected the issue as being “premature”\textsuperscript{52}. Another step to expand cooperation between the two blocs was the future preparation of a document including the ‘General Principles’ - a “how to “guide on competition policy. Additionally, at this time Mercosur member states were responsible for commitments as distinct states and not as a united “regional bloc”. On “Public Procurement” issues, both sides agreed on issues of transparency and market access. The regulatory issues accrued, were agreed to be issued again, along with the statistics EU presented and Mercosur’s presentation on its “Protocol on Government Procurement”, regarding

\begin{itemize}
  \item Trade facilitation and related matters
  \item Good Regulatory Practices, International Cooperation between the Parties, Transparency, Market Surveillance, consultation processes on draft technical regulations and mutual recognition agreements
  \item Anti-dumping and countervailing duties
  \item According to the text of the “Final Conclusions”, EU considered that they first had to have progress in the negotiations within the Market Access group
\end{itemize}
its structure and capabilities. To conclude, on the these rounds of negotiations, both parties agreed to discuss in the next round issues deviating from the basis document, along with the progress made in their policies and the offers made in 2004. The bilateral commitments made, would be the basis of the new round of negotiations.

The second round of negotiations took place in October of same year. The steps to be taken were regarding the internal policies to be adopted by each party, so that the agreement could be completed, since the new common market was expected to include approximately seven hundred million people and a GDP of approximately thirteen billion euros (Paraguayan Bulletin, 15/10/2010). The next meeting, held two months later, showed progress for all the twelve working groups, including the groups discussing market access and rules of origin. Despite the progress made, further work had to be done, so a next negotiating round was decided to take place (MERCOSUR-EU Negotiations in the context of nineteenth Bi-regional Negotiations Committee (BNC XIX), MERCOSUR and European Union held meetings in Brasilia between 22 November and 7 December 2010 for a round of negotiations on the future Association Agreement between the two regions.) Between this and the next round, Mr. Karel De Gucht, the EU Trade Commissioner, for rather diplomatic and political reasons, visited Paraguay and Uruguay, member states of the MERCOSUR. The fourth round of negotiations was held and completed in May 2011 in Brussels, where for once more the working groups met and informed each other for the progress made in each field. The focus of the meeting was on rules of origin, public procurements, services and investment, competition and dispute settlement. However the shared view of the two parties was that since the framework is ambitious, further work had to be done, not only referring to the existing working groups but also regarding the internal structure of each party’s negotiating teams and institutions.

53 MRE: Ministerio de Relaciones Exteriores de la Republica del Paraguay/Boletin Diario De informaciones, Asuncion, 15/10/2010

54 According to the Press Release, “De Gucht will meet with his counterparts and other high-level government officials in an effort to advance the ongoing EU-Mercosur trade negotiations and to promote bilateral trade relations with the two countries.” In this framework, the Commissioner met Mr. Fernando Lugo-President of Paraguay, Mr. Jose Mujica- President of Paraguay, persons playing key role in local business and Foreign and Trade ministers of both countries.
Several important steps were taken in the fifth round. The elaboration of the regulatory texts in the context of setting priorities for example. Another step towards the Agreement was the internal work each party made, referring to the market access. These strategic movements were actually the offers of each party. Mr. Guy Legras, Director General of External Relations of the European Commission, contributed by presenting the tariff and non-tariff negotiation offers with the texts describing them, written by the appropriate groups. The “Bi-Regional Agreement’s“ texts achieved progress in the direction of finalizing the final functioning framework. The sixth round, carried in Brussels in July 2011, was focused on three -substantial for the agreement fields, policy-politics, cooperation and trade. The progress made in the area of services, investment and dispute settlement was also crucial, as these fields were also included in regulatory texts. The next round of negotiations, seventh out of nine, was held in November 2011, in Montevideo. An important step taken against protectionist policies, by the setting of antidumping and countervailing measures. Other areas discussed were services, rules of origin and customs. Sustainable development was also discussed further, as its regulatory context was presented in text form.

The seventh round, took place in Buenos Aires in March 2012. According to the report that the Argentina's Foreign Ministry issued, the several working groups met to accomplish the procedure of establishing the agreement: technical issues such as market access, rules of origin, public procurement and services. At this point of time, Argentina had the presidency of Mercosur, which represented by the Argentinian Ministry of Foreign International Economics, Under secretariat of Foreign Trade and Relations International, Undersecretary of Industry and officials from the ministries of Foreign Affairs, Economy and Public Finance, Industry, Agriculture, Livestock and Fisheries, as well as other national agencies. In the eighth round the clarification of controversial

55 In Brussels in 04/11/2011, Mr. Karel De Gucht, European Commissioner for Trade, in his speech given in the framework of the “The State of Play of the EU-Mercosur Trade Negotiations- EU-Brazil Business Summit”, underlined the significance of the entry into force of the bilateral agreement, emphasizing in the economic outcomes: For EU, MERCOSUR market was the eighth more important exporting one and this could lead to a boost of 14.7 to 21.4 billion euros by doubling the exports of both sides (Speech/11/631). In this round, protectionism was under chase, a measure towards isolation and an enemy against solution to the global crisis. Moreover, Argentina and Brazil were both accused for adopting protectionist measures, for restriction in import licenses and high taxation on imported cars.
issues related to the cooperation, trade, dispute settlement mechanism, public procurement and rules of origin helped to form a path to the finalization of the texts supporting the various parts of the agreement. Other issues were furtherly discussed, such as the expectations of each side, the issue of defense-related trade and the issue of promoting sustainable development.

The ninth meeting towards the “Association Agreement between Mercosur and European Union”, was held in Brasilia in October 2012. The crucial point and the main focus of the meeting was the bilateral commitment towards the goal of reaching an agreement. Referring to the political pillar, the negotiations were carried out by the responsible Quartet Committee. The Trade pillar was completed as part of the agreement too. The regulatory texts on this pillar and smaller parts that compose it (services, public procurement, etc.) were compiled by the end of debates on expectations and the clarification of positions of the parties. A key point of the meeting, is that both sides considered it as the first step towards a more fruitful direction, for further bilateral progress (XXV Mercosur – European Union, Bioregional Negotiations Committee, October 22 to 26 2012, Brasilia, Final Conclusions). Another crucial aspect of the meeting was the significance for a further step to be taken, in the matter that the agreement had to reach a ”ministerial level” and in this point the CELAC-EU Summit in Santiago, Chile, in January 2012 was considered to offer this special opportunity. The telecommunications sector was considered of high importance, as part of the negotiations regarding trade, along with transparency issues, postal services and maritime transport services. The Public Procurement was already prepared and documented in previous rounds, but the methods were discussed again as both parties had to exchange new proposals. Regarding the issue of customs, the framework set was characterized of transparent procedures and compliance to international standards, matters that became article contents in this final meeting. Except for the issues where an agreement was close, there were fields, even at this point, for which the discussions were not concluded, such as risk management, customs valuation and economic operators among others56, a fact that indicates the increased difficulty of the negotiations57. Relatively to the “Rules

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56 Special Committee on Customs, Trade Facilitation, Rules of Origin, Transit and Advance Binding Rulings
57 The “expire date” to conclude on these issues was set to be one month before the next round
of Origin”, both parties agreed on issuing a “Protocol of Origin” that would cover a wide range of products, such as fisheries\(^58\), fruits and vegetables\(^59\).

In the next meeting, which was held in January 2013 in Santiago, Chile, the content and conclusions of the previous meetings were discussed even further and despite the shared view that there were missing or incomplete elements, it was decided that an exchanging of offers could begin, not later than September 2013, just nine months after said meeting. This guideline was selected in order to avoid further delays or even a possible cancelation, such as the failure in the previous attempts towards an agreement. Of course, since nine months is a very short time period, both parties had to carry all the necessary tasks so that they could be ready. The reason for such a rush can be justified for two reasons: the meetings towards the agreement had begun in 2010 and as there was common place that the agreement could lead to better financial outcomes, both sides kept losing both time and money\(^60\).

In February 2014, in the context of the Seventh Brazil-EU Summit in Brussels, the Brazilian president Dilma Rousseff stated that a free trade deal between Mercosur and the EU is close to completion\(^61\). For the first time it was openly suggested from a state leader or high official that the agreement could be achieved in a matter of a few months\(^62\) and Rousseff stated that “EU seemed to Mercosur quite committed to the agreement “as he “never saw that possibility being so close” (http://www.sice.oas.org/) The statements of Rousseff caused a cautious optimism, but such as an optimism was soon discarded as being wishful thinking\(^63\).

In June 2015, in Brussels another meeting was held. The statements of the two parties’ representatives were are typical and once again to the direction of “a fair agreement, based on the

\(^{58}\) The parameter checked was agreed to be the coastal Party where they were fished

\(^{59}\) The main point of disagreement was the mixture of fruit juices and especially the products with added sugar as substance

\(^{60}\) A market of 780 million people population, GDP of 20, 8 trillion USD, trade 130 billion USD/year (MERCOSUR/Ministry of Foreign Affairs, Ministerial Meeting EU-Mercosur. Santiago Chile, January 26, 2013 Joint Communiqué, Press Release No. 29, January 28, 2013)

\(^{61}\) Since the deadline was September 2013 the entry into force of the Agreement had already a six month delay

\(^{62}\) As portrayed in the press releases

\(^{63}\) Even though Brazil is the most powerful MERCOSUR member, referring to interregional relations its role is eliminated (Malamud, 2011). Moreover Brazil has been challenged by Venezuela and the Bolivarian Alliance in terms of regional leadership (McCrossan Peter, 2014)
frank views of each party, etc." but once more the goal-date for the access to their common market was shifted to the future, in September 2015, three months after of the meeting. Finally the first exchange of offers\(^{64}\) (on their markets) since 2004, happened in April 2016. According to the press releases about the latest meeting, both sides asked for more time to exchange offers.

During this second round of negotiations has been made clear that EU and MERCOSUR had made limited progress in relation to a fully operational customs union or even a supranational institution and one reason for this, could be the internal problems each community faces. Especially for the EU, the necessity of solving the internal political and financial problems is probably of higher importance (McCrossan, 2014). Even though there are some scenarios in the bibliography, according which some consequences could be anticipated, the agreement for a fully operational customs union was successfully accomplished. According to the study Diao, Díaz-Bonilla and Robinson (2003), in the case of fully liberalized trade framework, the real GDP could present an increase in Mercosur countries from 1.3% in Uruguay to 4.4% in Argentina, while the increase in EU could reach an increase of 0.34%. Relatively to the balance of exports/imports the Mercosur countries are again more benefited than EU\(^{65}\), while the total trade between EU and Mercosur could achieve an increase of 1.2%. Flôres & Watanuki (2008) used a purpose-built CGE model (AMIDA) to analyze the impact of Mercosur’s membership of a series of free trade separately. In the case of the EU- Mercosur agreement towards a fully operational customs union, Mercosur was forecasted to increase its exports more than its imports in all agricultural products, especially in the meat sector. According to the same source, the motor industry could face significant problems and downsizing\(^{66}\). Kirkpatrick & George (2009) have investigated the possible impacts of a potential free trade agreement, concluding that both parties could do gain some benefits out of the Agreement, however these benefits would not be substantial. They suggest economies of scale and fully operational competition environment. Moreover Weissleder et al. (2008) investigated the equilibrium of imports and exports regarding agricultural products. The authors examined the

\(^{64}\) Goods, services government procurement
\(^{65}\) 7.5% in exports and 4.2% in imports for Brazil, 8.1% in exports and 7.8% in imports for Argentina.
\(^{66}\) Argentina and Brazil were both accused for adopting protectionist measures, for restriction in import licenses and high taxation on imported cars in order to protect the internal manufacture in motors.
“TRQ\textsuperscript{67} - Expansion” concluding that “this expansion could lead to increased trade relation between the two blocs, which is not necessarily, in case that the baseline allows over-quota imports, and per unit quota rents at the calibrated point are smaller than their maximum possible level”.

In August 2015, a presentation\textsuperscript{68} on the cooperation between EU and MERCOSUR was released, aiming to investigate whether or not and in which level there had been progress in the issue of reaching an agreement: lost challenges, opportunities, and an evaluation of the negotiations until this moment (http://www19.iadb.org/). The meeting was open not only to academics, but also to representatives\textsuperscript{69} from both sides and only diplomats. It started with the steps already taken from 2010, as an introduction. The steps towards the creation of a more fruitful and prosperous trade environment, that MERCOSUR aimed to establish not only with EU, but also with USA. The conclusion out of this opinion expressed, was that nor the Doha Round had been concluded, nor the FTAA negotiations had flourished, even the agreement between EU and MERCOSUR had not been accomplished. However during this period, the global economic environment had changed and other players, such as China had appeared. Both communities were enlarged, as Venezuela joined MERCOSUR and thirteen new countries joined the EU, expanding its borders to Eastern Europe. Relatively to EU, the main views expressed, where the crisis and the new opportunities (especially in the agricultural section) that followed the expansion. Relatively to the sort of trade carried, the common aspects were that EU exports manufactured goods\textsuperscript{70} and imports raw materials. MERCOSUR was also “accused “of not having signed important trade agreements in comparison to EU that had already strategic views on the TTIP agreement. The Common Agricultural Policy that EU follows was mentioned as a “sector specific regime” that it sets barriers to further trade arrangements between the two blocs. Another interesting point underlined, was that as the EU FDI in MERCOSUR did not concern exclusively to public utilizes, biregional agreements were also appealing for EU companies.

\textsuperscript{67} Tariff Rate Quotas
\textsuperscript{68} “MERCOSUR–European Union Negotiations Twenty Years on from the Framework Cooperation Agreement: Quo vadis?” (Where it goes?)
\textsuperscript{69} Government officials, businesspeople, academics
\textsuperscript{70} Exports technology
Mr. Adrián Makuc dealt with the commitments each side made and the results of the offers made: MERCOSUR considered EU’s offer in agricultural products as insufficient and, conversely EU considered MERCOSUR’s offer on manufactured goods to be insufficient. Makuc suggests that the main difficulty is to find an equilibrium between tariffs, types of products and quantities that could support a trade agreement based on mutually acceptable offers. Referring to EU CAP and the automotive industry in MERCOSUR, he “accused” EU for “a very solid policy” in this field, in comparison to the automotive industry which is based on bilateral agreements, implying its elasticity and justifying the interest of European companies in this sector. Other challenges described, were related to the issues of intellectual property and public procurement. The key issue on these topics is that MERCOSUR member states do not have single policy on them; each country implements its own different policies, regarding those issues. Adrian Makuc reached the conclusion that EU had not treated the MERCOSUR in the way that both parties could be satisfied enough with the offers to reach further agreement.

Mr. Felix Pena, underlined the lack of “strategic political dimension”. He referred in the year 2010, when Spain was very interested in relaunching the negotiations. EU was accused by other participants too, such as Mr. Jorge Lucángeli, for having a protectivist agricultural policy. He mentioned that this sector is of high significance for MERCOSUR and could be one way for an agreement to be attractive, in case that EU made changes to these policies. A change to a more open policy could make the access of the MERCOSUR’s agricultural products easier and as a result more advantageous. On the other hand, Mr. Viktor Klima, focused on the political will towards the expansion of European FDI in MERCOSUR, mentioning that this could lead to a possible economic boost in the area. Also he suggested that the implementation of regulations could pass through supranational institutions. Francisco Cannabrava highlighted the importance of the adaptation of regulations in the agricultural sector and estimated its significance equal to the possible result (of

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75 Economic Counselor at the Embassy of Brazil in Argentina
negotiations) in the manufacturing sector. According to Nils Weller\textsuperscript{76}, an EU – Mercosur agreement would be of less interest to EU, in relation to the offers made. Claudio Farabola\textsuperscript{77} argued that a solution could the further cooperation between firms, as Mr. Viktor Klima proposed.

Despite the fact that the goal of a fully operational common market was not achieved, the two parties preserve a tight trade bond. There is static evidence to prove it. For example, for MERCOSUR the EU is its first bigger trading partner, as the 20\% of the total trade (2013 data) was carried between them. This percentage stands for 110 billion euros. In the same year MERCOSUR was for EU the sixth biggest market and at that time had doubled its exports in comparison to 2007\textsuperscript{78}. The range of MERCOSUR’s exports is wide, as it includes agricultural products and raw materials among others. On the other hand, EU exports chemicals, transport equipment and manufactured products. Other important exports are services and FDI\textsuperscript{79} (Foreign Direct Investment)\textsuperscript{80}.

6. Discussion

In order to better understand the interregional relations between the EU and Mercosur, it is necessary to use the concept of interregionalism as an analytical framework. As already mentioned, the emergence of interregionalism is linked to the end of the Cold War era and the bipolar power system of the USA and the USSR, as well as the emergence of globalization. The new global environment, characterized by the lack of bipolarism and the emergence of new, more complex international dynamics, as well as the subsequent liberation of new forces in the global arena, favored new regional and interregional interactions and cooperations between states and regional blocs which sought to adapt to the new complex reality (Hänggi, 2000). In this context, EU acquired

\textsuperscript{76} Head of Trade Section for the EU Delegation in Argentina  
\textsuperscript{77} Manager of the Italian Chamber of Commerce in Argentina  
\textsuperscript{78} € 28 billion in 2007 and €57 billion in 2013  
\textsuperscript{79} The EU accounts for 62\% of FDI in the MERCOSUR, and European firms are actively investing in Brazil, consequently increasing their market share in the country. Another noteworthy point is the EU signed a Strategic Partnership Agreement with Brazil in 2007. \url{http://www19.iadb.org/}  
\textsuperscript{80} \url{http://ec.europa.eu/}
an important status as an actor / agent of interregionalism, since European integration advanced process of regional integration at the time. Thus, in a post-Cold War decentralized environment of international relations, EU became a major power in interregional relations, often trying to “export” its own model of regional integration (Valle, 2008).

This approach of interregional relations by the EU is linked to the neoliberal – institutionalist concept of institution – building and rationalization, as functions of interregionalism (Rüland, 2010). According to Knepper (2012), EU – Mercosur relations are incorporating all five functions of interregionalism, as mentioned in Rüland’ theory of interregionalism, as the EU’s effort to influence the forming of new regional institutions and impose specific rules, norms and regulations in the interregional negotiations with Mercosur. Moreover, according to Knepper, EU’s interregional strategy includes the identity – formation function, since discussions with EU typically including issues such as political, social, cultural aspects and environmental aspects, such as the issue of “democratization”, linked to EU’s commitment, as often officially stated by EU representatives, to support and extend liberal democracy beyond its borders (Grugel, 2007).

However, these aspects seem to be secondary to the issue of balancing of (economic) power and gaining access to new markets. One can say that history of EU – Mercosur relations can be seen as mainly an effort for the acquisition of economic power, by gaining access in new markets, while defending own industries. The main motivation of EU in the late 1990s, for maintaining a close relationship with Mercosur, was not an ideal of promoting regionalist / interregionalist integration and exporting its own values of liberal democracy and institutionalization, but rather the desire to counter USA’s influence in Latin America. Moreover, its persistence and promotion of institution-building within Mercosur was linked to EU’s desire for Mercosur to maintain and improve its stability, so as to not be replaced by FTAA or some other US-backed regional structure, since in the case of an emergence of a Pan-American regional bloc and a free-trade are of the Americas, EU would lose access to a significant market. Similarly, Mercosur was used by its member states as a political alliance, which enables them to confront larger power, such as EU and USA (Doctor, 2007).
As Osthus (2013) states, the main difficulty regarding EU–Mercosur negotiations is certainly not a lack of interest or will, since both blocs would gain significant benefits, in case they reached an agreement, as both parties have often expressed their desire to conclude the negotiations. However, the lacking of enough pressure to reach an agreement seems to be the main difficulty arising from these negotiations, since both blocs face significant internal opposition, which is an important obstacle to the process. This internal opposition comes from the fact that, even both blocs may have significant benefits from an agreement, such an agreement may also negatively affect certain sectors in both EU and Mercosur. An important issue, in this case, is the significant competition that EU member states could face from Mercosur member states regarding agricultural trade, since the agricultural sector is significantly larger and with much more cheaper labor costs in Mercosur countries. This issue was prominent in the recent 2016 negotiations between EU and Mercosur. In April 2016, a new round of trade talks was announced by the two blocs, who once more stated their desire to resume the negotiations and reach a point of trade offers soon. The goal was set for the second week of May, for the exchanging market access offers, including access to public tenders. However, during the first week of May, EU faced an internal crisis, facing internal opposition led by France and 13 other EU member states (including, most importantly, Ireland and Poland) on the issue of the competition that the EU agricultural sector would face from Mercosur’s agricultural sector. For this reason, France accused Brussels of “rushing to make quotas and other tariff concessions without calculating the effect exports from South America’s agricultural powerhouses would have on EU farmers”82, while France’s attitude on this issue was criticized by Spain, which was the leading supporter of the deal, with Spain’s foreign minister, José Manuel García-Margallo, referring to the urgent nature of opening negotiations with Mercosur83. Additionally, the European agricultural union “COPA & COGECA” issued a press release84, stating its objection on EU’s offer on agriculture in EU–Mercosur talks, especially in concern with “sensitive agricultural products”, warning that such a deal will open EU’s markets to significant competition, at a time

82 [https://www.ft.com/content/d7ac18ec-12a9-11e6-839f-2922947098f0](https://www.ft.com/content/d7ac18ec-12a9-11e6-839f-2922947098f0)
83 Ibid.
in which EU’s agricultural sector is “already in a serious state of crisis”, risking a loss of 7 billion euros if the deal is approved. In mid-May, the EU and Mercosur did exchange offers of market access. However, EU’s trade offers were still criticized by Mercosur, regarding its decision to exclude beef and ethanol products (both highly developed industries in Mercosur countries) from the deal. Experts from the Brazilian Confederation of Agriculture and Livestock (CNA) stated that EU’s decision to exclude these products is not acceptable, saying that: “The absence of quotas for beef and ethanol does not contribute to the progress of this long-lasting negotiation, so the European Commission will have a major role in turning this around” and that EU’s decision “disrespected the countries in the South American bloc and sent the message that they did not want to negotiate”.

Similarly, the Brazilian Sugarcane Industry Association also expressed its disappointment with the exclusion of sugar and ethanol from the EU offer, issuing a press release, which states that: “Excluding ethanol from the offer is in complete contradiction with the ambitious climate objectives set by the EU”. Additionally, in September 2016, Uruguay’s foreign minister, Rodolfo Nin Novoa, also stated that the exclusion of beef will mean that there will be no agreement between EU and Mercosur. As evident from the above recent data, the issue of agricultural trade continues to be an important obstacle for the EU – Mercosur negotiations. Conversely, Mercosur countries could also be faced with a significant competition from EU’s industry in sectors such as manufacture, service and automobile industries, where EU has significantly more developed industry. Such competition would be so strong that could even pose a threat to the very existence of some of those sectors in Mercosur (Osthus, 2013).

According to Knepper (2012), EU – Mercosur relations may confirm the validity of Rüland’s (2001; 2002; 2010) functional approach to interregionalism, which aimed at overcoming the differences between the realist and the liberalist traditions in international relations, since it follows a synthesis of both approaches in a single analytical framework. Even though the EU – Mercosur relations do contain elements that point out to all of Rüland's five functions of

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interregionalism, the central issue of refusal of both Mercosur and, even more, EU of opening up market access for sectors that could face strong competition from the other bloc, which seems to be the main and most difficult to overcome obstacle for the negotiations, may prove the prominence of the balancing function and, consequently, the realist / neorealist approach. The negotiations have seemed to be a very complex process, but nevertheless the modus operandi of both regional blocs up to this point is to ensure the access of their most developed industries to the other bloc’s market, while at the same time trying to block access of the other bloc’s industries to its own market, in cases where the competition could be damaging for certain sectors. Therefore, both EU and Mercosur’s main desire seems to, above everything else, to serve their own regional interests. Moreover, internal conflict in both EU and Mercosur may indicate that internal cohesion within regional blocs is also under significant changes, being related to the national interests of individual nation-states. This is especially evident in the case of Mercosur, where internal conflicts, such as in the cases of Argentina and Uruguay or the more recent case of Brazil and Venezuela (due to political disagreements about open market reforms). According to Klonsky (2012), both Argentina and Brazil, being the main powers and the largest economies within Mercosur, seem to operate solely based on their countries’ national interests and economic benefits, while Osthus (2013) points out that the lack of a “unity” within Mercosur has been one of the main obstacles to the negotiations. The more recent internal conflict between EU countries, regarding trade offers on agricultural goods, shows that similar problems are also evident in the case EU. A similar view is shared by McCrossan (2014), who argues that the complicated negotiations between EU and Mercosur are mainly characterized by the functions of agenda setting and balancing, at the expense of other functions, such as institution building and identity formation, since the two blocs attempt to maintain protectionist policies, resisting liberalization for their weaker sectors and demand deeper market access for their more developed industries.
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