



Robert Schuman



European Union Center/ Jean Monnet Chair

***Uncommon Market of the South:
Limits of MERCOSUR's integration process***

Victoria Montes-Niño Bruzone

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European Union Center

University of Miami
1300 Campo Sano Building, 220C
Coral Gables, FL 33124-2231
Phone: 305-284-3266
Fax: (305) 284 4406
Web: www.miami.edu/eucenter

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**The *Uncommon* Market of the South:
The limits of MERCOSUR's integration process**

Victoria Montes-Niño *

Nothing is possible without men; nothing is lasting without institutions.

– Jean Monnet, 1976

*Abstract*¹:

MERCOSUR has been characterized by its intergovernmental approach. This was maintained by the presidentialist system of its member states, the constant absence of political appetite and no desire from each member state to pool sovereignty in favor of MERCOSUR's institutions. The aforementioned factors not only cause a general detriment to the bloc, but also entail the absence of a regional leader and lack of demand of integration. As a result, there has been a decline in the process of economic and political integration, which has remained stagnant until today. At the present time, there is a prosperous atmosphere, which could mean an advancement on MERCOSUR's project of further integration. MERCOSUR's next movement, which could change its entire track, remains to be seen. The next years are crucial for the bloc to strengthen as the solid international actor it was intended to be in its foundation in 1991.

Keywords: Regionalism, Regional integration, Latin America, MERCOSUR

* Victoria Montes-Niño graduated from the University of Miami in December 2017, with a major in International Studies and Latin American Studies, and a minor in Mathematics. Originally from Argentina and raised in Spain, Victoria's interests aim attention at regional integration in Latin American, as well as the European history of integration.

¹ Appendix A offers Spanish and Portuguese abstracts.

Introduction

Latin American integration² has a long history, but a poor track record of solid accomplishments. In 1960, the first attempt at regional integration was the Latin American Free Trade Association (LAFTA), but it was replaced twenty years after by the Latin American Integration Association (LAIA) due to its weak performance (Malamud 2011: 14-15). In 1969, the Andean Pact – later renamed Andean Community of Nations (CAN) – was founded with the initial aim of promoting the expansion of markets and guarantee an effective economic development in the region (SELA 2013: 3). The Treaty of Asuncion was founded in 1991. The Southern Common Market (MERCOSUR³, *Mercado Común del Sur*) was implemented with the objective of creating a single market of goods, capital and people by 1995. However, it had to withdraw its original objective for being too ambitious. MERCOSUR has been and continues to be referred to as “incomplete customs union” (Laursen 2010: 1).

There are numerous theories of regional integration which try to explain the relative failure of establishing durable regional organizations in Latin America. However, according to *Neofunctionalist* theories, several problematic reasons can be identified as contributions to the relative failure of MERCOSUR, among them, is their poor institutional system.

The focus of the present study is on MERCOSUR, which will also be compared with some EU features of integration. The existence of effective supranational institutions has been the major difference between the EU and MERCOSUR (Laursen 2010: 4). The EU political system is “highly institutionalized”. It possesses a mixture of intergovernmental and supranational

² As a starting point, it is worth defining the term “integration”. According to Murray, integration is presented in the literature under four themes: integration as process, integration as polity-making, integration as end-goal and integration as international influence. As a process, integration is the transfer of responsibilities, competencies and decision-making from state to a regional level. Integration as polity-making, is seeing more integration as a type of governance. As an end-goal, integration does not have an agreed consensus on what the end state would be. Finally, integration as international influence positions the European Union as the primary reference (Murray 2009: 228;229;231;239) Despite the fact that ‘no single theory can adequately account for everything in this area’ (Egeberg 2004: 199). In this essay, the term “integration” will be understood under this framework.

³ The full members of the MERCOSUR trade bloc are Argentina, Brazil, Paraguay, Uruguay and Venezuela, which was suspended in December 2016. Together, they generate the 5th largest GDP in the world (Comprehensive Free Trade Agreement with MERCOSUR Potential gains for the EU. 2016).

institutions. Among the intergovernmental institutions, there is the European Council, which has representatives of each member state. An example of supranational institutions would be the European Commission (EC) – which proposes legislation –, the European Court of Justice (ECJ) - which is involved with surveillance and the enforcement of decisions – and the European Parliament (EP). Although the officers of the EC, the ECJ and the EP belong to different member states, they do not represent their countries' will. Rather, they act upon the EU's necessities. It could be argued that Latin American integration owns these type of institutions, yet they are considered as weak and they work among intergovernmental decisions. What really matters is the existence of “effective institutions, ruled by a juridical structure that is accepted by all” (Roy 2012: 155). In other words, the institution itself is not as important as their political significance and the role they play upon the member countries.

After almost twenty-five years from the beginning of MERCOSUR's process of integration, it was not able to create a durable pillar to begin working on the economic issues relating to the bloc. This was due to several reasons, for example, high political influence present within the groups, including presidential democracy or “presidentialism” (Malamud 2003: 56); coordination problems and the lack of a regional leader (Mattli 1999: 55); the lack of “supply” as an appropriate answer to “demand” of integration (Mattli 1999: 50), and finally, the existence of weak institutions. Nevertheless, in this essay I argue a key factor which has a stronger power of explanation to the Latin American integration puzzle: the lack of political will. It would be appropriate to link weak institutions with the decay of integration in Latin America. However, without a strong will of creating those institutions, there would be no voluntary pooling of sovereignty. In the end, the pool of sovereignty is the main requirement to develop effective institutions.

The remainder of the paper is organized as follows: The first section will analyse the different dilemmas of MERCOSUR – including, presidential diplomacy, the absence of a regional leader and the lack of supply and demand of integration; the second section explains the connection between these dilemmas and the absence of strong institutions; the third explains the importance of political will in the making of institutions; the fourth section discusses the current situation of MERCOSUR; the fifth explains the current circumstances of the Association Agreement between MERCOSUR and the EU; finally, the sixth section concludes the paper.

The Analysis

It would not be appropriate to attribute the relative failure of MERCOSUR to a single cause. The accumulation of several different issues hindered its development as a major player in the international trade arena. It is important to acknowledge all of them to counteract their problems in order to consider this bloc a real group in the future.

MERCOSUR's presidentialism⁴

Generally, in Latin America regional interests are overcome by national interests (Casas Graña 2015: 48). As a result, the southern bloc does not own any autonomous authority. Instead, it is composed of intergovernmental bodies, which, in most cases, require unanimity in decision-making processes. The Common Market Council (CMC) is the highest formal authority and decision-making body, consisting of the Foreign and Economy Ministers of each member state. Once a trimester, they meet along with the presidents of each member state. Nonetheless, MERCOSUR's polity-making and policy-making processes mainly follow what is defined as "presidential diplomacy" or "interpresidentialism".

As a consequence, the presidents do not only act as decision makers in practice, they also propose and foster MERCOSUR's work agenda. In fact, there is a dispute resolution system working through an arbitrage ad hoc mechanism, which has only been used ten times in the last fifteen years. The little use of this method could be explained by the strong role of the presidents. In addition, MERCOSUR has a permanent appeals tribunal, which is only of optative use.

Presidential diplomacy is strongly present in MERCOSUR. Andrés Malamud had provided several examples of this presidentialism, such as the Automobiles Regime and the Sugar Regime cases (Malamud 2005: 142-153). In both circumstances, "no actor stands above the presidential will". They act to protect domestic interests and electoral concerns. As a result, the interests of the region are disturbed by the national interests of each member state, as mentioned earlier.

Why is this presidentialism so present in MERCOSUR? The political system of its member states could be one explanation. In general, these governments own a system which is defined as "Hierarchical Market Economy" (HME) or "Hierarchical

⁴ According to Malamud (2013: 7), "presidential diplomacy is the customary use of direct negotiations between national presidents rather than professional diplomats every time a crucial decision has to be made or a critical conflict needs to be solved."

Capitalism”⁵, which give high importance to the role of the president. Its electoral system, for example, is a combination of majoritarian and proportional representation: the president is elected by a majority vote, and the chambers, on the contrary are proportionally elected. Schneider (2014: 23) lists some properties of interaction of this system. It is important to point out that, Schneider’s analysis focuses mainly on business-level relations. However, these could be used to explain state-level relations, since, in the case of Latin America, both sectors perform similarly. In Hierarchical Capitalism, the main principle of allocation is hierarchical (Schneider 2014: 23). This gives executives – or, in our case of study, the presidents – the power to make unilateral decisions. Moreover, the characteristic state interaction with foreign actors, are also determined by a higher authority or directive (Schneider 2014: 23). Finally, the length of relationships with other international actors tends to be variable. I would argue, that this depends, likewise, on decisions taken again by a higher authority.

In sum, this leads to a personal and hegemonic leadership in the presidency, which governs presidentialism, or even sometimes, hyper-presidentialism. If the system itself of the member states promotes the superiority of each president, it is understandable that they would try to pursue the same tactics in external issues and regional bodies, since they all share this method.

This concurrence of weak supranational regional institutions and strong national interests, certainly delays the path towards a united integration. Therefore, the process of taking common action as a group becomes much more challenging. It is true that each member state plays a strong role in integration. Yet, to truly achieve and maintain higher levels of integration, the sharing and pooling of sovereignty is essential (A. Malamud 2011: 224). The politics of “presidential phone” are insufficient for the proper performance of MERCOSUR. Guedes de Oliveira points out the further disadvantages of presidentialism and labels them as the limits of “institutional dynamics of integration” (Guedes de Oliveira 2005: 256). He argues that this method is unsustainable since a presidents’ time is limited. They are constrained by issues which could be handled by lower bodies, thereby resulting in a dialogue for a “positive agenda” that has been left aside. This immediately causes stagnation in the process and restrains it from prospering. Guedes de Oliveira additionally presents the need of an organized “dispute-solution mechanism”, which promotes reliability and effectiveness. Felix Peña agrees with Guedes de Oliveira, and explains that this lack of negotiating dynamic has political and economic effects

⁵Schneider has also given more appropriate names to this type of system. Such as, “rentier capitalism predatory states”, “petro-states”, “developmental states”, “crony capitalism”, or “state capitalism”. He argues that in developing countries, markets are not their primary economic contributors and therefore the use of the suffix “market economy” when describing them (Schneider 2014: 31) is not totally appropriate.

(Peña 2015: 4).

Adversely, some scholars (Malamud 2004: 1) argue that strong presidential diplomacy has been a promotor of MERCOSUR. According to Malamud, with the absence of a bureaucratic actor the decision-making process is faster and more direct. Along the same lines, Félix Peña argues that the strong presidentialism supports the integration process. Further, this belief may also emerge from the importance of the state's role in integration, as mentioned above. In the end, the process of integration is established and managed by member states. However, this process has already been labeled as being ineffective. To acquire an integration process that progresses and becomes solid, a real shift towards institutions which involves common action and decision making is urgently needed.

Weak regional leadership

The relative failure of MERCOSUR could be also associated with the absence of a leader within the region. According to Mattli, a leader is needed to deal with coordination and collective action problems. However, I do believe this would be the case, only with the absence of strong institutions. Mattli (1999: 56) summarizes this position as follows,

“Successful integration requires the presence of an undisputed leader among the group of countries seeking closer ties. Such a state serves as coal point in the coordination of rules, regulations, and policies; it also helps to ease distributional tensions through, for example, side-payments.”

As stated by Mattli (1999: 56), having a regional leader makes political and economic sense. The political reason is straightforward. According to Mattli, the leader smooths the decision-making process by leading the group into the same direction and therefore, a consensus could be reached faster. The economic reason derives from the political reason. The effectiveness of the decision-making process results in a reduction of costs and higher productivity in a shorter period. Hence, as Kindleberger points out, international systems, need strong leadership (Kindleberger 1983: 393) and in the case of MERCOSUR, the would-be leader has been Brazil, despite its self-interested priority of becoming a strong power in the global political system. In effect, Brazil has aimed to acquire the reputation and legitimacy of being recognized as a regional leader in order to consolidate its global gains (Gómez-Mera 2013: 211). Nonetheless, Brazil has been reluctant to bear the costs and risks of a more active leadership. This characteristic position, according to Gómez-Mera, has had an impact on MERCOSUR. Although being critical for its survival, it has contributed “to its ineffective and weak form” (Gómez-Mera 2013: 211).

To count for a successful integration, leadership must be generated from a consensus, following Burges' idea of "*consensual hegemony*", where the group must acknowledge one of the member states to be the leader (Burges 2014: 195). This "*ideational type of order*", according to Burges, is achieved only under some specific circumstances, which in the case of MERCOSUR, are mostly not followed:

- *A dynamic leading country full of ideas, but perhaps short on resources.* With Brazil's refusal of stronger regional institutions and reluctance of playing a more active role on regionalism, this need is unsatisfied.
- *Geographic isolation from the 'core' of the North Atlantic [region].* Latin America, has long been influenced by the United States and by the European Union, more specifically in regionalism. Therefore, the region is not totally isolated.
- *A willingness by major powers to leave affairs to regional management.* According to Malamud, Brazil has been unsuccessful in getting support. Some rivals, such as Venezuela, the United States, and Taiwan are "willing to give money or military support to win over undecided followers" (Malamud 2011: 19).
- *Acceptance by regional countries of the would-be consensual hegemon's project.* Due to individual foreign strategies, some neighbors could see the leader as a hegemonic "invasion" rather than an integration developer (Malamud 2011: 19).

This last point opens a broader analysis where some scholars focus on the distribution of power within the region. They argue that unequal power results in weak institutions (Gómez-Mera 2013) and in a clear obstacle to a stable and durable cooperation (Grieco 1997). In turn, the stronger members – Argentina and Brazil – could create mechanisms that redistribute the benefits of integration favoring their weaker partners (Malamud and Schmitter 2011). In contrast, Mattli argues that the presence of two or more potential leaders in the same group contributes to coordination difficulties, and he concludes, "in the absence of active Brazilian leadership, MERCOSUR is unlikely to develop much beyond today's imperfect customs union" (Mattli 1999: 161).

In the light of the limits that consensual hegemony has, when applied to MERCOSUR, Burges goes on in proposing another system: "Cooperative Hegemony" - Burges summarizes it as an institutionalization of regional power's ideas (Burges 2014: 1999). A strong collective political leadership is required. In other words, a strong supranational institution which would ensure an efficient and more stable regional group.

Today, Brazil's lack of leadership in MERCOSUR could be also associated with its economic and political crisis. At the same time, Argentina is giving higher priority of foreign relations. This opens an opportunity for Argentina to stand as a new regional leader, which could end up challenging Brazilian leadership. Certainly, both examples of leadership arise from their national priorities. Brazil saw MERCOSUR as the perfect arena to attract international attention. Currently, Argentina seems to be following the same path. However, whether Argentina gives a real opportunity for MERCOSUR to succeed, remains to be seen.

The lack of demand

Mattli suggests two necessary conditions for an integration process: supply and demand (Mattli 1999). Demand for regional integration aims to respond the general question of, *why the region ought to be integrated?* One indicator of demand could be trade. It could also be argued that trade is a major driver of Latin American regionalism. Specifically, intra-regional trade which, due to its generation of mutual interdependence, represents a key indicator of the existence or nascent emergence of integration. The reason lays on the fact that certain levels of regional interdependence, call for a reduction in transaction costs through integration – but also, through integration institutions.

It could be said that MERCOSUR's decline in intra-regional trade during the first decade of the twenty-first century is a major factor of the bloc's slow development. In fact, due to the almost identical nature of exports goods – primary goods –, the region trades more extra-regionally than intra-regionally. This limits the economic incentives to deepen cooperation (Gardini 2015). Back to the creation of MERCOSUR, the demand was primarily economic. The decade after the signature of the Ouro Preto protocol – from 1990 to 1999 –, MERCOSUR experienced a pronounced increase of 16.84 per cent of intra-regional trade, counting for 18.51 per cent of the total trade (SELA 2015). Despite these figures, intra-regional trade was reduced considerably from 2000 to 2013. It represented 14.24 percent of the trade, against 13.82 per cent towards other parts of the region and 71.94 per cent to the rest of the world. Intra-regional trade in Latin America today still lags far behind other regional projects at 27 percent of total trade, compared to 52 per cent in the Asian blocs and 63 per cent in the European Union (The Economist 2013). According to some academics, this decline in intra-regional trade is due to MERCOSUR's low functional demand for integration (Bouzas and Soltz 2001). Hence, the lack of this prime motivator of integration, initiates the impossibility of creating an evolution towards regionalism.

On the contrary, other scholars, such as Laursen, argue how “intra-regional trade is not a perfect indicator of interdependence” (Laursen 2010: 240), since larger regional groups are expected to have higher intra-bloc trade. Along the same lines, Börzel introduces a variety of aspects that contribute to integration as well as to economic interdependence. Following the rationalist society-centered theories, Börzel illustrates the degree to which liberal democracy and advanced market economy contributes to the demand for regionalism (Börzel 2011). According to Haas, demand in favor of regionalism, is unlikely to occur in authoritarian or semi-authoritarian countries. This occurs as a result of the “low levels of socio-economic development and/ or low levels of economic and social transactions” (Haas 1961; Haas/ Schmitter 1964). One could argue that MERCOSUR’s case, with the left-wing governments in charge during the first decade of this century, was lacking the demanding “liberal democracy and advanced market economy”. In fact, the bloc was mainly composed of – as Brazil’s former foreign minister Luiz Felipe Lampreia said - “protectionist internal tendencies which frequently collide with MERCOSUR’s original principles” (The Economist 2013).

Argentina experienced this change in December 2015. The government switched its left-wing, protectionist ideology. Mauricio Macri, the current president, opted for a free-trade ideological approach. Comini and Tussie (2016: 2) point out four ideas that are used as “management brands” by the new government in Argentina.

- *The De-ideologization of foreign policy.* Under this idea, everyone will be included in the negotiations, taking in every topic of conversation.
- *Argentina’s reconnection to the world.* In the last thirteen year, the previous government⁶ put Argentina in isolation. Today, an openness to the world is urgent, and could mean a regain of credibility and stronger regional cooperation.
- *Rhetoric of the facts.* Previously, it was common to deliver pro-integration speeches. However, Argentina did not maintain stable relations with other members of MERCOSUR. Under this idea, the new government has decided to take into evaluation only the results of their action, setting aside their rhetoric discourses. This issue will be further explained in the following section of this paper.
- *Concentricity.* The current government gives high importance to regional integration. According to this point, a solid MERCOSUR could lead to a better international inclusion.

⁶ Cristina Kirchner was the president of Argentina from 2007 to 2015.

Putting aside trade as a demand of integration, there are certainly other sectors that need or could need further integration. In MERCOSUR today, it is complicated to quantify the total gains of integration. The European Union releases a report named “The Cost of Non-Europe in the Single Market”. The first version of this report was published in 1988, written by Cecchini. That report quantified the potential benefits of the European Economic Community. According to a recent report (Pataki 2014: 3), the objective of the Cost of Non-Europe report is:

to quantify the costs arising from the lack of full achievement of the Single Market and analyses the benefits foregone for citizens, businesses and Member States. The report considers the economic cost of market fragmentation and of the gaps and shortcomings in five areas: the free movement of goods, the free movement of services, public procurement, the digital economy, and the body of consumer law known as the consumer acquis.

Certainly, this type of report, with specifications of why and what *ought to be integrated*, implemented in MERCOSUR could serve as a guidance for the future of the institutions.

Currently speaking, there is a noticeable shift in MERCOSUR’s political scene. Accounting with the change in government of the two biggest and strongest members, Argentina and Brazil, and the temporary suspension of Venezuela from the bloc, the group is leaning towards a closer relation with the free trading Pacific Alliance⁷ and it has recently reopened negotiations for the Association Agreement with the EU⁸. Yet, considering MERCOSUR’s historical record of poor credible commitments, it is hard to rely completely on this change of political paradigm. Not until a well-structured institutional system is settled, guaranteeing real commitments, would MERCOSUR be able to achieve the, for the time being, unrealistic ideal of a *customs union*.

⁷ Founded in 2011, the Pacific Alliance is an initiative of integration between Chile, Colombia, Mexico and Peru. “In its short life, the Pacific Alliance has proved to be a brilliant piece of diplomatic marketing” (The Economist 2013). It’s a project integration with the aim of reducing barriers of trade among its members. It represents 37% of the GDP of Latin America, as well as 40% of its population, 40% of FDI and 50% of its exports (Steinberg 2015). It is also the eighth economic power in the world (Infolatam 2014).

⁸ The current situation of the Association Agreement between the EU and MERCOSUR will be further explained in the last section of this paper.

Absence of supply

The context of supply of integration is a mixture of credible commitments, political will and the existence of a single voice of the bloc. Supply, as a response to demand of integration, involves a certain degree of pooling of sovereignty, with each member state sharing its resources and competences. However, MERCOSUR has a history of nonincorporation, empty promises and lack of credible commitments which contribute to its anemic form. In general, there is a gap between what is said and what it is done with regards to regionalism in Latin America. As Casas Gragea argues, when it comes to development, the bloc lacks confidence, solidarity and accordance in common action (Casas Gragea 2015: 51).

Governments prefer not to put the terms of the agreements into legal practice and sign largely symbolic agreements, full of rhetoric ignoring the reputational cost of recurrent violations and implementation failures. Some scholars consider this attitude as “Declaratory regionalism”. According to Nicole Jenne and Luis Schenoni (2015: 2), in Latin America this idea is based on a constructivist understanding of foreign policy. This is because, policy statements are all but cost-free since they have normative implications for future action. As Nicole and Schenoni stated (2015: 2):

“In the absence of evidence to the contrary, highly formal policy statements, as a declaration of intention, are policies” and therefore must be taken seriously.

But why would governments sign ineffective and largely symbolic agreements despite the costs, opting into this non-incorporation method? Empty promises are the result of the need of politicians to impress their electorate. Governments benefit from signing while at the same time saving follow-up costs, which are expected to be high. In the short term, the cost of incorporation could be noticeable – such as, transaction costs during implementation, losing reputation or explicit sanctions by a third-party arbiter. However, it is weighted with the benefits and the saving in the long-term. Indeed, nonincorporation has a higher cost in the long-term. Once a new tariff becomes valid, unilateral defection pays off, and the country that offers more favorable conditions benefits from more trade. But since regulations are legally binding only when the last member incorporates, tariffs are implemented jointly in MERCOSUR and can only lead to benefits for all. The more intraregional conflict at the moment of signing a policy, the longer it takes to incorporate a policy that suggests deeper and more functionally diverse regional cooperation. Differently, according to Malamud, supply is more a question of limiting damages: “The main goal is no longer to integrate South America into a regional bloc with a single voice, but to limit damages that could spill over its borders or stain its international image as regional pacifier” (Malamud 2011: 19).

Although there has been a shift in the political spectrum in some countries of MERCOSUR, it is still difficult to predict the extent to which their commitments are going to be satisfied. The “MERCOSUR syndrome” as a general label to describe noncompliance (Arnold 2016: 11) will only be vanished with a genuine common interest. Through a process of common will, the transfer of sovereignty will eventually lead to tangible results.

The importance of supranational institutions

Rules of the game are needed to influence the behavior of the partners in their mutual relations. It is hardly impossible to explain any integration process without reference to institutional factors (Mattli 1999: 41). Scholars such as Börzel imply that without some sort of supranational institutions in the region, regional integration is not an integration as such but a mere cooperative project. According to Börzel, regional integration “involves the setting up of supranational institutions to which political authority is delegated to make collective binding decision” (Börzel 2013: 508). Regional cooperation refers to “the joint exercise of state-based political authority in intergovernmental institutions to solve collective action problems related to economic, political or security issues.” Hence, it is necessary to build competent institutions or regulations to obtain reliable regional integration. But why is decision-making at the supranational level more efficient? Supranational institutions possess three key characteristics (Archer 2001): they can serve as *arenas* for dialogue and cooperation, they can be used as *instruments* by other actors and they can assume an *independent identity* as actors which follow their own objectives.

In order to attain successful regional cohesion, the states have to overcome collective action problems – of coordination and collaboration – which are endemic to international cooperation (Yoshimatsu, 2006: 115). These problems are particularly common in integration, since self-interest states attain to get the best gains and sometimes have opposing interests. As discussed earlier in this paper, a strong regional leader could perform as a mediator in collective decisions. However, in the case of MERCOSUR, Brazil’s leadership – which until the present has been the most possible candidature – is still questionable. In the absence of a leader, the success and failure of regional integration can be explained by the region's capabilities to develop formal institutionalized mechanisms for inter-state cooperation – working as *arenas*.

The moment supranational institutions are used as *instruments*, as a regulatory body for example, the process of integration is meant to improve. In this aspect, Mattli explains one particular case. Businesses generally complain about the

inefficiency in the functioning of MERCOSUR. Goods for which the common external tariff (CET) are automatically exempted from having to repay the CET if reshipped to another member state. His reasoning is that “no supranational institutions exists to collect the proceed and redistribute them among the members” (Mattli 1999:159).

As an *independent actor*, institutions are able to work above each member state, but always following their common interest. It opens a space where no single member has itself more power in the decisions, ceasing the strong “presidentialism” present, by creating common and permanent institutions capable of making decisions binding on all members. Further, these institutions, as supranational actors, are the rational ally of interest groups in overcoming the resistance of national governments to delegate political authority. This comes with the fact that polling sovereignty is inevitable once real integration is needed. The lesson from the European experience, however, seems rather clear: if you want credible commitments, one approach is to pool and delegate sovereignty (Laursen 2012: 162).

However, supranationality is an idea that has yet not taken root in Latin America. There has been a general reluctance, from the member states, of pooling their sovereignty. The southern bloc has advanced an intergovernmental approach which avoids any hint of supranationalism. Its decision-making process works through two regional organisms, which are comprised of officers of each member state: CMC⁹, the Common Market Group (GMC, for its initials in Spanish) and the Trade Commission. This process is exclusively intergovernmental, requiring unanimous vote in all decisions. Certainly, one could imply that supranationality begins with the end of a requirement in unanimity vote. Moreover, the Parliament of MERCOSUR (Parlasur) has not been given legislative, budgetary or control powers and it is not demographically proportional.

Provided that these institutions are fundamental when integrating a region of the world, why are there no real supranational entities in Latin America? Is there any benefit for MERCOSUR to commit to supranational institutions? Part of the literature in regional integration works under the slogan “institutions matter”. Indeed, the limitations of MERCOSUR’s integration that were previously discussed in the paper could be improved by the presence of supranationality. I do support this view, however, not entirely. There are two elements that essentially make an institution function correctly: political capacity and an explicit budget. Without them, no matter how essential institutions are, they would not be running towards

⁹ As mentioned previously in this paper, the Common Market Council (CMC), is the highest formal authority and decision-making body, consisting of the Foreign and Economy Ministers.

the expected integration path. With a deprivation of any sign of political will, these institutions would not be given any power.

In the end, pooling sovereignty “is the most obvious way of creating credible commitments” (Laursen 2012: 173). But more importantly, it is the most obvious path towards stronger regional integration.

The current political will in MERCOSUR

Recent political changes in MERCOSUR’s member states, are significant for the future of the bloc. In fact, Michel Temer and Mauricio Macri have the potential to increase cooperation between the trade bloc’s first and second largest economies, which would set the foundation for other members to strengthen regional trade integration. There are three main events that could be considered as examples of this progress: the push for deeper ties with the Pacific Alliance; the suspension of Venezuela; and the Association Agreement with the EU.

1. Both groups – the Pacific Alliance and MERCOSUR – are leaning towards the same direction in terms of foreign affairs, being today more market-oriented, advocating for economic openness and liberalization with mutual concordance to deepen regional integration and open regional trade. There are already prospects of economic expansion, on trade agreements, on regional cooperation and promotion of regional production chains. A possible convergence could be strongly beneficial for their members. It will help them to stand out in the international economy.
2. It is also important to consider the critical impact that Venezuela’s suspension from MERCOSUR may have on intraregional dynamics of power. The reason for the suspension, was clear: Venezuela has still not fulfilled the requirements for being a member of MERCOSUR. At the time of its turn for the presidency of the bloc, the other members – especially Argentina – were skeptical of this position. The decision was concise and firm, Venezuela would be automatically suspended, and the pro tempore presidency would be composed of the rest of the member states. This resolution was seen by third parties as an illustration of today’s philosophy of MERCOSUR. The bloc is on its path of becoming more economically open and pro-market, no longer accepting any “aggravation” to the bloc’s future. This, has certainly improved its international image, being today in the sights of several global powers.

3. Indeed, Venezuela's suspension from MERCOSUR has had great influence in the recently revitalized Association Agreement discussions between the EU and MERCOSUR. This agreement in turn could further give international credibility to the bloc, not to mention the economic and political gains from the signing of the agreement. Due to the importance of this point, the following section provides a deeper analysis of the agreement.

This current situation reopens the possibility of MERCOSUR to grow as a promising group actor in the international affairs arena, although it could be the last opportunity. This time, the member states would have to make accurate and realistic decisions, not relapsing into their original politics. Once and for all, MERCOSUR should act with moderation, slower but prudently. The bloc should follow the so-called Jeanne Monnet's method:

*'Petits pas, grands effets'*¹⁰

The Association Agreement EU-MERCOSUR

The European Union and MERCOSUR launched trade negotiations in 1995 (Missiroli 2017: 147), but they have faced multiple setbacks grounding to a halt in 2004. This was partly because of the leftist rule in Argentina that lasted more than a decade. At the same time, the EU had a stronger focus on its expansion and getting closer to its southeast neighbors. The EU decided to re-launch the negotiations in 2010, yet negotiations remained stuck. On May 2016, the EU and MERCOSUR exchanged offers for the first time since the re-launch, followed by a negotiation round in October 2016. Today, there is a general hope, from both parties, the EU and MERCOSUR to conclude negotiations by the end of 2017.

The EU is MERCOSUR's main trade partner: it accounts for nearly 21 per cent of the bloc's commercial relations; the EU is also a major exporter of commercial services to MERCOSUR, including machinery (29%), vehicles and parts (17% of total exports) as well as chemicals and pharmaceuticals (24%). The EU is, likewise, the biggest foreign investor in the region, with €387 billion in 2014. In turn, MERCOSUR's exports to the EU are mainly agricultural, such as food, beverages and tobacco (24%), vegetable products including soya and coffee (18%) as well as meats and other animal products (6%). MERCOSUR is also a major investor in the EU, with stocks of €115 billion in 2014 (European Commission DG Trade 2017), and more than 5% of European Foreign Direct Investment. Moreover,

¹⁰ In English (translated from French): small steps, grandious effects.

the MERCOSUR area is recognized for having the strongest and deepest historical and cultural bonds with Europe (Gardini 2015).

The bi-regional agreement would bring notable benefits to both parties. Latin America can be particularly relevant for the EU. It can be regarded as an arena for its international projection and as a test bed for its global governance agenda. On the other hand, this agreement has also a strong political meaning for MERCOSUR. Having a powerful institution such as the EU trusting in MERCOSUR, gives a higher foreseeable nature to the southern bloc. In sum, it serves as a favourable testimony that could open future negotiations with other international powers in the global market.

In MERCOSUR, the economic benefits of an FTA are expected to be felt throughout the whole economy and especially in the agricultural sector. The EU is the only partner having free trade negotiations with MERCOSUR, giving a significant comparative advantage in the MERCOSUR market. Moreover, MERCOSUR could become one of the top markets for EU dairy, wine, spirits, processed foods, chocolates, all types of pork products, and canned fruits. Lastly, the EU manufacturing sector is predicted to benefit the most, with the access to essential raw materials from the MERCOSUR members at more competitive prices (Comprehensive Free Trade Agreement with MERCOSUR Potential gains for the EU 2016). Overall, for the EU, the elimination of trade barriers would mean a saving of €4.4 billion a year on costs, of which €400 million would be for Spanish companies. Exports would double within at least five years (Euroactiv: MERCOSUR trade deals. 2017).

It is important to consider that recently, in Latin America, as a result of the relatively “stagnation” of integration, the EU’s foreign policy strategy has switched from its promises on regional dialogues towards establishing Strategic Partnerships with individual states as concluded with Chile (2002), Brazil (2007), Mexico (2008), Peru and Colombia (2013), Central America (2013) and Ecuador (2016).

Nevertheless, as of 2017, both parties – MERCOSUR and the EU – have had a stronger political will to conclude the trade deal and are currently entering the final stage of the negotiations. There are several factors that intensified these negotiations during the past months. Clearly, one of them was the change of direction of MERCOSUR, from a protectionist vision to a more pro-market, open trade ideology. The major countries of the bloc – Argentina and Brazil– have changed governments the past year with the elections of Mauricio Macri and the incorporation of Michel Temer, respectively. Secondly, the EU prospects with its southeast neighbours are vanishing by the current disagreement with one of its major allies, Turkey, a reason

that pushed the EU to turn its priorities from East to West. The recent Turkish referendum had furthered the relations between Brussels and Ankara, especially with the Turkish president – Recep Tayyip Erdoğan – lately giving strong declarations dissenting the EU’s ideals. Donald Trump’s ‘America First’ administration has also had an impact on the EU-MERCOSUR Association Agreement. From the EU’s side, the Transatlantic Trade and Investment Partnership (TTIP) with the US is extremely unlikely to advance under Trump’s protectionism. This intensified the EU’s demand for other international partners. From a MERCOSUR angle, the U.S. withdrawal of the Transpacific Partnership (TPP), meant an opportunity for the bloc to expand its power and influence. It fosters relations with international actors, in this case the EU.

Even though the agreement is in an advanced phase, there is a crucial factor that could generate animosity in the negotiations of the group¹¹: agriculture. As Merkel explained recently in one of her weekly videos, discussions over EU accession for MERCOSUR’s agricultural products would be “a difficult subject”, given the large EU subsidies for its farmers (Euroactiv 2017). Indeed, the EU Common Agricultural Policy, through which European farmers are subsidized, is perceived as an obstacle to negotiations by MERCOSUR members (Gardini 2015). For the EU, the agreement would also mean the implementation of important adjustment costs for agriculture, particularly on the short term which would require suitable transition periods and mitigation measures. Along the same lines regarding agriculture, there is a general concern in the group for sustainable development and the agreement's potentially significant adverse impacts on the environment¹². According to the Trade Sustainability Impact Assessment, in order to reach maximum benefits and sustainable development, the agreement has to provide “basis for appropriate preventive, mitigation and enhancement measures” (2010). Both parties have already stated their strong commitment and adequate measures, agreeing on a number of proposals which will be further discussed on following discussions (Report of the XXVII negotiation round on the trade part of the EU-MERCOSUR Association Agreement 2017).

Another round of negotiations was held in Brussels in July 2017. It remains to be seen the ending resolutions of the agreement. However, overall the process seems to be fructiferous. Both parties would end up fulfilling their interests with no major dispute issues.

¹¹ In this section, “the group” is understood as the negotiators from both parties, the EU and MERCOSUR.

¹² On this topic, one could argue that MERCOSUR could, on the contrary, benefit from an increased access to environmental services.

Tentative solutions and final thoughts

This analysis has stressed the importance of robust institutions along with a strong political will as the main contributors to the advancement of integration in MERCOSUR. It is certainly true that the EU is *sui generis*, and since the beginning of its formation those two factors have differentiated it from other integration attempts.

MERCOSUR has been characterized by its intergovernmental approach. This was maintained by the presidentialist system of its member states, the constant absence of political appetite and no desire from each member state to pool sovereignty in favor of MERCOSUR's institutions. The aforementioned factors not only cause a general detriment to the bloc, but also entail the absence of a regional leader and lack of demand of integration. As a result, there has been a decline in the process of economic and political integration, which has remained stagnant until today. At the present time, there is a prosperous atmosphere, which could mean an advancement on MERCOSUR's project of further integration. MERCOSUR's next movement, which could change its entire track, remains to be seen. The next years are crucial for the bloc to strengthen as the solid international actor it was intended to be in its foundation in 1991.

It is the time for MERCOSUR to identify with authenticity its needs and possibilities. Some sort of political, strategic considerations may continue to ensure the survival of the bloc, and more importantly, for its progression.

Appendix A:

Spanish and Portuguese Abstracts

Spanish Abstract: El MERCOSUR se ha caracterizado por su enfoque intergubernamental. El cual fue sostenido por el sistema presidencialista de sus miembros, la constante ausencia de apetito político y por la ausencia de anhelo de cada Estado miembro en ceder parte de su soberanía hacia las instituciones del MERCOSUR. Estos factores, no solo han causado el detrimento general del bloque, además conllevan la ausencia de un líder regional y la falta de demanda de integración. Como resultado, se ha producido un declive en el proceso de integración económica y política, que se ha mantenido estancado hasta el día de hoy. En la actualidad, existe una aparente próspera atmósfera, que podría significar un avance en su proyecto hacia una mayor integración. Queda por ver el próximo movimiento del MERCOSUR, que podría cambiar toda su trayectoria. Los próximos años son cruciales para que el bloque se fortalezca creando un sólido actor internación. Como se proyectó en su fundación en 1991.

Palabras clave: Regionalismo, Integración regional, América Latina, MERCOSUR

Portuguese Abstract: O MERCOSUL se caracterizou pela sua abordagem intergovernamental. Que foi mantida pelo sistema do presidencialismo de seus membros, a ausência constante do apetite político e a falta do desejo de cada estado membro de congregar a soberania com as instituições do MERCOSUL. Estes fatores, não somente causaram o detrimento geral do bloco, mais também acarretam a ausência de um líder regional e a falta de demanda de integração. Como resultado, houve um declínio no processo de integração econômica e política, que permaneceu estancado até hoje. Atualmente, há uma aparente atmosfera próspera, o que poderia significar um avanço no seu projeto de maior integração. Continua a ser visto o próximo movimento do MERCOSUL, que poderia mudar toda a sua trajetória. Os anos seguintes são cruciais para que o bloco se fortaleça e se torne um sólido ator internacional. Como foi projetado em sua fundação no ano 1991.

Palavras-chave: Regionalismo, Integração regional, América Latina, MERCOSUL

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