



Robert Schuman

**Mercosur: Political Development
and Comparative Issues
with the European Union**

—Marcos Aurelio Guedes de Oliveira



Jean Monnet/Robert Schuman Paper Series
Vol.5 No.19
July 2005

This publication is sponsored by the EU Commission.

The Jean Monnet/Robert Schuman Paper Series

The Jean Monnet/Robert Schuman Paper Series is produced by the Jean Monnet Chair of the University of Miami, in cooperation with the Miami European Union Center.

These monographic papers analyze ongoing developments within the European Union as well as recent trends which influence the EU's relationship with the rest of the world. Broad themes include, but are not limited to:

- ◆ EU Enlargement
- ◆ The Evolution of the Constitutional Process
- ◆ The EU as a Global Player
- ◆ Comparative Regionalisms
- ◆ The Trans-Atlantic Agenda
- ◆ EU-Latin American Relations
- ◆ Economic issues
- ◆ Governance
- ◆ The EU and its Citizens
- ◆ EU Law

As the process of European integration evolves further, the Jean Monnet/Robert Schuman Papers is intended to provide current analyses on a wide range of issues relevant to the EU. The overall purpose of the monographic papers is to contribute to a better understanding of the unique nature of the EU and the significance of its role in the world.

Miami European Union Center
University of Miami
1000 Memorial Drive
101 Ferré Building
Coral Gables, FL 33124-2231
Phone: 305-284-3266
Fax: (305) 284 4406
E-Mail: jroy@miami.edu
Web: www.miami.edu/eucenter

Jean Monnet Chair Staff:

Joaquín Roy (Director)
Aimee Kanner (Editor)
Roberto Domínguez (Research Assistant)
Nuray Ibryamova (Research Assistant)
Markus Thiel (Research Assistant)
Wendy Grenade (Associate Editor)
Eloisa Vladescu (Editorial Assistant)

**Mercosur: Political Development and
Comparative Issues with the European Union**

Marcos Aurelio Guedes de Oliveira *

**The Jean Monnet Chair
University of Miami
Miami, Florida
July 2005**

*Dr. Guedes de Oliveira has a Ph.D. in Government from Essex University, was *Chair Simon Bolivar* Sorbonne Paris III, and has directed the Center for Brazilian Studies at Middlesex University. Today he is the Director of Nucleo de Estudos Americanos at UFPE where he is Professor of International Relations. His latest books are *Mercosul e Politica* (LTR ed. 2001), *Brasil e EUA no novo milênio* (UFPE 2004), and he has edited with Francisco Dominguez *Mercosur: Between Integration and Democracy* (Peter Lang ed 2004).

Mercosur: Political Development and Comparative Issues with the European Union

Introduction

In the last ten years Mercosur has become a viable instrument for the creation of a South American pole of economic development and integration as well as to enhance regional power in face of inter-regional and global negotiations. For many Europeans, Mercosur¹ is a child of the EU process and structures and should closely follow its model of integration; for many North-Americans it is being portrayed as nothing more than a regional political arrangement in order to better negotiate with the United States. They argue that Latin Americans do not have conditions to create a stable integration process. Surprisingly for everyone Mercosur is there and is growing despite all adversities. This essay discusses key aspects that Mercosur shares with the EU and stresses the particularities that once produced and maintain Mercosur as an original regional integration model.

Origins

It is undeniable that the project of the European common market, developed just after WWII, affected tremendously Latin American views on the need to link economic development to a free trade arrangement. Of course the European case was related to security implications not found in Latin America.

We have to look at the historic context of European states in order to understand the previous assumption. Its birth was during the 14th and 15th centuries where the Holy Roman domination started to fade away and Europe lived a succession of empires under the leadership of different European states. From the 17th Century onward Europe entered a period of continuous and growing warfare among its main states. This situation produced a concern with the future of the continent that indicated unification as a way out of the anarchic system based on war. The Congress of Vienna (1814-15) was a breakthrough by forwarding the first relevant international system, the Concert of Europe, and its methodology, the balance of power.

A counter-force to emerging integration ideas was a new wave of nationalism, particularly in Germany and Italy, states of late consolidation. Their leaders' actions together with the fear and aspirations of small national groups spread suspicion and produced an arms race in Europe, pre-conditions for break out of the First and the Second World Wars. By the end of the Second War there were two dominant ideas: one on the declining of European states and a second that a federal Europe was a next and needed

¹ For further analysis of Mercosur see: Nicola Phillips, *The Southern Cone Model: The Political Economy of Regional Capitalist Development in Latin America* (London; New York: Routledge, 2004); Helio Jaguaribe and Álvaro de Vasconcelos, *The European Union, MERCOSUL, and the New World Order* (London; Portland, OR: Cass, 2003), and Marcos Guedes and Francisco Dominguez eds., *Mercosur: Between Integration and Democracy* (London: Peter Lang, 2004).

step for the survival of the continent. The terrible consequences of the two world wars have ended the European condition as center of power, science, culture and civilization. It had become a frontier area of disputes between two superpowers, had lost its scientific and cultural hegemony and was put under the constant menace of nuclear destruction. What could have been worse? In this unforeseen context, Europeans with the support of the United States began to take seriously the road towards integration.

South and Central Americas were not involved in a global war and they were not bound to be in the center of a bipolar Cold War. Latin America was never so well protected under U.S. umbrella than in the aftermath of WWII. Regional integration has become for European nations a matter of life or death; for Latin America it was seen as a facilitator to overcome backwardness.

The Latin America project looks back to colonial exploitation, to the backward heritage of European domination and indicates a way to overcome this past and to foster economic and social development. Differently, the European project is associated to the historic crisis of their powerful states, to the undeniable need to stop waves of European destructive wars that created global crisis and fostered U.S. projection towards world hegemony, to the desire to rebuild Europe as the center of civilization, power and hope.

The European states can look at themselves as decaying political structures in need of a common economic framework while the Latin Americans look at themselves as building up economic structures based on industry, urban life and thus creating and enhancing newly-independent states. Europe was at the center of U.S. attention and worry about its future position as hegemonic power, not Latin America.

This perception is the key to understand the slow development of integration in the south. The decades following the end of the war were marked by a wish for a father-like U.S. support followed by frustration with U.S. denial to recognize the region as strategic in face of its growing involvement on conflicts in Asia and Europe. Gradually as a result of this dilemma Brazil, as well as Argentina, started moving in the direction of creating national development strategies that would depend less on the U.S. will and more on state-oriented guidelines.

The United Nations became in the 1950s instrumental for Latin America cries for economic support. The creation of United Nations' CECLAC (*Economic Commission for Latin America and the Caribbean*) represented its most important step. By the end of the 1950s development was at last gaining momentum in regional politics. Industrialization had firmly started in Brazil and President Kennedy – after the Cuban revolution – admitted the need for a response to regional cries. Thus, the *Alliance for Progress* was created.

The assassination of Kennedy and the reemergence of military dictatorships in Latin America stopped this development for two decades. The military were good in cooperating in intelligence and torture, but kept the feeling of secrecy, suspicion and national competition that transformed economic development in a national security and nationalistic matter.

As a common market arrangement the European Economic Community was doing well. The power of its democratic institutions and its economic superiority to Eastern Europe were visible. Differently to this, ALALC (*Latin American Free Trade Association*) was powerless and its methods unrealistic. This situation changed only in the 1980s and 1990s with the decline and fall of the Cold War. A new global reality demanded new strategies. Europe felt secure to move towards a more daring structured union. In Latin America the creation of ALADI (*Latin American Integration Association*), in 1980, permitted more flexibility in regional negotiations. The general perception that the new global economic reality would reduce even more South America importance gave a new flow of energy to the existed free trade initiatives.

The decline of state-orientated development, the emergence of the debt crisis and the fear of negative consequences of globalization forced Brazil and Argentina into cooperation. One can establish a comparison on two common sources of origins between the European (the sources behind the creation of the Coal and Steel Community are quite different from these behind the EU) and Mercosur projects: security and infrastructure (energy and communication).

(a) If one sees the conflict over the construction of Parana hydroelectric as a problem of regional security, one can affirm that in the case of Mercosur, the first drive was a matter of security. Very much as it was in the European case; (b) but if the fear of loosing economic importance in the emerging globalized world is to be seen as a main force then Mercosur is a product of a post-Cold War and globalization era. Thus it corresponds to the concerns that fostered lately the European Union; (c) last but not least, if the need by Brazil and its partners to use common natural resources in order to enhance regional infrastructure is seen as a first drive then the forces behind Mercosur are similar to the force behind the Coal and Steel community and not the forces of globalization that lately drove the EU.

One can clearly argue that the origins of Mercosur reflect a combination of challenges and problems that were dominant in different moments of the European integration history. Democratic stability, security and infrastructure development are faced at the same time as the search for adaptation to global economy and to deal with new problems brought by the twenty-first century agenda. To a certain extent I agree with that. I think there is one main driving force in it connecting and giving directions to all initiatives to deal with these challenges.

The concerns with regional security and infrastructure development date back to the 1940s and 1950s and were never sufficient relevant to provoke a common initiative towards integration. Until this date the United States was conceived as an unchallenged and solid leader for the whole region in terms of economic development and an ally in security issues. This changed after the Malvinas war when, at last, regional elite realized that they could not count on the United States for both development and security. Although there were surely security aspects behind the emergence of Mercosur, its main drive was and still is the fear to be left behind in economic development and to become

unimportant to international economy due to the negative consequences of the debt crisis and globalization.

The view of South America as a system or as a sub-system within the international system –and not as an extension of U.S. power- was enhanced and the elements that characterize it have since the end of the Cold War become more significant. They are shared beliefs about: belonging to a region with a common identity; a need to increase interaction and integration among states in order to achieve common strategic goals. Regionalization was perceived as a processes that could remake relations within the region and give it broader room for common economic and political action; in other words to follow the regional strategic move towards economic and political independence from the powerful developed countries; to enhance the South American economic and political pole or sub-system.

The Nature of Political Institutions

Quite often one criticizes Mercosur for not having political structures that resemble those of the EU. It is depicted as not being supranational, being weak and bearing powerless institutions common to intergovernmental political arrangements. These views are the product of readings of Mercosur from the dominant theories made to understand European integration. As it is being argued so far, historic background and context are key factors for understanding any integration process. Views that undermine regional context do not acknowledge the important progress of Mercosur through its intergovernmental structures and mechanisms as well as the constraints of the slow but steady transition that regional countries undertake towards democracy, economic stability and global insertion.

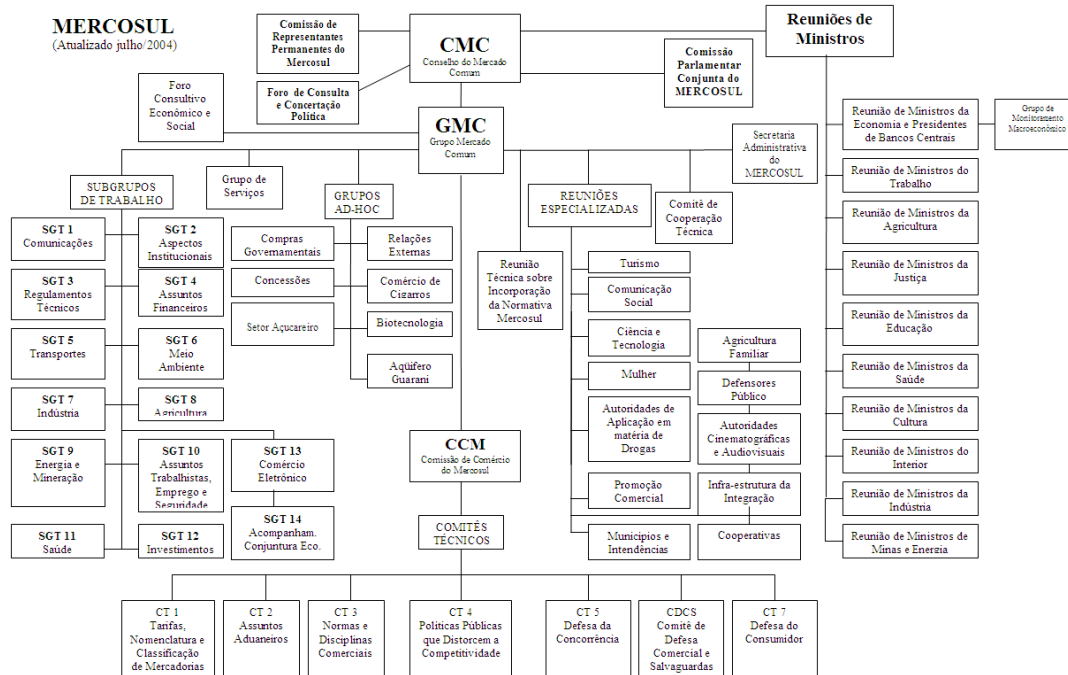
In the early 1990s a debate was in progress about the shape of Mercosur political mechanisms. On one hand the defenders of a supranational power supported their view very much from a functionalist perspective. For them, the need of such institutional form would give a independent dynamic to Mercosur as well as provoking a spill over process. On the other hand a less ambitious view supported that corresponding to the level of development and to the regional external and internal economic and political limitations, a prudent and pragmatic set of intergovernmental structures should be sufficient and certainly functional to the challenges Mercosur had ahead.

From the Iguazu Declaration in 1985 to the Assunção Treaty in 1991 the cooperation between Argentina and Brazil moved rapidly from security to economic concerns. In seven years both countries together with Paraguay and Uruguay were convening for the creation of a common market. The immediate effect was a renewed international interest on the region and an enhancement of the democratic transition.

The 1994 Ouro Preto protocol represented the consolidation of former agreements and it gave Mercosur international legal status. It created an intergovernmental Council composed by ministers and high-level officials of all sides empowered with a decision-making process that would accommodate national interests and a set of technical

committees specialized on economic areas aiming at finding solutions to forward integration in the direction of a common market. Two other important intergovernmental bodies created were: Mercosur's Joint Parliamentary Commission and the Social and Economic Forum, a space for the participation of non-governmental actors.

Chart 1



Though it could be argued that Mercosur institutions resemble that of the 1949 statute of the Council of Europe, it is undeniable that since its heyday the nature of institutions in the EU has been a combination of intergovernmental and supranational while in Mercosur it is only intergovernmental.

The declining European states demanded such structures due to their need to move towards a more interconnected unity and enhance their particular cultural interests as well as economic and social standards already achieved through social democratic means. The guarantee of regional and global security; the need to attract by economic and political advantages a growing number of European countries to a unifying project were grounded on issues and interests different from that Mercosur institutions emerged.

Differently from the European case, Latin American countries still see their states as “under construction” or as young states which need to achieve their economic and political aims. The economic situation facing these states is a problematic one. They face debts; social exclusion; corruption; lack of social security network; poverty; uneven internal economic development and need to enhance a democratic and entrepreneurial culture. The reemergence of democratic governments have brought these issues to the center of political concerns.

A succession of neoliberal economic policies during the 1990s proved to be insufficient to deal with most of the problems above and to foster the progress of Mercosur. One could say that the challenges that South American countries face demand a long and persistent set of policies. They are basically related to three points. First, the stabilization of economic structures by reducing the burden of the debt and orienting externally the economy. Secondly, by creating a sustainable growth that would spread benefits all over South America. Lastly, the demise of an aristocratic and unfair state, and the shaping of a democratic and less partial one.

The privatization of state companies and the initiatives on developing a social network for the very poor were positive steps taken in this decade. Nevertheless these policies were still national-centered, transitional and the region was hit by a series of international economic crises that undermined major changes. Only in 2003-04, Brazil and Argentina have begun to see first results on their move on the direction of an export-oriented model. Due to the importance of internal reforms, for a decade not much was done in order to forward common macroeconomic policies in Brazil and Argentina. In spite of a set of concrete initiatives, during nearly a decade, Mercosur was taken by a neopopulist discourse in favor of unrealistic proposals such as immediate monetary unification. Mercosur agenda was also during this period limited to a debate on the growth of inter-bloc trade and the increase of trade among South American countries.

At that time commentators were quite skeptical on the continuity of regional integration and for many Mercosur was a dying and mistaken initiative. Mercosur supporters were not silent. They reminded these critics that the EU resulted from a process of ups and downs and in Europe an even deeper skepticism was present in many moments. On the side of Mercosur, this was a period of maturation in which common business interests were consolidated, such as in the agriculture sector.

The new century brought renewed combination of soft brands of neopopulism to the region with new leftist governments. Brazil, Argentina and Uruguay are upgrading their commitment to regional integration. As a leading country, Brazil took the step to enhance Mercosur links to the Andean Pact countries and proposed negotiations for the integration of the two blocs. It also invited Peru and Venezuela to join Bolivia and Chile as associated members. One even daring step, what appeared for some as an unrealistic initiative, was the launch of the South American Community, a renewed version of the South American free trade initiative taken by former President Sarney and that represents an additional move to keep the debate on the need for regional integration at the center of South American countries concerns.

Mercosur negotiations with the EU and with the United States or the establishment of a free trade area gained a new impetus. It also took important steps towards Africa, Asia and North-America. There are ongoing negotiations with Australia, Canada, Mexico and with Arab countries. There are recent successful trade agreements with India and South African countries, the result of which will prove how a priority Mercosur has become for the present governments of Brazil and Argentina.

Perhaps the most important initiative has been directed to the region's infra-structural projects, some of which are depending on financing for decades. Being able to reduce its debt and enter into a period of sustainable development, Brazil directed the Brazilian development bank, *Banco Nacional de Desenvolvimento Economico e Social*, (BNDES), to finance projects that would create and develop the integration of communications (roads, railroads, waterways and ports) the common production of energy (dams, the use of natural gas and other common natural resources such as water). This initiative is of uttermost importance for the region because it deals with the issue of intra-regional asymmetries.

In August 2003, 23 projects for the integration of South American infra-structure were presented by 12 South American countries worth US\$ 5,5 billion. Most of these projects are near the frontier of Mercosur countries and they aim at transforming what used to be a security issue into an area of economic prosperity. The growing investments from big regional enterprises as well as multinationals are about to consolidate a new pole of economic growth at the heart of South America. Only in 2004 foreign investment from Brazilian business was US\$ 9.5 billion and most of it went to Mercosur area.² There has been a continuous growth on small and middle-sized regional enterprises as well as on investment from Europe, North-America and Asia. A proposal for the creation of structural funds and rules for regional governmental purchase have been approved.

On the political side COREPER was created which is a committee directed by former Argentine President Eduardo Duhalde to support members' initiatives towards third parties. The formation of a dispute-resolution tribunal, the establishment in 2006 of a parliament for Mercosur and the newly-created Mercosur Forum of Federative States and Cities, point out that for the time being new intergovernmental mechanisms are the region's reply to growing integration demands.

Obviously an expected consequence of this is an increase of common regional pressure groups in favor of more Mercosur political institutions. This would represent a spillover that still depends on intergovernmental action but that has already involved non-governmental actors. Thus, frontiers in South America will be less and less a matter of security and more and more a matter of development, integration and growth.

If the stability and the positive economic framework of recent years is kept, then the discussion on more effective political institutions and mechanisms will naturally emerge and the intergovernmental institutions created 15 years ago in a very hostile and uncertain environment will be replaced by more functional ones.

Two Meanings of Deepening and Widening

The EU has set the processes of deepening and widening as the two main challenges to consolidate itself. This fits well to the economic level and the strategic ambition Europe searched for itself. The context of Mercosur indicates two other meanings for deepening and widening. The first can be translated into creating an infra-structure of

² *Valor Económico*, March 28, 2005.

communication, transport and energy to enhance economic links among South American countries, attracting the non-Mercosur members to join-in a common integration and regional development process. The second is establishing as much as possible free trade agreements and common strategies with countries and blocs of countries all over the globe.

The aims of Mercosur are to deal with regional economic development in a way that in the end the region will become more relevant and integrated into the global economy than it is now, to avoid being swallowed by the two huge blocs and to keep relative interdependence in order to be capable of having options for increasing its international economic and political power. Mercosur has lived through different governments –five only in Brazil- and is undoubtedly a strategic project for its member countries.

Critics argue that in order to achieve its aims, Mercosur must enhance its institutional structures. So far all important decisions taken are by the presidents and ministers of the countries involved. This breaks and limits the institutional dynamics of integration. Firstly, because presidents and ministers cannot meet frequently. And when they do, instead of discussing a positive agenda, they are forced to deal with problems that were once small ones and that could have been solved at the level of Mercosur's lower bodies. Secondly, all intergovernmental arrangement needs a dispute-resolution mechanism empowered and capable to deal with conflicts in a way that creates a pattern that is acceptable by all sides and that is able to remove the obstructions to the flow of conflict and conciliation proper of growing integration. There are hopes that the newly-created tribunal will accomplish its mission.

Thirdly, there is a concern that Brazil as the most powerful partner might be tempted to adopt an hegemonic stand and instead of enhancing regional regimes and institutions as a mean to face regional problems, act unilaterally focusing on its own economic and political interest and at the expenses of its neighbors. This would increase asymmetry and in a long run would jeopardize the very precious gains associated with the transition to democracy and the emergence of regional integration, gains that are so fundamentally dear to all South American countries today, Brazil included.

Finally a number of critics and supporters of supranationalism poses the following question: can Mercosur continue to exist within its limited intergovernmental institutions and mechanisms and be functional? My reply is yes. Intergovernmentalism has been for centuries a viable mechanism for dealing with international issues. It can present itself in different forms from a modest set of periodical meetings of national leaders or policy-makers to discuss common problems to a well-defined and bureaucratically dominated institutional body. The option taken in favor of minimum institutions for Mercosur avoided the creation of a large and expensive set of organizations that would not have political power. Organizations that would conflict with national institutions that already have special bodies dedicated to international issues. It was a concern not to create organizations that would not be functional. The transformation of national states, the search for economic stability and adaptation to a export-oriented model are preconditions

still to be met and necessary for more substantial and concrete integration initiatives such as common macroeconomic policies.

The above must not be interpreted as Mercosur does not need to change. The functions of its intergovernmental institutions are not fully explored and many ongoing conflicts would not exist if these institutions were active.

Mercosur has a long way ahead in order to accomplish its ambitions. So far it has been very successful in offering a framework for responding to the region's challenges without conceding to the temptations of adopting automatically other models. Taking into consideration the historic and political contexts of the region and taking a pragmatic approach instead of an ideological one, Mercosur project maintains alive the dream of an independent, democratic, politically and economically strong Latin America in a world increasingly asymmetrical.