

## Mercosur and the European Union: Where are They Moving?

Diego Telias

Universidad Católica de Chile & Universidad ORT Uruguay

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Regional integration seeking political coordination through formal institutions has significantly solved collective action problems among countries. This regional integration is understood as a process by which national states voluntarily mix, confuse and merge with their neighbors, in such a way that they lose specific factual attributes of sovereignty while acquiring new techniques to resolve their conflicts jointly" (Haas, 1971: 6) has been conceived in Europe but replicated in different regions of the world.

A few years ago, the largest regional integration project in South America, Mercosur, celebrated its 30th anniversary. This regionalism process, which began in the 1990s and brought together two large countries in the region, Brazil and Argentina, together with two small partners, Uruguay and Paraguay, was born to provide an adequate international insertion for the countries and to achieve a Common Market. Several years have passed since that great ambition of the presidents of those countries, and today, Mercosur is at a crossroads concerning its importance and is questioned by presidents and even candidates for president of the region.

The questioning of Mercosur from specific sectors points to its need for more flexibility as a tool to dynamize trade and for not generating an external agenda with networks of relevant trade agreements. Along these lines, various sectors cannot identify or see Mercosur's progress as tangible, and unlike other integration processes, it has yet to generate a common identity that unites the countries. In this context of disbelief in Mercosur, presidents such as Lacalle Pou of Uruguay have been heard to describe Mercosur as a burden or even more extreme positions such as that of the Argentinean presidential candidate, Javier Milei, who proposes leaving Mercosur altogether.

Given this context, it is essential to understand the current state of the Mercosur-European Union agreement, not only because of the time it has taken to negotiate this agreement (more than 24 years) but also because its conclusion or not may be very relevant to understand where Mercosur is today concerning its progress and dynamization. It is an agreement that looks beyond trade and is the reason for the difficulties in signing it.

This article seeks to put the Mercosur - European Union agreement in context. To understand the current state of Mercosur, the difficulties this agreement has gone through, and what its conclusion or failure could mean. Considering the existing problems in Latin America in terms of economic and security issues, the emergence of other models beyond liberal democracies to face them, and the rapprochement of China to the region, this agreement and the region's ties with Europe go far beyond a simple free trade agreement as it is presented.

## MERCOSUR: ITS PROBLEMS AND CHALLENGES

Mercosur was born from the rapprochement of two large South American countries after the end of the dictatorship: Argentina and Brazil. Economic cooperation between these countries led Uruguay and Paraguay to join the bilateral process to avoid being left out. Its initial kick-off in 1991 with the Treaty of Asunción and its objectives were ambitious and naïve. Those leaders put forward the idea of forming a common market involving the free circulation of goods, services, and productive factors, common external tariff and trade policy, and coordination of macroeconomic policies (Caetano 2011), something that has not been achieved so far.

The interest in this process led to the incorporation of other countries, such as Venezuela, currently suspended due to the application of the democratic clause, and Bolivia, which is in the process of accession. With an organizational structure more linked to what could be called intergovernmentalism or regional cooperation rather than supranationalism, Mercosur has navigated for three decades, with very different moments for the countries, going through economic crises such as in 2001, moments of economic boom during the commodity positive cycle as well as expansion of social policies.

As far as the integration process is concerned, we are dealing with an intergovernmental organization. Although there are bodies such as the Permanent Review Tribunal, there is little pooling and delegation regarding institutional design. Consensus remains the norm, and progress and decisions depend on the will of all parties. Even when some standards are adapted, governments have not internalized them. It is a different process from the European one, no doubt.

Since the first decade of the 21st century, Mercosur has experienced a period that falls within what some authors have called post-hegemonic regionalism, which sees integration as going beyond economic insertion and free trade agreements. During this period, Mercosur was broadened in themes and initiatives, including a Structural Convergence Fund, Institute of Public Policies on Human Rights and Mercosur's social institute.

However, beyond these advances, the focus of analysts has been. It continues to be on its primary objective, which has been the commercial construction, and which, in terms of the goals set out at the beginning, still needs to meet expectations. Today, the process does not reach the level of a Customs Union, classified as imperfect, given the number of holes in the common external tariff, the sectors excluded from the free trade area such as automotive and sugar, the double collection of tariffs, and the free trade zones.

Concern for the external agenda is a fundamental issue in the bloc's current affairs and has made headlines after each meeting of the presidents. Mercosur has strengthened its ties regarding trade agreements with different countries in the region through its previous link through ALADI. It has also made agreements with specific countries such as Egypt, with a wide-ranging free trade agreement, or partial agreements with India. It

has also been linked with blocs such as the South African Customs Union, with which a fixed preferential agreement was established.

However, compared to other economies in the region, such as Chile, Peru or even Colombia, Mercosur has not signed free trade agreements with countries outside the global south, except the agreement reached with Israel, which implies a free trade zone with broad coverage. With Singapore, negotiations have been concluded (Mercosur 2022), and the finalization process awaits to finally become the first agreement with East Asia, a dynamic region with which more and more countries have links but with which no significant agreements have been reached.

This lack of achievement does not imply that no negotiations have taken place. Mercosur is negotiating with specific countries such as Indonesia, Lebanon, Canada, and South Korea, but also with economic blocs such as the European Free Trade Agreement (EFTA). However, the outlook is not promising for closing any of these agreements shortly. The constant changes of presidents and the different views regarding this process do not help.

Beyond the negotiations mentioned above, the icon of the impasse in Mercosur negotiations has been the agreement with the European Union, not only because of the South American bloc's brakes but also because of the reluctance of some European countries with this agreement. From the framework cooperation agreement signed in the 1990s, through scarce negotiations, to a new negotiating impulse in 2016, this agreement has been under discussion for more than 20 years. The question that arises is whether a moment of definition has yet to be reached. For better or worse, the process will come to a close.

## **EUROPEAN UNION - MERCOSUR AGREEMENT**

The Mercosur - European Union association agreement is a comprehensive association that goes beyond trade and differs from others that the European bloc has signed. This amplitude in terms of issues that include political cooperation and different areas makes the signing and ratification process even more complex because it includes issues over which there is shared sovereignty and others where there are individual competencies of the states of the European Union.

Since 2021, the agreement reached on goods, services, and public acquisitions has been published as part of the negotiations that have been taking place. However, there still needs to be more clarity on other aspects being negotiated and where there is still no agreement. In fact, since 2019, little progress has been made so far.

Why is this a critical moment in this process that has been going on for 24 years? In a conference organized by the Jean Monnet Module that brought together prominent Latin American academics, Dr. Paulina Astroza expressed the importance of the current moment with Spain holding the presidency of the Council of the European Union and the pro tempore presidency of Mercosur in the hands of Brazil, now with the new

president Lula (Jean Monnet Webinar 2023). In this sense, the two actors have been very positive in the processes of this agreement. However, the difficulties are great.

According to what Dr. Detlef Nolte said in his speech at the seminar, situational events influence the advances and setbacks in this agreement. During the Bolsonaro administration, environmental issues were critical for not advancing the agreement (Jean Monnet Webinar 2023). The concerns of specific sectors in Europe about the Amazon as a genuine issue have slowed down progress, but this concern about deforestation also serves to cover up protectionist interests of specific sectors in Europe.

Two countries are key for this agreement, according to Andrés Malamud, one of the prominent analysts of regionalism: France and Brazil (Jean Monnet Webinar 2023). France mainly because of the need to convince the French parliament, which will eventually have to approve, as well as the rest of the national parliaments, making it even more complex. Weakened by internal issues, the French government will have to achieve consensus, mainly in its agricultural sector. Therefore, even if an agreement between the European Union and Mercosur reached, it will still have to wait for it to enter into force. This situation is also happening on the other side of the Atlantic. Brazil has taken the lead in negotiations today with the arrival of Lula, according to expert Miriam Saraiva (Jean Monnet Webinar 2023). Still, the changes in government show that there are actors with divergent visions concerning issues such as the environment, which does not ensure that if Lula wants to advance in certain aspects, he will be able to do so.

By the end of August 2023, the agreement will go towards a split, i.e., divide the deal on what has already been agreed and continue negotiating the remaining parts. Mercosur is currently analyzing a counter-proposal to this European offer. Reopening the agreement implies that, once again, everyone has their say and that no agreement can be reached on complex issues in the negotiation.

However, this is a crucial moment. Although Mercosur is more than the process of commercial economic integration and includes the movement of people, infrastructure, and support to democratic governments and other aspects such as education, the central element of debate today is its external agenda. No external relations have been achieved that would be functional for any of the members, so Mercosur is currently going through a critical stage for its future (Busso and Zelicovich 2021), and without market access, the bloc loses its attractiveness as local trade is not a relevant force and the rest of the world is more critical in terms of trade than its neighbors (Sica and Malamud 2021).

The signal of signing an agreement with the European Union is fundamental for Mercosur, not only internally to meet the expectations of those sectors most reluctant to participate in the bloc but also externally to give a sign of vitality. But it is also a pivotal moment because if Europe wants to establish links with South America and not continue to lose relevance with other players such as China, it will also have to give concessions in the negotiation to reach an agreement that allows for a partnership beyond the

commercial. This agreement is important in commercial terms and, as José Antonio Sanahuja states in the conference mention, in the generation of standards (Jean Monnet Webinar 2023).

European diplomacy is very concerned about China's presence in Latin America. Speeches and threats will not help if proposals do not accompany them. China today is essential for Latin American countries in different aspects, from trade, investments, loans and even as partners in writing the rules of the international system. If Europe does not want to lose ground on different issues with Latin America, the agreement with Mercosur may be an area where to start.

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