



Universiteit Leiden

MA European Politics and Society

Negotiations between the EU and Mercosur: motivations behind the relaunch in 2010

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Abstract

This thesis examines the relaunch of the negotiations for an Association Agreement between the European Union (EU) and the Southern Common Market (Mercosur) in order to understand new trends towards interregionalism after the failure of the Doha Round and the motivations of the EU in resuming the talks.

The research question leading this work is: What explains the decision of the EU to relaunch negotiations with Mercosur in 2010? Moreover, two hypotheses are presented related to need of EU to re-think their economic integration strategies after the stagnation in Doha and the aim of the bloc of maintaining and strengthening its commercial and regulatory power vis-à-vis China and the United States in Latin America. Knowing the fact that in 2010 negotiations between the two blocs were relaunched, this thesis aims to prove the plausibility of the two hypotheses presented vis-à-vis other possible factors by means of process tracing.

Abbreviations

AA Association Agreement

ACP African, Caribbean and Pacific Group of States

APEC Asia-Pacific Economic Cooperation

ASEAN Association of Southeast Asian Nations

BENELUX Belgium, Netherlands, Luxembourg

BNC Bi-regional Negotiations Committee

BRICS Brazil, Russia, India, China and South America

CAN Andean Community

CAP Common Agricultural Policy

CFSP Common Foreign and Security Policy

CMC Common Market Council

CUE Consejo de la Unión Europea

EC European Commission

ECLAC United Nations Economic Commission for Latin America and the Caribbean

ECO Economic Cooperation Organization

ECSC European Coal and Steel Community

EEC European Economic Community

EESC European Economic and Social Committee

EPC Economic Policy Committee (of the EU)

ERP European Recovery Program

EU European Union

EU-LAC European Union and Latin America and the Caribbean

EURATOM European Union Atomic Energy Community

FDI Foreign Direct Investment

FTA Free Trade Agreement

FTAA Free Trade Area of the Americas

GATT General Agreement on Tariffs and Trade

GMC Common Market Group

IFCA Interregional Cooperation Framework Agreement (IFCA)

IMF International Monetary Fund

ITO International Trade Organization

LAC Latin America and the Caribbean

MERCOSUR Southern Common Market

NAFTA North American Free Trade Agreement

OECD Organisation for Economic Co-operation and Development

SICA Central American Integration System

TPP Trans-Pacific Partnership

TTIP Transatlantic Trade and Investment Partnership

WTO World Trade Organization

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Chapter 1: Introduction

In December 1995, the European Union (EU) and the Southern Common Market (Mercosur) began negotiating the so-called Interregional Cooperation Framework Agreement (IFCA), an ambitious accord designed to deepen trade relations and enhance cooperation in economic matters, as well as to organise cultural exchanges and establish a new interregional dialogue on issues such as drug trafficking and training and education. Once the IFCA was signed some four years later, the EU and Mercosur then began a new set of negotiations to establish a still more ambitious Association Agreement (AA). In addition to a political and cooperation chapter, its aim was to include a commercial chapter that contemplated the reciprocal liberalization of trade in every economic sector by way of a free trade economic zone, in accordance with international regulations proposed by the World Trade Organization.

The first round of formal negotiations, which dealt with the objectives and scope intended by the Agreement, was finalized in July 2001. A series of further detailed talks subsequently commenced. These can be divided into two distinct stages. The first, covering the period between 2000 and 2004, was marked by mutual dissatisfaction with the offers made, especially regarding the concession made in the automotive sector by Mercosur and in agriculture by the EU. These disagreements, added to the expectations of each bloc regarding the results of the Doha Round, made it impossible to reach an agreement, resulting in a formal deadlock in 2004. The deadlock continued until 2010, the year in which the Madrid Declaration¹ was presented, showing the willingness of both parties to re-establish talks. Thus, the second stage of the negotiations started in 2010 and continues to the present day. While the negotiations have been long and conflicting, both parties have nevertheless expressed a willingness to reach an agreement along the lines of an interregional EU-Mercosur format.

This thesis aims to explain why the negotiations between the two blocs were relaunched in 2010 from a European perspective. In this sense, this thesis will study only the factors that influenced the EU's decision, given that this bloc is an institutionally consolidated actor that achieves the interests of its member states under the same unit, allowing it to

¹ The Madrid Declaration is a document convened in the IV European Union-Latin America and the Caribbean Summit in May 2010, where the Heads of State and Government of all nations present reaffirm their commitment to continue promoting and strengthening a Bi-regional Strategic Partnership and present a plan.

be studied as a whole and not as the mere sum of its parts. This will be studied in the light of the changes that have taken place in the international scenario, within the framework of the stagnation of the Doha Round and, therefore, of the multilateral trade system proposed by the WTO.

In a broader context, this thesis will look into new trends towards the generation of agreements between regional blocs, which transcend the merely commercial sphere and arise as an alternative to the multilateral route. Thus, the general topic of the analysis is agreements between regional groups, while the specific topic will focus on the relaunch of the AA negotiations between the EU and Mercosur.

Looking at the existing bibliography of the object of research, it was noticed that there are not many studies that consider the relaunch of the negotiations in 2010 as an illustrative case study of the importance of interregionalism as a new alternative in international trade. Thus, I consider that the resumption of negotiations between the two blocs refers to a relevant episode to understand a new way of economic integration, which is gaining importance in the international system of the 21st century. It is therefore pertinent to study the geostrategic importance of the negotiations between two of the largest customs unions in the world.

The structure of this thesis will be the following. Chapter 2 will be the background section, including a timeline of the evolution of the world trade system, a presentation of both the EU and Mercosur and references to their relations until 2010. Moving on, chapter 3 will deal with the multilateral system after the Doha Round and the growth of interregionalism. An analysis of the EU's foreign policy and its decision-making processes will be done in chapter 4 in order to continue in chapter 5 to take a deep look into the re-launch of negotiations. Lastly, before the concluding remarks, chapter 6 will study the game of power in Latin America between the EU and its major competitors: the US and China.

1.2 - Research question and hypotheses

The research question guiding this thesis will be: What explains the decision of the EU to relaunch negotiations with Mercosur in 2010?

The answer to this question will come from an analysis of the factors that determined the EU's decision to renegotiate with Mercosur in 2010, conceiving this episode as an illustrative case of the tendency to establish trade agreements between regional blocs.

Even though there are many competing factors that could explain the decision of an integration bloc to further their efforts in a trade agreement, including economic, political and domestic ones, this thesis has two main hypotheses related to geopolitical conditions:

- A. After the stagnation of the Doha Round, the EU had to re-think their economic integration strategies and opted to seek in a more active way the concretion of associations agreements by negotiating bilaterally and interregionally.

When pausing the negotiations in 2004, the EU trusted that liberalization regarding goods and services together with further disciplines like intellectual property, geographic indications, governmental purchases, sanitary and phytosanitary measures, among others would be dealt with in Doha. The failure to do so in the WTO forum not only prompted many changes in the international arena but also gave the EU reasons to direct resources once again to the negotiations with Mercosur.

- B. The EU opted for relaunching negotiations with Mercosur in 2010 in order to maintain and strengthen its commercial and regulatory power vis-à-vis China and the United States in Latin America.

The EU is the world's largest trading bloc, as well as the world's second largest trading zone, after the North American Free Trade Agreement (NAFTA). Its level of intraregional trade is the highest in the world, representing around 70 percent of total European trade.²

Despite the asymmetries between the two actors, Mercosur has traditionally been a bloc to which the EU has paid particular attention, both because of the cultural, social, and historical heritage they share and, above all, because of the unquestionable interest in the economic and political dimensions of their relations.³ In this sense, it should be pointed

² World Trade Organization. 2018. World Trade Statistical Review. Available online in: https://www.wto.org/english/res_e/statis_e/wts2018_e/wts2018_e.pdf

³ Cienfuegos, M. 2010. *¿El Interregionalismo en cuestión? El Caso de las Relaciones de la Unión Europea con el MERCOSUR*. Journal *Aportes para la Integración Latinoamericana*, Vol. 22, pp. 1-42.

out that Mercosur represents the fifth largest world economy⁴ and it constitutes an exciting area of great potential with high annual economic growth rates.

Therefore, given that Mercosur represents a highly attractive regional bloc with potential for growth and complementarity within Latin America and the Caribbean (LAC), the EU opted for the relaunch of negotiations in 2010 in order to maintain and strengthen its commercial power in the face of new actors that were gaining influence in the region: China and the United States.



1.3 – Literature Review

The topic of the negotiations between the EU and Mercosur has been addressed in depth by an extensive literature that includes dozens of authors, from both the European and American continents. As will be explained below, the vast majority of academic work can be divided into two areas: publications that make a general description of the process and its challenges, studying the subject through a perspective based on integration concepts; and the studies supported by technical-commercial perspectives, focused on the alternatives, losses and gains of a possible agreement.

It is important to note that the largest number of studies were conducted during the years of the first phase of negotiations (2000-2004) when expectations were very high and the idea of trade liberalization between two big regions of the world was new and exciting. After the stagnation, the interest began to decrease slowly and nowadays focus mainly on an analysis of the progress in the offers of both blocs and the many reasons why the success of an agreement seems very distant.

⁴ Mercosur represents the world's fifth largest economy in terms of GDP, according to the International Monetary Fund database.

Firstly, I will highlight those more exhaustive publications that describe in a more general way the process and its challenges. With regard to the European side, the writings of Cienfuegos (2006), Almeida (2003), Grisanti (2004), Torrent (2005) and Doctor (2007, 2013, 2015) can be cited. On the American, the works of Bizzozero (2000, 2007) and Ventura (2005) stand out, which will be discussed below.

The proposal of Cienfuegos studies the links between Mercosur and the EU all the way from the nineties to 2006, deepening into the foundations of commercial relations and the problems they presented. His work is theoretically based on certain concepts of the field of integration, such as 'open regionalism.' Almeida also bases his studies on concepts of regionalism, while relying on the dilemma of the binomial regionalism-multilateralism.⁵ It is another rich study in the narrative of the process. Something similar can be said about Grisanti's writings, with the difference that it frames the Mercosur-EU process as part of the relationship between the European Union and Latin America, appealing to the comparative method for analysis. There are several cases that do this, although not so comprehensively.⁶

With a slightly different approach, Torrent provides an explanation of the events of certain EU negotiation processes with Latin America (Mexico, Chile, Mercosur), presenting an in-depth criticism of the European institutional logic, theoretically based on notions about the legal framework of the EU for its external relations.⁷ Doctor has focused on how interregionalism can impact integration in developing countries like the ones composing Mercosur. Moreover, in one of his many articles, he has compared the regional models, pointing to disparities between the EU and Mercosur and the institutional and political deficiencies of Mercosur as the main barriers to a trade deal while at the same time handling scenarios of deepening Mercosur integration.⁸

One of the academics who has followed the process since the beginning of the relations between regional blocs is Bizzozero, whose work delves into the causes that led to the

⁵ Cienfuegos, M. 2006. *La asociación estratégica entre la Unión Europea y el Mercosur, en la encrucijada*. Barcelona: Fundación CIDOB

⁶ Grisanti, L.X. 2004. *El nuevo interregionalismo trasatlántico: La asociación estratégica Unión Europea-América Latina*. Inter-American Development Bank. Available online in: <http://www20.iadb.org/intal/catalogo/PE/2007/00650.pdf>

⁷ Torrent, R. 2005. Las relaciones Unión Europea-América Latina en los últimos diez años: el resultado de la inexistencia de una política. Un análisis empírico y esperanzado. UNU-CRIS Occasional Papers 0-2005/10.

⁸ Doctor, M. 2007. *Why Bother With Inter-Regionalism? Negotiations for a European Union-Mercosur Agreement*. JCMS, Vol. 45, pp. 281–314

stagnation of the negotiations. These causes include mainly the disagreements regarding the kind of free trade zone that each party wanted, the areas to include and the sectors to be liberalized. Likewise, it is highlighted how both blocs had hopes of reaching an agreement in the complicated topics through the WTO forum.⁹ Finally, Ventura wrote a detailed analysis of the asymmetries between Mercosur and the EU, stating that the minimalist institutional structure of Mercosur and the absence of a community legal order are significant challenges to its relations with the EU.¹⁰

In the second instance, it is convenient to make reference to a vast literature that has proposed a different perspective of analysis, since they assumed as a theoretical basis a technical component, linked fundamentally to the commercial area. Here we can find the studies carried out since its creation in 1999 by the Chaire Mercosur-Sciences Po, which grouped experienced academics from both regions under the direction of Valladao. Something similar can be mentioned concerning the annual Mercosur Reports of INTAL (Institute for the Integration of Latin America and the Caribbean). Likewise, other technical studies that provided analysis on the alternatives and possible profits of this commercial negotiation can be cited, such as Schneider (2003) and Watanuki and Flores (2008).

Moreover, many academics have focused on the motivation of the EU in this deal and the foreign policy objectives in general that relate to it, mostly they point to its Global Europe strategy and its aims of using interregionalism as a soft power tool. While Manners (2002) states that the EU interregional trade model is a form of normative or civilian power¹¹, Doctor (2015) adds that the final aim is to export European values and reinforce models of integration like the Union's one abroad.¹² Nevertheless, Messerlin (2013) explains how the economic crisis and competition from the US or China have put a lot of pressure on the EU to drop the normative component of its interregional trade policy or even to drop interregionalism in favor of other FTP tools such as bilateralism.¹³ This last work

⁹ Bizzozero, L. 2006. *Negociaciones Mercosur-Unión Europea, articulación del espacio Euro-Latinoamericano/Caribeño y gobernanza mundial*. Cuadernos de Integración Europea #5, pp. 5-27.

¹⁰ Ventura, D. 2005. *Las asimetrías entre el Mercosur y la Unión Europea: Los desafíos de una asociación interregional*. Konrad Adenauer Stiftung. Montevideo, Uruguay.

¹¹ Manners, I. 2002. *Normative Power Europe: A Contradiction in Terms?* Journal of Common Market Studies. Vol. 40, pp. 235-258.

¹² Doctor, M. 2015. *Interregionalism's impact on regional integration in developing countries: the case of Mercosur*. Journal of European Public Policy, Vol. 22, pp. 967-984.

¹³ Messerlin, P. 2013. *The Mercosur - EU Preferential Trade Agreement: A view from Europe*. CEPS

reinforces the idea behind one of the hypotheses of this thesis, pointing out that the EU aimed to rekindle negotiations for geopolitical reasons.

All in all, the literature on the EU-Mercosur negotiations has looked at several dynamic pieces of the relation from many perspectives. As mentioned, the reasons given by academia for the deadlock in negotiations mainly include the clashes between the offensive interests of the blocs, trade disagreements, the asymmetries between both blocs and the institutional and political problems of the Latin American bloc. During the six years the negotiations were frozen there were no significant advances in any of the mentioned areas. Thus, external factors must have affected the will of the EU to try to conclude an agreement with the South-American bloc.

1.4 - Methodology

The methodology strategy for this work will be based on a case study. The case study method is defined as “an intensive study of a single unit or a small number of units (the cases), for the purpose of understanding a larger class of similar units (a population of cases)”¹⁴. Therefore, this thesis considers the relaunching of the negotiations for an AA between the EU and Mercosur in 2010 as an illustrative case study of interregionalism of the transregional type based on the conclusion of agreements between regional blocs.

According to John Gerring, case studies are a procedure of particular importance for Social Science research because they have attributes related to compatibility to generate hypotheses, high internal validity, the possibility of analyzing the veracity of a causal relationship belonging to an individual case, high conceptual capacity to deepen an investigation whose scope is limited, and the possibility of having a wide range of techniques to obtain the necessary information.¹⁵

Qualitative methods are used in this research in order to analyze the evolution of the situation of the EU in the international system, with emphasis on its position in terms of economic power in the period 2004-2010; analyse the EU's trade alternatives in the international system, taking into account the role of Mercosur, based on a multilateral

¹⁴ Gerring, J. 2012. Case Study Research. Principles and Practices. 14th Ed. New York, Cambridge University Press. Page 37.

¹⁵ Ibid. Page 39.

approach to trade and interregionalism as a complement to it; and analyse the process of interregional negotiations between the EU and Mercosur. It is known that in 2010 negotiations between the two blocs were relaunched, by tracing processes within the case, this thesis aims to prove the plausibility of the two hypotheses presented vis-à-vis other possible factors.

Both foreign policy analysis and historical analysis will be used. Foreign policy analysis as the study of how the EU makes foreign policy, looking into its decision-making processes, goals, strategies, and directives. "As a field of study, foreign policy analysis is characterized by its actor-specific focus. In its simplest terms, it is the study of the process, effects, causes, or outputs of foreign policy decision-making in either a comparative or case-specific manner."¹⁶ This will be complemented with historical analysis in order to understand the context in which the EU acts and the evolution of the international trade system.

The sources used in this work are primary and secondary. Regarding the primary sources, several official EU documents were consulted, most notably the text entitled *Towards an EU-Mercosur Association Agreement: civil society's contribution*¹⁷, which sets out the recommendations and conclusions concerning the relationship between the two blocs. Moreover, official conferences and declarations were consulted, including the Madrid Declaration of 18 May 2010 entitled *Towards a new stage in the bi-regional partnership: innovation and technology for sustainable development and social inclusion*¹⁸, which announces the EU's willingness to resume negotiations with Mercosur.

In terms of secondary sources, an extensive bibliography and academic articles were consulted, among which the following stand out: *The European Union in International Relations*¹⁹, a work that focuses on the evolution of the EU as an actor in the international system undergoing a power transition process due to the emergence of new powers; *European interregionalism and Latin American regional integration*²⁰, which analyses

¹⁶ Foreign Policy Analysis Website, Department of Political Science, College of Arts & Science, University of Missouri.

¹⁷ European Economic and Social Committee. 2011. Opinion on *Towards an EU-Mercosur Association Agreement: civil society's contribution*. Available online in: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52011IE1009>

¹⁸ EU-LAC Summit. 2010. Madrid Action Plan 2010-2012. Available online in: http://eeas.europa.eu/archives/docs/la/summits/docs/madrid_action_plan_en.pdf

¹⁹ Barbé, E. 2014. *La Unión Europea en las Relaciones Internacionales*. Madrid, Editorial Tecnos.

²⁰ Parra Santamaria, A. 2010. *El interregionalismo europeo y la integración regional latinoamericana*. Entramado, Vol. 6, pp. 96-105. Available online in: <http://www.redalyc.org/articulo.oa?id=265419645007>

the relationship between the EU and LAC, identifying an interregional strategy of the European bloc which is manifested through the negotiation of agreements with other regions; and *The negotiations of the Interregional Association Agreement between the European Union and Mercosur*²¹, which analyses the negotiation process between the two blocs and the different rounds held between 1999 and mid-2010. Likewise, official statistics from the WTO, the Economic Committee for Latin America (ECLAC), among others, were consulted in order to analyze the evolution of Mercosur's foreign trade with China and the United States between 2004 and 2010.

1.5 - Theoretical Framework

The goal of this section is to briefly set out the theoretical approach that will be taken into account to understand the phenomenon of European interregionalism. In order to do so, the neo-realist theory of International Relations will be used, since it provides an explanation of the actions of actors in the international system.

However, some of its postulates will be dealt with in a more nuanced manner, due to neo-realism imprecise application after the end of the bipolar world. In an introductory way, it is important to clarify that the term interregionalism alludes to a whole set of phenomena, and in scientific discourse, it serves as a general term that indicates that what is being researched is between regions of international society. Within the theoretical analysis of the phenomenon, different interpretative tendencies are distinguished that motivate the organization of the relations between regions. This thesis will use the classification trend proposed by Rüländ²² that distinguishes between bilateral interregionalism and trans-regional interregionalism.

On the one hand, there is bilateral interregionalism, which is defined by the author as the type that manifests itself through group to group conversations between regions of the world, which have already started their own regional process and proceed with a single voice in their external relations. The dialogues are established regularly and focus on the

²¹ Valle, M. 2011. *Las negociaciones del Acuerdo de Asociación Interregional entre la Unión Europea y el MERCOSUR*. Ciclos en la historia, la economía y la sociedad Vol. 19, No. 37. Available online in: http://www.scielo.org.ar/scielo.php?script=sci_arttext&pid=S1851-37352011000100002&lng=es&nrm=iso

²² Hanggi, H. Roloff, R. & Rüländ, J. 2006. *Interregionalism and International Relations*. London, Routledge.

exchange of information, the design of strategies to approach trade, preserve the environment and combat crime, among other issues²³.

On the other hand, trans-regionalism is defined as the type of interregionalism in which States, although part of a region, proceed in the talks according to their organized individual interests, and not according to the interests of the region. Consequently, the agenda of the region does not coincide with the particular agenda of the States that make it up, so that the attention is lost to the conversation between regions, and the degree of institutionality is much higher. In this type of scheme, the agenda not only contemplates the economic and commercial sphere, but also includes political dialogue, cooperation on socio-cultural issues, and development aid²⁴.

In terms of potential roles for interregionalism, Hänngi and Rüländ refer to the following ones: balancing, institution building, rationalizing, agenda setting and collective identity building.

In this context, balancing refers to the establishment of interregional relationships to strengthen the economic and political influence of regional actors in their own right as well as in relation to other states and regions. Institution building involves regional organizations and their constituent nation states attempting to manage increasingly complex interdependence through the formation and institutionalization of interregional relations. Rationalizing and agenda-setting relate to the capacity of interregionalism to promote and enhance cooperative endeavors at the multilateral level. And finally, identity strengthening alludes to the idea that by engaging as a region in talks with other regional groups and organizations, the identity of the members of that region is strengthened as the member states interact and attempt to unite around common positions.²⁵

As previously mentioned, the term interregionalism is difficult to define since it is a phenomenon of international relations found between regionalism and multilateralism.²⁶ For this reason, the different authors of interregionalism agree that a single theoretical

²³ Hanggi, H. Roloff, R. & Rüländ, J. Ob Cit.

²⁴ Ibid.

²⁵ Ibid.

²⁶ Regionalism is understood as a concept whose origin is based on an economic vision, which concentrates on the creation of blocks of countries that are located within the same geographical area and are united with the objective of increasing their competitiveness in the international system. Multilateralism is understood as a system that links several countries, which interact with each other with the same obligations, through standard rules.

approach is not enough to understand the phenomenon. On the contrary, it is admitted that different analytical approaches and various disciplines are necessary. For the purposes of this paper, the theory of neorealism will be used to understand European interregionalism.

Neo-realism, also known as structural realism, arose in the late 1970s to solve the main theoretical obstacles faced by classical realism. Thus, neorealism faces the incipient multipolarity of the 1970s given by the inclusion and recognition of the People's Republic of China to the international concert, and the end of the Cold War and the bipolar world.

Kenneth Waltz (1924-2013), a scholar who focused on American politics, is considered one of the founders of the neorealism, introducing the concept of "structure" to International Relations. A classical realist would start his analysis from the unit of an individual state, considering it the only political subject of the international system; whereas a neorealist highlights the global structure.²⁷

Although Waltz does not explain what the global structure itself consists of, in the present work "structure" will be understood as the international system as a whole, which is endowed with its own characteristics, different from those of the actors who interact in it. In this sense, the systemic approach is articulated in terms of a structure in which different units²⁸ of the system are related and change, at the same time as they modify the structure, which limits and constrains them.

From Waltz's analysis²⁹, it can be stated that the international structure is not something static, but something self-generated by the cohabitation and relationship between different units. Thus, structural changes can occur as a product of the action of the units that interact in the system. At this point, it is important to emphasize that structural changes can only occur as a result of the interactions of those system's units that have managed to accumulate a high degree of power. For this reason, Waltz considers that the ability to modify the properties of a unit's structure is determined by the available power resources.³⁰

²⁷ Waltz, K. 1979. *Theory of International Politics*. Long Grove, Waveland Press Inc.

²⁸ Understand "units" as synonymous of actors (States, groups of countries, etc.).

²⁹ Waltz, K. Ob Cit.

³⁰ Waltz, K. Ob Cit.

In order to give internal coherence to the theory, the neorealists assume that the international structure is constituted on the basis of two main elements: anarchy as the guiding principle of international relations and the survival of units.

Firstly, the dominant anarchy in the international system is understood as an absence of hierarchies, a product of functional equality among units. Faced with this, power resources will determine differences, so it is important to understand the amount and distribution of such power to identify changes in structure.

The difficulty lies in counting the poles of power since they are classified into discrete units such as political, military and economic. According to the relevant power resource, the number of poles in the system will be different. Thus, the neorealist interpretation maintains a triadic understanding of the world economy, the main ones being: North America, Western Europe and Asia-Pacific, with three dominant centers of power: the EU, United States and Japan³¹.

Secondly, the conglomeration of power resources encourages stability that increases the survival capacity of the big players and avoids the rise of the multiplicity of the small ones. The increase in power of the group diminishes the benefits at the same time that it increases the costs of an agreement, negotiation, and its maintenance. Faced with fewer interests of a minority of units representing the highest levels of power, the interests are more likely to coincide. In this way, the inefficiency of non-competitive actors is eliminated and socialization is favored.

According to Waltz³², socialization appears as something common in the system since different units tend to interact. This favors the mutual influence of the units since the action of one is determined by the actions of others, establishing an action-reaction relationship. However, in practice, socialization appears when units expect to obtain something from other units in order to accumulate sufficient profits in comparison to their competitors. This situation encourages competition among units, where socialization will be the result of the unbearable costs of certain unilateral decisions. And the units will only be willing to cooperate to the extent that they ensure that the benefits obtained will be greater than the costs of socializing. In this way, competition appears in order to achieve the survival of the units, which act according to their own interests.

³¹ Waltz, K. Ob Cit.

³² Waltz, K. Ob Cit.

Now, how can this theoretical approach be applied to European interregionalism? Since the object of study of interregionalism is not limited to a single content and the debate continues within the International Relations studies, it is important to emphasize that the selection of an object of study is made according to the objectives and priorities of the political agenda of the interregional actors that pursue the satisfaction of concrete needs.

Under the umbrella of this theory, European interregionalism is understood as a strategy promoted by the EU to defend its interests on the international stage and weaken the power of other competing actors, the search for a balance of power being highlighted as a characteristic feature. The definition of priorities and interests among regional integration processes is understood as an extremely important geostrategic benefit. For this reason, the dynamics of interregional relations are frequently linked to the formation of alliances, to the policy of equilibrium, competition and world economic regulation in mercantile terms³³, given that relations with other regions are an instrument of power that grants greater international recognition to the actors. Regarding the five possible roles of interregionalism presented by Hännigi and Rüländ, we could clearly identify the EU as using balancing and agenda setting. Taking into account this information, the EU's interregional relations with Mercosur is classified as transregional. This is so because one region (EU) establishes relations with a group of states (Mercosur) that are part of another region (LAC).

³³ Molano, Giovanni. 2007. *El interregionalismo y sus límites*. Journal of International Studies. Universidad de Chile. Vol. 40, pp. 9-27.

Chapter 2: Background

2.1 - The historical evolution of world trade

2.1.1 - First globalization

World trade experienced a turning point at the beginning of the 19th century, as the international trading system began to develop strongly after the industrial revolution. Development was made possible by enormous technological advances in communications and transport (from steam navigation, telegraph and rail to aviation, automobiles and the Internet). These advances reduced the costs of moving capital, goods, technologies and people around the world. The so-called death of distance³⁴ represented one of the most prominent forces in world economic development since the beginning of the nineteenth century, making way for what is now identified as the first globalization³⁵.

The exchange of goods between states increased strongly after 1820, encouraged by the decreasing costs of transport and communications. Land transport costs fell by more than 90% between 1800 and 1910, while transatlantic transport costs fell by about 60 percent between 1870 and 1900³⁶. World exports also increased at an average annual rate of 3.4%, considerably higher than the average annual increase in world GDP of 2.1%³⁷. As a result, the share of trade in production grew steadily, reaching a peak in 1913 that was not surpassed until the 1960s³⁸.

The aforementioned expansion of trade during the 19th century made it possible for countries to specialize in the production of those goods in which they were most efficient, reinforcing and accelerating the international division of labor. Indeed, although world economic integration deepened during the nineteenth century, differences in income soon became evident between the rapidly industrializing countries (those in the North) and

³⁴ Term introduced by British economist Frances Cairncross, in her publication *The Death of Distance*, 1997.

³⁵ Concept coined by G. John Ikenberry, Professor of the Department of Government of Georgetown University, during the workshop: *The State of Contemporary Debate in International Relations* organized by the Department of Political Science and Government of the Torcuato Di Tella University, Buenos Aires, July 27-28, 2000.

³⁶ Lundgren, N. 1996. *Bulk Trade and Maritime Transportation Costs: The Evolution of Global Markets*. Resources Policy.

³⁷ Maddison, A. 2000. *The World Economy: a Millennial Perspective*. Paris, OECD Publications Service.

³⁸ *Ibid.* Page 225.

those supplying raw materials (those in the South), a phenomenon that economic historian Kenneth Pomeranz called "the great divergence"³⁹.

The big decrease in transport costs led to trade diversification and an increase in trade volume. Thanks to the technological advances introduced by the industrial revolution, the world's industrial centers gained access to a wider variety of commodities, while the rest of the world gained access to a wider variety of manufactured goods.

Throughout the 19th century, transoceanic trade in metals, textiles, cereals and other bulk goods became more widespread, while farmers in Europe began to face increasing direct competition from Russia and America. At the same time, Asia, Africa and the Americas were emerging as expanding markets for manufactured products of European origin. In the same way that farmers in industrialized countries had to face strong competition from the "New World", their peers in the North, who were immersed in an accelerated process of industrialization, surpassed artisanal producers in peripheral countries⁴⁰.

Therefore, a new world economic scenario emerged, determined by a deeply industrialized "center" and a "periphery" supplier of raw materials. This resulted in the international division of labor, where income diverged considerably between the two centers⁴¹. Along these lines, the promoter of the ECLAC⁴², Raúl Prebisch, claimed during the 1950s that income divergence was a consequence of the growing international division of labor, generating an ever-increasing dependence on exports of raw materials and preventing the poorest countries from industrializing.

The deepening of international economic integration during the 19th century rested on certain international political foundations. The backbone of the world economy was the gold standard⁴³, which meant that the period 1870-1914 was characterized by great predictability and stability of capital flows, and therefore, of world trade. Nevertheless, the main weakness of this system rested in the lack of global institutions and structures

³⁹ Pomeranz, K. 2000. *The great divergence: China, Europe, and the Making of the Modern World Economy*. Princeton, Princeton University Press.

⁴⁰ Bairoch, P. & Kozul-Wright, R. 1996. *Globalization Myths: Some Historical Reflections on Integration, Industrialization and Growth in the World Economy*. UNCTAD Discussion Papers. Vol. 113, pp. 1-27.

⁴¹ O'Rourke, K. & Findlay, R. 2007. *Power and Plenty: Trade, War, and the World Economy in the Second Millennium*. Princeton, Princeton University Press.

⁴² The United Nations Economic Commission for Latin America and the Caribbean is a UN regional commission to encourage economic cooperation.

⁴³ The gold standard was a monetary system characterized by fixing the value of a given monetary unit, in terms of a given quantity of gold.

regulating trade relations. In the absence of formal international controls and obligations for countries, most European nations systematically increased their tariffs during the last three decades of the 19th century in order to protect domestic producers from increasingly consolidated competition from third parties.

2.1.2 - From 'de-globalisation' to 're-globalisation' of the world economy

The First World War manifested itself as a strong blow to the "first globalization", destroying the liberal economic order and, especially, the widespread conviction that integration fostered by interdependence, prosperity and technology was strong enough to sustain international peace and cooperation⁴⁴.

The crisis produced by the Great War on the European continent affected the whole world trade system. The need for belligerent governments to finance the costs of war and reconstruction required printing a lot of money without having the capacity to back that money up with precious metals. This caused a great imbalance and deflation that culminated in the fall of the gold standard as a monetary system. The subsequent increase in economic controls and restrictions contributed to economic disorder and instability in Europe, which began to cede its role as the center of the world economy to the United States.

From that moment on, attempts to rebuild the globalized economy of the nineteenth century failed, mainly because of the inability to recognize that the post-war world was different. At the same time, one of the most outstanding consequences of the war was that it changed the perception of the role of the state in the economy, due to the active participation governments assumed during the war period.

In the post-war period, strong pro-nationalist political pressures came to the fore, demanding that the state continue to intervene in the economy in order to accelerate reconstruction, promote full employment, and ensure greater social justice, contrary to the cooperation of the world economy.

The economic crisis was followed by the financial crisis, as countries began to reintroduce exchange and trade restrictions to cope with competitive devaluation by reducing imports

⁴⁴ Ravenhill, J. 2011. *Global Political Economy*. 5th Ed. Oxford, Oxford University Press.

and strengthening their balance of payments. The crash of the Wall Street stock exchange in 1929 highlighted the shortcomings of the world economy and plunged it into the Great Depression. At the same time, the global economic system experienced a strong tendency of states closing themselves to the world, through protectionism.

Inevitably, economic pressures quickly turned into political pressures, resulting in clear social, economic and institutional instability on the European continent, which would be magnified by the catastrophe of the Second World War.

It was at the end of said War that the global economy moved towards a process of "re-globalization", characterized by the resumption and acceleration of an integrating tendency that had been set aside after the First World War⁴⁵.

The development and growth of the world economy were, during the period 1950-1973, much deeper than before 1914 and with a greater geographical scope, determining the beginning of a new "golden age"⁴⁶. However, there is a clear difference between the first and second era of globalization. While the first was accompanied by vague efforts at international economic cooperation, the second era of globalization saw the creation of new multilateral economic institutions under the Bretton Woods system, including the World Bank, the International Monetary Fund (IMF), and the General Agreement on Tariffs and Trade (GATT).

As previously described, history indicates that international political cooperation depends heavily on economic cooperation. Thus, the United States, aware that it had not assumed strong leadership after 1918 and that its protectionism and economic nationalism had contributed to the economic chaos of the interwar period, decided to use its post-war economic power to cement a new liberal economic order. This was based on economic integration, trade liberalization and financial stability.

On the one hand, the main purpose of the IMF was to restore the exchange rate stability that prevailed during the era of the gold standard, preserving the freedom of countries to promote economic growth and full employment. On the other hand, the main purpose of the World Bank was to provide loans on appropriate terms, fostering industrial development, and the reconstruction of the world economy. In this way, the Bretton Woods System promoted the establishment of fixed but adjustable exchange rates, as well

⁴⁵ O'Rourke, K. & Findlay, R. Ob Cit.

⁴⁶ Maddison, A. Ob Cit. Page 225.

as the creation of international stabilization funds for countries with balance-of-payments difficulties.

In addition, negotiations were launched to create a new International Trade Organization (ITO), which would function as the third pillar of this new multilateral economic system. However, because the U.S. Congress refused to approve the Organization's Charter in the late 1940s, countries were forced to rely on GATT, which had been created as a transitional tariff reduction agreement until the ITO was formally established.

Even when GATT had not been created for the purpose of functioning as an international organization, the agreement incorporated many of the most important trade policy rules of the future organization and gradually began to play that role, reducing global tariffs and strengthening trade rules.

The new commitment to foster international economic cooperation and create multilateral institutions marked a series of measures to integrate European economies. For example, the Marshall Plan established that European countries themselves should decide how to distribute the \$13 billion to be granted, thus initiating the design of a plan to break down internal barriers to trade within Europe. During the 1950s, the US also supported European plans aimed at concentrating production in the coal and steel sectors, creating international bodies with the capacity to supervise common production, and establishing free trade zones, which were later transformed into the creation of the European Economic Community (EEC) and, later, the EU.

Although there was a general preference for strengthening international economic cooperation and integration from 1945 onwards, progress suffered ups and downs after encountering major obstacles in the journey. Those included the beginning of the Cold War in the late 1940s, the decomposition of colonial empires after the end of World War II and the collapse of the Soviet Union after 1991, resulting in the creation of multiple new independent states with their own economic, monetary and trade regimes, making it difficult to move forward with the mission of achieving strong international cooperation.

2.1.3 - A new global trading system

The creation of the WTO in the mid-1990s, following a series of negotiations initiated in the 1986 Uruguay Round, brought with it a new understanding of the global trading

system. The establishment of guiding principles for the joint efforts of States, based on the progressive liberalization of trade and the inclusion of new topics in future talks, served as the basis for proposing in 2001, in Doha, Qatar, a renewed work program.

The so-called Doha Round sought to focus the efforts of all the member in pursuit of development, through the implementation of a reform of the international trade system focused on reducing the existence of obstacles to trade. The proposed program included very diverse topics, such as agriculture, intellectual property, trade in services, dispute settlement, and trade and environment.

Perhaps too ambitiously, for the reality of a system in which the opposing interests of the different States converge (especially in the field of agriculture), a mutual approach was sought, knowing that while the economic powers were promoting internal productions, closing their markets to the world, the countries producing primary goods were trying to introduce their products into those markets. This meant that compliance with the established deadlines was far from feasible from the outset.

The constant unsuccessful negotiations in the years leading up to Doha led to a progressive lack of interest on the part of the Member States in reaching an agreement. Today, more than a decade after the date by which the talks should first have been concluded (2005), the Doha Development Round remains deadlocked.

The WTO's trading system, which brought in more than 160 Members, began to cease to be a level playing field where States could generate fruitful links for their economies. This new reality, together with the development of communications, technology and transport facilities, influenced countries to conclude agreements outside the multilateral negotiating forum. The networks or production chains around the great economic powers became a juicy opportunity both for these States and for their satellites.

A trend towards the joint negotiation of mega-regional agreements began to modify the world trade system, revealing a new international scheme. This progressive trend was probably the most important change after the creation of the WTO, where the game board was acquiring a greater degree of complexity due to the existence of multiple centers of power, which replaced the traditional commercial relations based on the imposition and hegemony of the powers.

2.1.4 - Changes in the international trading system: towards a new order

Beyond the sphere of nation-states, the role of regional integration in the new global architecture began to be discussed. Regional processes are conceived as decisive contributions for the adaptation of States to the new realities of the international scenario and the demands of a new order. Although nation-states lose part of their sovereignty and decision-making autonomy in favor of regional processes, they acquire greater capacity for action in the face of the challenges posed by globalization. Regional integration and interregionalism became integral components of the new world order. In fact, the importance of these new integration streams increased and gained weight on the international scene. Thus, approximately 59% of world trade takes place within regional trade blocks⁴⁷.

Regional alliances have increased significantly, but this is not synonymous with the liberalization of trade barriers and global markets. Decentralization of economic power is evident since, in addition to nation-states, other actors are part of global trade discussions. However, in economic multilateralism many countries are not in a position to influence the rules of the world economy on their own. In this context, states seek in regional groups an economic and political means to increase or strengthen their voice in world trade and politics⁴⁸.

In recent years there has been a clear interest in interregionalism parallel to the phenomenon of regional integration; a phenomenon that also influences the architecture of the post-Cold War international scenario. To cite a few concrete examples of this type of interregionalism we find the EU's relations with other regional blocs such as ASEAN, the Gulf Cooperation Council (GCC), the Economic Cooperation Organisation (ECO), the South Asian Association for Regional Cooperation (SAARC), the Southern African Development Community (SADC) and Mercosur.

Multidimensional in form and content, the "new regionalism"⁴⁹ is a process through which regional organizations, on the one hand, become spaces conducive to interaction among diverse actors, and on the other hand, strengthen their foreign relations. Therefore,

⁴⁷ World Bank. 2000. Trade Blocs. A World Bank Policy Report. New York, Oxford University Press.

⁴⁸ Coleman, W. & Underhill, G. 1998. Regionalism & Global Economic Integration. Europe, Asia and the Americas. 1st Ed. London & New York, Routledge.

⁴⁹ Hettne, B. 2007. *Interregionalism and world order: the diverging EU and US models*. In: Telo, M. The International Political Economy of New Regionalisms Series. 2nd Ed. Aldershot, England. Ashgate Publishing Ltd.

it is evident the need to look for ways to build cooperative relations between blocs in the processes of adaptation of the new international order. However, regional and multilateral projects are recognized as complementary and not alternative routes in the scope of a more open world trade order.

2.2 - The European Union

After the catastrophe of the Second World War, a desire was born in Europe to create an institution that would make it possible to achieve lasting peace through cooperation, interdependence and development. The idea of a united Europe against the fascist threat and the lack of sufficient resources (economic and military) to exercise an effective defense against the new powers was key to achieving peace and development. These factors, together with the tacit pact of "collective amnesia"⁵⁰ contributed to the early success of the European project.

The union of European nations was inspired by the ideas of political leaders considered "fathers of Europe"⁵¹, who stated that nation-states should be replaced (federalist current) or complimented (functionalist current) by broader political units, with a supranational character, governed by democratic values, respect for human dignity, freedom, equality before the law and the rule of law.

In May 1950, France's then Foreign Minister Robert Schuman presented his country's offer to the Federal Republic of Germany to pool the steel and coal industries. The idea, shared with former German Chancellor Konrad Adenauer, not only sought a mere trade union but also, the first concrete steps of a European federation, indispensable for securing peace⁵². It is around this idea that Schuman elaborated his plan, through which he proposed the creation of a high authority made up of independent members of the governments that compose it, with responsibilities before a parliamentary assembly and whose executive decisions could be subject to judicial appeal.

⁵⁰ Judt, T. 2005. *Postwar: a history of Europe since 1945*. New York, Penguin Press.

⁵¹ The EU recognizes as its founding fathers: Robert Schuman, Jean Monnet, Konrad Adenauer, Alcide de Gasperi, Walter Hallstein, Winston Churchill, Paul Henry Spaak and Altiero Spinelli.

⁵² Pereira, J. 2003. *Historia de las Relaciones Internacionales Contemporáneas*. 2nd Ed. Barcelona, Editorial Ariel S.A. Page 485.

Precisely, the EU recognizes the Schuman Plan as the birthplace of the bloc, which together with the contributions of Germany, Italy and the Benelux, contributed to the creation of the Steel and Coal Economic Community (ECSC) established in 1951 on the basis of the Treaty of Paris.

This organization, formed by Germany, France, Italy, the Netherlands, Belgium and Luxembourg, was established to achieve the economic objective of unifying the control of the coal and steel industries (key inputs for the time, generators of work sources and infrastructure development) in order to eliminate mutual restrictions to trade and national subsidies; to generate industrialization processes; and indirectly with the search of a reconciliation that would allow overcoming resentments generated by the war.

The success of the ECSC, led the six members to extend cooperation to other economic sectors by signing the Treaties of Rome in 1957, by which the European Communities were established: the EEC with the idea that citizens, goods and services could move freely across borders; and the European Atomic Energy Community (EURATOM), responsible for coordinating nuclear energy research programmes. At the same time, the Common Agricultural Policy (CAP), the Common Commercial Policy (CCP) and the Common Fisheries Policy (CFP) were implemented, establishing instruments and mechanisms to regulate agricultural production, seeking to establish common internal prices, common financing and a system of preferences for products from abroad in order to increase productivity and stability in the sector⁵³. Experiences such as the CAP would be gradually repeated for each and every sector of the economy⁵⁴.

In 1965, in the context of the Treaty of Brussels, an important institutional step was taken for the constitution of the body: the unification of the three communities (EEC, ECSC

⁵³ The establishment of the CAP is particularly relevant when analyzing the negotiations between Mercosur and the EU, and it is one of the main obstacles to the conclusion of a bi-regional agreement. The reason for this is that this policy consumes a large part of the organization's budget. There has been a strong debate, from its establishment to the present day, about its convenience and viability in the face of new EU membership, as well as about the discriminatory treatment it implies towards the outside world when dealing with negotiation processes. The reform of this policy is difficult to apply (seen in practice in the attempts of 1968, 1972, 1983, 188, 1992, 1994 and 2003) due to the fact that it affects the interests of countries with large populations and the implication of agriculture, with large pressure groups. Among its instruments, the following stand out: price fixing, controls on production surpluses, requirement of certificates, production diversification items, establishment of import quota systems, and export subsidies.

⁵⁴ Examples include the European Investment Bank, the European Social Fund, the European Guidance and Guarantee Fund, and the European Regional Development Fund.

and EURATOM) and the creation of the European Commission⁵⁵ and the Council of the European Union⁵⁶. Three years later, the customs union and the common customs tariff for goods coming from third countries were constituted. These being an essential element of the EU that would be, together with the so-called "Werner Plan"⁵⁷, the prequel to an even more ambitious plan that would seek to become an Economic and Monetary Union. Moreover, in 1969, in a decision taken at the Hague Summit, it was decided to accept the enlargement of the bloc leading Great Britain, Ireland and Denmark to become full members in 1973.

After overcoming the economic crisis of the 1970s, as a result of the British financial imbalance and the oil crisis, added to the fall of the last dictatorial governments in Europe (Salazar in Portugal and Franco in Spain), a democratic turn was made that would be reflected in the desire of those countries to form part of the bloc, as well as in the first vote by universal suffrage of the European Parliament in 1979.

In a context of economic recession and uncertainty resulting from the worsening of the Cold War, in 1985 the Intergovernmental Conference held in Luxembourg sought to re-dynamize the construction of the European bloc by consolidating the internal market. In addition, the Schengen Agreement was concluded by which the States of West Germany, Belgium, France, Luxembourg and the Netherlands eliminated internal border controls, bringing a significant advance towards integration. These elements materialized with the completion of the Single European Act a year later, becoming the first profound reform of the founding treaties, giving rise to the Common Foreign and Security Policy (CFSP) and laying the foundations for what would become, in 1992, the Treaty of the European Union.

The 1992 Treaty on European Union then gave rise to what is now known as the EU, introducing a new institutional structure that would last until the entry into force of the Treaty of Lisbon. This structure consisted of the three pillars of the EU, namely: the

⁵⁵ Executive and legislative initiative body of the EU. It has one representative per Member State, who must look after the interests of the EU.

⁵⁶ Also called the Council of Ministers, the institution groups all the representatives of the member states with ministerial rank. It has legislative and budgetary functions.

⁵⁷ In reference to Luxembourg's former Prime Minister Pierre Werner, who sought to establish a monetary union based on the irreversible convertibility of currencies, the centralization of monetary and credit policy, and the circulation of a common currency.

Community pillar (composed of the EC, EURATOM and ECSC); the CFSP⁵⁸ pillar; and the third pillar for police and judicial cooperation in criminal matters. In addition, a process of enlargement of the bloc towards the east would begin, which began with the fall of the Berlin Wall, on a path that continues to this day.⁵⁹

At that time, monetary and foreign policy rules were created, prompting the creation of a single European currency (which only came into circulation in 2002⁶⁰). This was governed under the orbit of the European Central Bank, making it possible to have lower transaction costs, achieving greater price stability, and increasing the international weight. In addition, European citizenship was created, which offered freedom of movement and residence to citizens of the countries of the Union, as well as the right to vote or to be elected for European or municipal elections.

In 1999 the Treaty of Amsterdam came into force, revising the Treaty of Maastricht, and reaffirming the central principles of freedom, democracy, respect for human rights and sustainable development. Three years later, in 2002, the Treaty of Nice was signed, aiming to establish institutional and jurisdictional mechanisms to monopolize the entry of ten new Member States, which would join the following year: Cyprus, Czech Republic, Hungary, Estonia, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

Based on the proposal for a new Constitution in 2004 (rejected by the Netherlands and France), which sought the unification of all the Treaties constituted by a single text, the Treaty of Lisbon was signed in 2007. This Treaty, which entered into force in 2009, modified the legal personality of the EU, allowing it to sign international agreements at the Community level. Designed to improve the functioning of the bloc, the three pillars were eliminated by establishing structural changes that improved the efficiency of the Council and the European Parliament, and the figure of the President of the European

⁵⁸ The CFSP is a cornerstone of the EU's External Action. It is governed under the orbit of the European Council and has two new bodies: the High Representative of the Union for Foreign Affairs and European Policy, and the European External Action Service, involved in the orientation, definition, development and implementation of the policies of the body abroad. The goal of the CFSP is to ensure relations based on mutual interests and benefits in the areas of education, environment, security and defense, human rights, political and economic partnership.

⁵⁹ Turkey, Montenegro, Serbia, Macedonia and Albania are considered official candidates, with negotiations started to enter the bloc.

⁶⁰ The adoption of the Euro was rejected by the United Kingdom, Denmark and Sweden, and not allowed for the acceding countries in 2004 and 2007, with the exception of Slovenia, Cyprus and Malta.

Council and the High Representative of the Union for Foreign Affairs and Security Policy were also created.

2.3 - Mercosur

Both Argentina and Brazil played a leading role in their own "Cold War" until 1985 in the drive to crown themselves as regional powers, competing from every point of view with special emphasis on energy differences. The tension generated between the two countries, due to their nuclear programs and nationalist misgivings generated a significant erosion in bilateral relations, which was a major obstacle to the development of a trade exchange that benefited both parties. In fact, in the mid-1970s, there was a particular peak of tension based on mutual suspicion of the development of nuclear energy for armament purposes.

Nevertheless, the nationalist dispute that drove the confrontation between the two countries was unsustainable and, with the democratic return of the early 1980s⁶¹, a new stage of rapprochement began. This was inaugurated by the Foz do Iguacu Declaration of 1985 and the creation of the Brazilian-Argentine Agency for Accounting and Control of Nuclear Materials⁶² in 1986, considered the cornerstone of the integration process in the Southern Cone.

In 1988, Argentina and Brazil signed the Treaty on Integration, Cooperation and Development, a commitment with a goal of establishing a Common Market, managing a period of ten years to overcome asymmetries. In the same year, Uruguay pushed to join the dialogue between the two Latin-American giants, signing the Alvorada Act. This was based on Uruguay's subscription to the statements and general principles of the Argentine-Brazilian integration processes, agreeing on a gradual, flexible and balanced advance for the scope of an economic association treaty. Thus, with the aim of reversing the image caused by the ghosts of military dictatorships, between 1985 and 1989 relations between Argentina, Brazil and Uruguay turned into a process of democratic agreement, seeking to

⁶¹ In the context of the Cold War, and prompted by guerrillas and growing left parties, all countries of the Southern Cone had military dictatorships established. The first country to suffer the democracy breakdown was Paraguay (1954-1989), followed by Brazil (1964-1985), Uruguay (1973-1985), Chile (1973-1990) and Argentina (1976-1983).

⁶² Binational organization for the control of nuclear materials, whose objective was the verification of the peaceful use of nuclear materials.

position themselves regionally and internationally, with special emphasis on the internal stability of the countries with peace and progress as pillars.

The decade of the nineties erupted with a change of presidential figures that would give a turn towards accelerating liberalization. In July 1990, the presidents of Argentina and Brazil proposed to accelerate the establishment of the Common Market, setting a new deadline for December 1994. They considered the rapid modernization of the economies of both countries to be imperative, starting with the expansion of the supply and quality of the goods in circulation in the two markets and favoring economic development with social justice.

Also in 1990, Paraguay approached the regional integration process by seeking a quadripartite treaty that would follow the guidelines established in the Argentine-Brazilian treaty. Paraguay was in the process of democratic transition, after the overthrow of Dictator Alfredo Stroessner (in power since 1954), finding the integration process between Argentina, Brazil and Uruguay an important opportunity for growth and international recognition.

One year later the presidents of the four countries gathered in Asuncion and signed the treaty that would give rise to Mercosur. The integration scheme would start on December 31st, 1994 and included in its first article the following points:

- The free movement of goods, services and factors of production between countries through, inter alia, the elimination of customs duties and non-tariff restrictions on the movement of goods, and any other equivalent measures;
- The establishment of a common external tariff and the adoption of a common trade policy in relation to third States or groups of States, and the coordination of positions in regional and international economic and commercial forums;
- The coordination of macroeconomic and sectoral policies between the States Parties in the areas of foreign trade, agriculture, industry, fiscal and monetary matters, foreign exchange and capital, services, customs, transport and communications and any other areas that may be agreed upon, in order to ensure proper competition between the States Parties;
- The commitment by States Parties to harmonize their legislation in the relevant areas in order to strengthen the integration process.⁶³

⁶³ OAS Foreign Trade Information System. Treaty of Asuncion. Art. 1. 1991. Available online in: <http://www.sice.oas.org/trade/mrcsr/mrcsrtoc.asp>

With the aforementioned Treaty, a program of progressive trade liberalization was established, the aim of which was, in a first stage, the constitution of a customs union and the harmonization of the macroeconomic policies of the member States.

In addition, an institutional structure was created with two main bodies: the Council of the Common Market⁶⁴ (CMC), composed of the Ministers of Foreign Affairs and Economy, with the joint participation of the Presidents, who would rotate their mandate every 6 months in alphabetical order; and the Common Market Group⁶⁵ (GMC), composed of four full members and four alternate members per country, representing the Ministry of Foreign Affairs, the Ministry of Economy and the Central Bank.

Despite this structural constitution, these bodies were insufficient for the creation of a new international organism of such magnitude. Therefore, in 1994, the Ouro Preto Protocol was signed to give greater institutional solidity to Mercosur. This Protocol established the creation of a structure composed of: the Council, a higher political body with decision-making capacity also composed of the GMC (executive body) and the Trade Commission (the body assisting the GMC); and the Economic-Social Consultative Forum (FCES). Subsequently, the Mercosur Permanent Review Tribunal and the Mercosur Parliament (PARLASUR) would be added to this structure.

Additionally, Mercosur was granted international legal personality; the Common External Tariff was created and a duty-free zone was established among its members, with the sole exception of the sugar and automotive sectors.

Lastly, in 2002, the legal structure of Mercosur was complemented with the signing of the Protocol of Olivos, which would enter into force in 2004, enacting the creation of instruments for the settlement of disputes and minimizing differences between States. Thus, the Permanent Review Tribunal of Mercosur was created, as well as the possibility of creating ad hoc tribunals to resolve conflicts.

⁶⁴ Decision making body.

⁶⁵ Body issuing resolutions.

2.4 - EU-Mercosur Relations

The ties that unite Latin American and Europe have been historically deep, prior to the birth of Latin American States, during their independence processes and throughout their history as independent nations, with links marked by migratory currents from Europe.

In order to be able to analyse the relations between the two blocs, it is necessary, on the one hand, to bear in mind that there are different levels of analysis to understand how the EU has negotiated with the LAC countries, since the negotiations between the EU and Mercosur did not originate in an isolated manner, but rather form a part of a context of global and regional conferences and forums that provided both stimuli and obstacles to the conclusion of agreements. And on the other hand, it must be understood that both blocs present different stages of development in their integration schemes, a key element when it comes to understanding the different economic, political and social realities at each stage of the negotiations.

Firstly, from the level of analysis of multilateralism, it can be seen that the first rapprochement between the EU and LAC revolved around agricultural products, where the EU was always firm in its will to not negotiate outside the WTO regulatory framework.

Likewise, China's accession to the WTO in December 2001 would also have an impact on the future of the negotiations between the two regions, since this entry and the consequent increase in trade between the new player and the Latin American continent translated into a major challenge for the EU's geostrategic interests in the region.

Secondly, taking the bi-regional negotiations as a level of analysis, the EU and LAC have had different approaches: with the Rio Group and the LAC group; specialised dialogues between the EU and sub-regions, these being with Mercosur, the Andean Community (CAN), and the Central American Integration System (SICA); and bilateral negotiations between the EU and American countries, with which Association Agreements were concluded⁶⁶.

The already consolidated European bloc began to link up with the incipient Mercosur in the context of the Second Ministerial Conference between the EU and the Rio Group,

⁶⁶ With Mexico (2000), Chile (2002) Colombia (2010) and Peru (2010).

providing technical and institutional support to the Mercosur structure, as well as the establishment of a Joint Consultative Committee.

This way, on December 1995, in the context of numerous approaches and dialogue between the two blocs, a significant advance for bi-regional interests was achieved with the signing in Madrid of the Interregional Cooperation Framework Agreement, which came into force on July 1999. It was signed by the four Mercosur countries and 15 members of the then EU. The objectives of this Agreement were: the strengthening of existing relations; the preparation of conditions; and the existence of a framework for the subsequent development of an agreement covering the commercial, economic and cooperation fields for integration. In other words, it was a strategic agreement.

Once the IFCA was signed, the two organizations started new negotiations with the aim of establishing an AA. In addition to the chapters on political dialogue and cooperation, a trade chapter would be added with the aim of illuminating the way towards the opening and reciprocal liberalization of trade, and an environment of non-discrimination in investments. The negotiations were to be based on three basic principles: integrated negotiations in order to achieve balanced results; no sector exclusion; and single undertaking⁶⁷. Thus, the objective was to establish an AA composed of three chapters or pillars: political, economic, and cooperation.

Since then, the process of negotiations between the two blocs was inaugurated through different instances. Within the framework of Article 25 of the IFCA, which established a Cooperation Council to oversee the implementation of the agreement, on November 1999, at the first meeting held in Brussels, the Bi-regional Negotiations Committee (BNC) was set up to be the main forum for negotiations. This Committee would meet regularly and would be composed of members of the CMC and the GMC, as well as members of the Council and the European Commission. It would also have a Cooperation Sub-Committee, three technical groups on trade issues and three sub-groups on specific areas of cooperation.

Regarding the progress of the negotiations, it is important to differentiate two stages. The first one refers to the period between 2000 and 2004, marked by mutual dissatisfaction with the offers, mainly in relation to disagreements in the automotive (Mercosur) and agricultural (EU) sectors. These disagreements, together with the expectations of each

⁶⁷ This concept refers to the idea that no agreement is finalized until everything is negotiated.

bloc regarding the results of the Doha Round, made it impossible to reach an agreement, which led to the formal stagnation of the negotiations in 2004. This stage would continue until 2010, the year in which the Madrid Declaration was presented, and in which the wills of both parties to re-establish the talks were expressed. Thus, the second stage of the negotiations was inaugurated, beginning in 2010 and extending to the present day.

It should be noted that during the period of stagnation (2004-2010), the international scene underwent a series of important changes: the "failure" of the Doha Round; the international economic and financial crisis of 2008; the emergence of China as a global economic power; the enlargement of EU members; and the rise of left-wing parties to power in the Latin American continent, which would imply substantial changes in Mercosur.

2.4.1 – First stage of negotiations

A meeting held in Buenos Aires between 6th and 7th of April 2000 marked the beginning of the formal negotiations by reaching a consensus regarding the principles and objectives at the three levels of negotiation: political, cooperation and trade.

Firstly, it was agreed to strengthen the political dialogue in order to have an impact on issues of common interest in the international system. In this regard, it was agreed that the political dialogue would include common themes such as peace, conflict prevention, the promotion of human rights, democracy and sustainable development, among others.

In the area of cooperation, it was agreed that the aims of this strategic partnership would involve the strengthening of existing relations on the basis of reciprocity and mutual interest, the achievement of improvements in the quality and application of the cooperation schemes as well as progress in yet unexplored areas of the relationship.

Lastly, technical groups were formed, relating to: trade in goods, trade in services, government procurement, competition advocacy and dispute settlement mechanisms.

From the Buenos Aires meeting in 2000 until 2004, the BNC met fifteen times in the cities of Brussels, Brasilia, Montevideo, Buenos Aires and Asunción, following the chronology presented in the table below.

| BNC Reunions | Date and Place | Facts |
|---------------------|--------------------------|--|
| I | Buenos Aires, April 2000 | Setting of principles, objectives and the negotiating agenda |
| II | Brussels, June 2000 | Discussion on the institutional process of a future |
| III | Brasilia, November 2000 | Exchange of first offers |
| IV | Brussels, March 2001 | Discussions with significant progress |
| V | Montevideo, July 2001 | EU's first offer on tariffs |
| VI | Brussels, October 2001 | Mercosur's counteroffer on tariffs |
| VII | Buenos Aires, April 2002 | Discussion of differences between blocs |
| VIII | Brasilia, November 2002 | Negotiation of customs processes, intellectual property and competition |
| IX | Brussels, March 2003 | Mercosur's presents a new offer |
| X | Asunción, June 2003 | EU does not make improved counteroffer to Mercosur, important differences arise |
| XI | Brussels, December 2003 | Setting of new schedule of negotiations and deadlines |
| XII | Buenos Aires, March 2004 | No agreement is reached on key elements for either bloc |
| XIII | Brussels, May 2004 | Incorporation of officials of ministerial rank in the negotiations. Mercosur demands an offer from the EU. |
| XIV | Buenos Aires, June 2004 | Exchange of proposals which do not meet expectations |
| XV | Brussels, August 2004 | Technical meeting |

During this period, two Ministerial Meetings were held in the cities of Rio de Janeiro in July 2002 and Brussels in November 2003, and a meeting of Heads of State and Government in May 2002 in Madrid. Likewise, the representatives of the blocs in the BNC exchanged offers and counteroffers, with an auspicious beginning of negotiations, where both blocs maintained important advances, which would be overshadowed by critical discrepancies that were unfailingly unresolved.

Methodological issues of negotiation were recurrently the cause of disagreements, both in terms of the definition of objectives for the topics⁶⁸ and in the form of formulating offers, in relation to texts on standards, technical regulations, rules of origin, intellectual property, conformity procedures, customs procedures and dispute settlement.

In the IV Meeting of the BNC, the beginning of what would later become the most important problems for the negotiation of the AA was developed. Mercosur presented its proposal to liberalize trade in goods, services and government purchases, demanding as

⁶⁸ In what was the first divergence between the blocs during the IV Meeting in Brussels (solved at the VI Meeting of the CNB in Brussels). While Mercosur sought to define specific objectives for each of the issues to be negotiated, the EU proposed an exchange of offers for each of the issues to be negotiated, without previously determining the specific objectives of each one, arguing its position on the fact that all its regional agreements had followed this methodological strategy. Finally, Mercosur accepts this position at the Sixth Meeting of the CNB in Brussels.

a condition the establishment of a mechanism that would allow Mercosur countries to compensate for the use of subsidies, internal aid, tariff peaks, entry prices, technical restrictions and sanitary measures to EU economic sectors. This then harmed the placement of key products for Mercosur's interests in the EU market (agricultural sector); which the European bloc showed little willingness to consider.

Although the XI Meeting in 2003 made progress on issues related to competition and dispute settlement and sought to improve the offers presented among the blocs, disagreements on market access, agricultural concessions, origin requirements, temporary admission and goods, services and government purchases continued.

The aforementioned elements referring to the lack of agreements between the delegations motivated the anticipated culmination of the XV Meeting of the BNC in 2004 and without the formal records that characterized each of the meetings. The gradual disagreement of both Parties to reach an agreement meant that from 2004 until (officially) 2010, no more rounds of negotiations were carried out, and after the official confirmation of this communication from the Ministerial Meeting held in September 2005 in Brussels, it was decided to halt the negotiations.

2.4.2 - Relaunch of negotiations in 2010

The first vestige of the resumption of negotiations between the two regional blocs was presented at the Fifth EU-LAC Summit, held in Lima in May 2008, where the official declaration refers to the commitment to resume these negotiations.

In March 2010, a bi-regional Technical Meeting was held in Buenos Aires, where Mercosur was inclined to cede and liberalize around 90% of its assets, including the automotive sector (a fundamental pillar for European interests). In April 2010, at a meeting of the CNB held in Brussels, another important rapprochement took place when both parties showed their willingness to relaunch the negotiations.

Subsequently, on 4 May 2010, the European Commission, on the basis of a unilateral pronouncement, established that the relaunch of the negotiations between the blocs was a fact, which was reinforced by the Commission's President Jose Manuel Barroso's speech:

With today's decision to relaunch this negotiation with Mercosur, the EU is seizing an important opportunity. As we look to strengthen the global economy after the downturn, a successful outcome can offer real benefits in terms of jobs and growth for both sides. But we are starting a negotiation here, and we can only conclude if we get it right. This decision will be accompanied by a number of conditions, ranging from sustainability to Intellectual Property rights and Geographic Indications, most importantly. We will address any adverse impact on certain sectors with specific measures, in particular in agriculture.⁶⁹

Finally, on May 18th 2010, in the context of the VI EU-LAC Summit held in Madrid, the official bi-regional declaration was made regarding the resumption of negotiations with a view to reaching an AA.

Thus, starting in 2010 a new stage of negotiations between the EU and Mercosur began, marked by periods of gradual progress and periods of quasi-formulation of the agreement, where both blocs sought through a dual approach the development of regulatory frameworks and the preparation and improvement of offers, circumventing the pressures of groups such as French and Irish farmers (part of the EU) and political volatility (especially in Mercosur) in the search for the signing of the AA.

⁶⁹ European Commission Directorate-General for Trade. 2010. Press release. Available online in: http://www.sice.oas.org/TPD/MER_EU/negotiations/EU_relaunch_052010_e.pdf

Chapter 3: Interregionalism post-Doha

The post-Doha international system had an even more complex balance of powers than before. In the past, geopolitical and economic powers would manage and sign free trade agreements directly with developing countries, and negotiate among themselves in the framework of GATT and the subsequent WTO. However, the international situation towards the end of the first decade of the 2000s, marked by the financial crisis of 2008, prompted the emergence of a huge club with more players of economic weight, with the BRICS⁷⁰ standing out. This reorganization of the game board added to the process of oxidation of an abandoned multilateralism, and began to generate a new commercial trend, highlighted by the reiteration of waves of agreements outside the traditional WTO dialogue, having interregionalism as a strong feature.⁷¹

After the stagnation of the Doha Round, the rules of international trade changed. The actors had to start looking for alternatives to multilateralism in order to execute their strategies in pursuit of their trade objectives. In this context, Waltz's conception of the dynamic and changing structure fits perfectly.⁷² Although it cannot be said that from that moment on there is a defined anarchy, since the WTO remained the regulatory body for international trade per excellence, it was evident that the multipolarity of the system had increased, within the framework of which the units confront each other, interact and "struggle" to survive.

Doha was a utopia. Global trade liberalization was part of the agenda of all WTO member countries, without exception, and many efforts were put there. But reality contrasted with the illusions defined in the late 1990s and early 2000s, and demonstrated, once again, that national interests are paramount and countries are not willing to give in for the sake of many others. The world economic powers did not take long, once multilateralism remained frozen, to reorganize their agendas.

In this regard, on September 22nd, 2005, the then President of the US, George W. Bush, expressed to Congress his intentions to integrate to the negotiations of the Trans-Pacific

⁷⁰ BRICS is the acronym coined for an association of five major emerging economies: Brazil, Russia, India, China and South Africa.

⁷¹ European Economic and Social Committee. Opinion on *Towards an EU-Mercosur Association Agreement: civil society's contribution*. Ob. Cit.

⁷² For Waltz, structural changes take place only as a result of the relationship of the system's actors that accumulate a high degree of power, and this was precisely what happened in Doha.

Economic Cooperation Agreement (TPP)⁷³. As a result, eight new countries⁷⁴ joined the talks over the next few years. This clear example of trans-regional interregionalism⁷⁵, which brought together two of the regional power centres (the US and Japan) arranged by the triadic economic vision of the neo-realist interpretation, sought from the outset to establish a Free Trade Agreement (FTA), eventually expanded to include a greater diversity of issues relating to intellectual property, environmental issues and labour rights. In this scheme, the EU was geopolitically compromised, in a system that began to turn towards the Pacific.

Waltz's concept of socialization⁷⁶ proposes that, in the international system, the actions of one actor is determined by the actions of others, within the framework of competition to achieve objectives and survive. Therefore, there is an action-reaction relationship between the units. It is clear, then, that the EU would not stand idly by in the face of the strategic movements of its competitors. It is in this context that the EU decided to rethink its agenda. In 2006, through declarations by German Chancellor Angela Merkel, the first flashes of intentions to retake the idea of a transatlantic free trade area were already evident. This would be nothing less than the conceptual beginning of the subsequent Transatlantic Trade and Investment Partnership (TTIP).

The subsequent importance of TTIP within the agenda of the EU and the US, together with the resumption of negotiations between the EU and Mercosur in 2010, highlights the evident existence of a tendency to first, generate interregional agreements as a consequence of the Doha Round impasse; and, second, for the powers to begin to negotiate among themselves outside the WTO forum.

The multilateral arena continues to be very important for the EU and for all countries that see multilateralism as the basis. However, there is a great deal of frustration as the rules change. Thus, the fact that progress cannot be made at the multilateral level made the EU start to push for agreements at the mini-lateral and bilateral level.

⁷³ At that time, the agreement was called P4, and included Brunei, Chile, New Zealand and Singapore.

⁷⁴ United States plus Australia, Canada, Japan, Malaysia, Mexico, Peru and Vietnam.

⁷⁵ According to Rüländ's classification, the TPP is an exceptional example of trans-regionalism. Within this framework, states, even if part of a region, act within the talks according to their own individual interests, and not according to regional interests.

⁷⁶ Understood as the interaction between actors of the international structure.

Multilateralism within the WTO was, and still is, the ideal negotiating arena for the least developed countries, consequently less powerful within the international system. The Doha Round included from the outset a program focused on the benefits for these states:

The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration. Recalling the Preamble to the Marrakesh Agreement, we shall continue to make positive efforts designed to ensure that developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development. In this context, enhanced market access, balanced rules, and well targeted, sustainably financed technical assistance and capacity-building programs have important roles to play.⁷⁷

Nevertheless, the post-Doha tendency for powers to start negotiating with each other outside the traditional WTO forum positioned developing countries in a place from which they could only decide between joining the agreement waves or staying on the sidelines.⁷⁸ The ability to implement their strategies was negatively affected, as they have in many cases become dependent on the interests of the countries with the most power.

To sum up, the tendency to generate interregional agreements increased, on the one hand, as a need or reaction of the actors to the international system in the face of the stagnation of the multilateral trade model, and on the other, as an exploitation of the powers to execute their geopolitical strategies vis-à-vis their competitors, and also to include in these new negotiation topics which handling was not entirely viable in any other way, such as trade in services, investments, intellectual property and the environment.

⁷⁷ World Trade Organization. Doha WTO Ministerial Declaration. November 20th, 2001. Available online in: https://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm

⁷⁸ Akyüz, Y.; William Milberg, W. & Robert Wade, R. 2006. *Developing Countries and the Collapse of the Doha Round*. Challenge. Vol. 49, No. 6

Chapter 4: EU's foreign policy

In order to implement its strategies and achieve its interests and objectives within the international structure, the EU must be able to take precise action in different directions, such as trade and politics. This chapter will consider the processes involved in the way decisions are taken by the bloc.

After the creation of the EEC in 1957, there was an evident differentiation in the adoption of a Common Foreign Policy among its Member States. Consequently, a distinction was made between the economic/trade sphere and the political/strategic sphere.

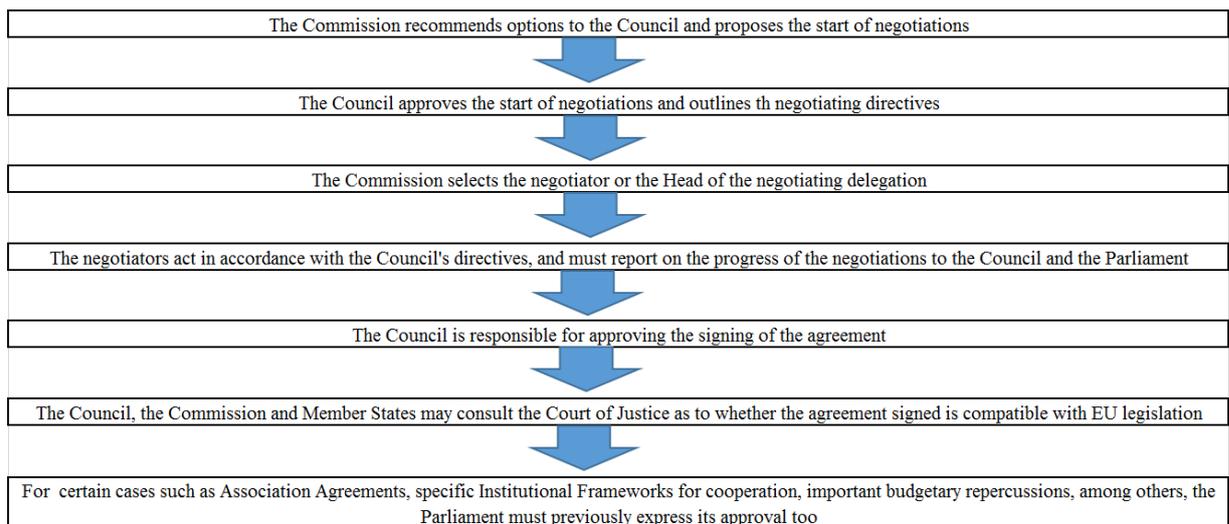
Initially, the EEC was open to taking joint action with respect to its trade policies towards the world, but remained reluctant to adopt excessive coordination in political aspects. Therefore, although the two spheres are interconnected, their analysis must be carried out separately.

Regarding the Common Commercial Policy (CCP), the EU's position was linked to the urgency to deploy relations due to the fact that as they removed barriers to internal trade, Member States had to assume responsibility for their relations with third parties collectively. The CCP established decision making bodies in economic areas and was based on the Article 113 of the EEC Treaty, nowadays the Article 133 of the consolidated treaties.

The Commission is the fundamental body responsible for formulating initiatives and outlining action in the negotiations. In particular, it is the Commission's responsibility to manage trade and cooperation agreements. The directions are set by the European Commissioner for External Relations, who is primarily responsible for external action in the Community's economic and trade fields. Nevertheless, the member states still keep the main areas of influence and representation. For instance, in the WTO meetings, the Commission formally represents the EU but each member also participates individually.⁷⁹

It is also the responsibility of the Council (after consulting the Parliament) to take the final decisions on the CCP, with the power to draw up guidelines and approve agreements. From a normative perspective, the decision-making process in the bloc's international trade agreements is summed up in the following stages:

⁷⁹ Smith, M. 2004. *The European Union as a trade policy actor*. In: Hocking, B & McGuire, S. ed. *Trade Politics*. 2nd Ed. London, Routledge.



The decision-making mechanism in the Council is by a qualified majority, despite the fact that unanimity is required in certain cases.

The Lisbon Treaty made several changes in the EU's trade conduction. It extended the Union's exclusive competence in trade and trade-related issues like foreign direct investment. Moreover, it enhanced the European Parliament function on trade negotiations by promoting a more active role in the negotiation and ratification of trade agreements. Likewise, it brought external trade into the European External Action Service, together with foreign policy, humanitarian aid, development and international environmental policy.⁸⁰

It is important to highlight that there are many social groups that strive to influence the EU trade policymaking, making the conduction of trade policies more subject to pressures and less technocratic. Among these, Smith presents four types of interests' actors. The first ones are the internationally competitive actors, who have global liberalization as a goal. These include media groups, firms, among others and are not vulnerable to import competition. For this last reason, they seek general liberalization at the widest degree possible to be able to introduce themselves in close markets. The second type of actors is the export-oriented, which depend on the EU's protection. These are mainly agriculture sectors, which want to conserve their security at the same time that they get into other markets. The third type is the non-export-oriented actors, which also depend mainly on the EU's protection. They are unlikely to be in favor of liberalization. The fourth group is

⁸⁰ Woolcock, S. 2010. *The Treaty of Lisbon and the European Union as an actor in international trade*. European Centre for International Political Economy (ECIPE) Working paper N° 01/2010.

the opposed to economic and trade internationalization, which is integrated mainly by environmentalists, human rights activists, among other groups which do not agree with the way globalization is developing.⁸¹

Moving on, the EU operates in two different spheres. On the one hand, it negotiates trade disciplines and rules within the WTO, establishing (together with other countries) the rules of the multilateral system of trade, while on the other hand, it negotiates treaties and trade agreements both bilaterally and with other models of regional integration.

To this end, the EU has created certain lines of behavior, on the basis of which it is governed in its negotiation processes. The objectives of the bloc with respect to its CCP are: the harmonious development of international trade; the progressive elimination of obstacles to international trade, and of tariff measures, to which it adds: “the common commercial policy shall take into account the favorable effect which the abolition of customs duties between Member States may have on the increase in the competitive strength of undertakings in those States.”⁸²

At the same time, the EU is committed to supporting the WTO's task of liberalizing international trade and ensuring fair treatment between trading partners. Indeed, it is within this multilateral forum that the EU seeks to negotiate preferences with other states, especially developed ones.

Another of the commitments that the EU has made in its bilateral trade relations is to facilitate access to its market for goods coming from developing countries, and stimulate development through the relationship. To ensure the benefit of all parties, the EU defends the notion that trade should be free and fair, protected by transparent rules approved by common agreement and applicable to all partners. That is why the trade bloc boasts that its agreements are not equal to the FTAs of other actors. They not only deal with trade and traditional development aid, but also include support for economic reforms, health and education, infrastructure programs and, in some cases, economic cooperation in areas

⁸¹ Smith, M. Ob. Cit.

⁸² Treaty establishing the European Community. Art. 131. Available online in: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A12006E%2FTXT>

such as research and development or environmental policy. They also provide a framework for dialogue to discuss policy issues such as democracy and human rights.⁸³

On the other hand, with regard to the Common Foreign and Security Policy (CFSP), following the adoption of the Treaty of Rome in 1957, a framework for development cooperation was established in the purely political-diplomatic area. In 1974, the Economic Policy Committee (EPC) was created, as an advisory body to the Commission and the Council, which defended the need to materialize a rapprochement in foreign policy through cooperation of an intergovernmental type. Thus, with the creation of this body, the aim was to disconnect the political difficulties from the economic ones, placing them in different bodies.

It was not until 1986, after the adoption of the Single European Act, that the EPC was institutionalized and the CFSP was created. The purpose of forming a political union, and therefore of having a single voice, was given constitutional status with the Treaty of Maastricht in 1992, in which the bloc considered acquiring greater cohesion as an actor in order to increase its prominence on the international stage.

Intergovernmental cooperation was systematically consolidated in the treaties of Amsterdam and Nice, through which the countries attempted to evolve towards new levels of political integration, while at the same time managing to coordinate their actions in a large number of international conferences and organizations. For example, with the Treaty of Amsterdam in 1997, the CSDP was consolidated and the post of High Representative for the CFSP was created, being the highest authority in the EU's external action.

The bloc's modalities of action in foreign policy matters are: the European Commission alone, states in a particular way outside the EU framework, states among themselves within the EU framework, and joint management between states and the European Commission.⁸⁴

⁸³ Council Regulation (EEC) No 443/92 of February 25th, 1992 on financial and technical assistance to, and economic cooperation with, the developing countries in Asia and Latin America. Available online in: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A31992R0443>

⁸⁴ Torrent, R. Ob. Cit.

5.1 - The relationship between the 'two external policies'

As it was stated in the previous section, the difference between the CCP and the CFSP is the level of supranationality granted to their organs. Thus, on the one hand, the development of trade policy is particularly subject to the Commission (of a supranational nature) while, on the other hand, the implementation of diplomatic policy is a task of the Council, which is intergovernmental in nature. Therefore, this has an impact on the difference in the capacity and way in which the two spheres are managed.

This differentiation of organs and matters provoked certain tensions within the Union. The clashes between the parties (either between the Council and the Commission, or in the departments within the Commission itself) were regular, since their fields of action were, in many cases, interdependent. Political relations often required certain trade effects as a lobbying tool, while trade policy was subject to the use of policy instruments⁸⁵.

Consequently, trade negotiations have historically been used by the Commission as a mechanism for intervention in the policy sphere. Bouzas⁸⁶ maintains that the concreteness of trade agreements arises, in part, as an alternative way of substituting a non-existent foreign policy, because it continues to be the sphere of the States.

Based on the lack of cohesion between the commercial sphere and politics, the Constitution drawn up in 2004 sought to unify the three European pillars, creating the post of Minister of Foreign Affairs. They would act with a double function: to direct the External Relations Commission in the Council, as its secretary general, and to perform functions within the Commission, as the European Commissioner for External Relations.

However, this Constitution was left without effect, leaving many reform issues to be dealt with in the Lisbon Treaty. Beyond that, the advances in foreign policy allow us to admit that the tension between the commercial sphere and politics were still in force towards 2010.

⁸⁵ Gomes Saraiva, M. 1996. *Política Externa Europea*. Buenos Aires, GEL.

⁸⁶ Bouzas, R. 2004. *Las negociaciones Unión Europea-Mercosur. Entre la lentitud y la indefinición*. Nueva Sociedad. Available online in: https://nuso.org/media/articles/downloads/3189_1.pdf

5.2 - The challenges of the EU's Foreign Policy in the 21st century

For the EU, the signs of a change in the international system became evident during the course of the first decade of the 21st century. Specifically, the refusal since 2007 of several African, Caribbean and Pacific (ACP) countries to sign Economic Partnership Agreements with the European bloc, or the creation of an agreement between the US, China and other emerging economies at the 2009 Climate Change Conference, without including the EU. These examples were signs that the EU was facing a changing world, either because of the emergence of the so-called BRICS or because of the changes in the coalitions, given that the US began to move away from the EU.

In this context, with the aim of increasing its competitiveness in the world and maximizing its opportunities deriving from international openness, the EU faced the challenge of reorganizing its priorities and designing new approaches to foreign trade policy. Indeed, on November 9th 2010, the EU presented a communication entitled *Trade, growth and global affairs: trade policy as a key element of the EU 2020 Strategy*⁸⁷. This communication is a continuation of the action plan published in 2007 entitled *Global Europe: Competing in the World*⁸⁸, through which new perspectives were presented in the internal and external agenda of the trade bloc.

The strategy, made up of several documents, had as its main objective to establish the main guidelines for global insertion with a view to increasing the competitiveness of European companies in the world. At the same time, it also provided itself with political and cooperation elements to efficiently face the challenges of globalization.

Beyond the multilateral route, and as a complement to it, the EU recognized the importance of the bilateral route, and the need to strengthen ties with potential partners through the conclusion of FTAs and Association Agreements. Moreover, new economic criteria were established for identifying potential partners, such as competition from their markets in terms of size and economic growth, and the degree of protection in terms of EU exports (tariffs and non-tariff barriers). In particular, the EU stressed that it would pay particular attention to investigating whether the identified potential partners are

⁸⁷ European Commission. 2010. *Trade, growth and world affairs: Trade policy as a core component of the EU's 2020 strategy*. Available online in: <https://publications.europa.eu/en/publication-detail/-/publication/bd154c9c-96b8-4463-9501-44478c014af7/language-en>

⁸⁸ European Commission. 2007. *Global Europe: Competing in the world*. Available online in: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3Ar11022>

negotiating with the main competitors of the bloc, as well as to assessing the impact of such negotiations for the EU. In this context, the preference that the bloc would give to negotiations with Mercosur and ASEAN over the opening of new negotiations with other partners was underlined.

Within the framework of this new strategy, EU's relations with LAC were highlighted. The new global challenges demanded the reinforcement of the EU bloc and, above all, the definition of a new strategy that went beyond formalism and grand declarations and assumed a strong and decisive voice on the international scene. In the new geopolitical scenario, the Latin American region reinforced its status as a strategic priority of the EU's foreign policy.⁸⁹

Likewise, the EU's strategy towards LAC was based, among other aspects, on the promotion of South-South cooperation, and the promotion of social cohesion and support for the continent's regional integration, which was implemented throughout the various EU-LAC Summits periodically established every two years. These Summits constituted a key area for the constitution and promotion of bi-regional relations at the highest level, with the attendance of the heads of all the EU and LAC States, as well as the President of the European Council and the President of the European Commission.

The rapprochement, based on these bodies, not only created a positive negotiating environment with the signing of bilateral and bi-regional agreements, but also contributed to promoting trade rapprochement at the business level. These measures were and are a clear sign of the geopolitical strategy that the EU tried to reflect the rest of the world.

In this context, between 2007 and 2010 the EU signed economic cooperation agreements with fifteen Caribbean countries (2008), an AA with Brazil (2008), and a multilateral trade agreement with Peru and Colombia (2010). At the same time, dialogues were promoted and formalized for the subsequent conclusion, in 2012, of an AA with Central American countries⁹⁰ and the Andean Community. The Summits were key to the launch and subsequent relaunch of negotiations with Mercosur, to the start of negotiations with

⁸⁹ European Economic and Social Committee. 2017. Opinion on *The new context for EU-CELAC strategic relations and the role of civil society*. Available online in: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52017IE1834&from=EN>

⁹⁰ The Republics of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panamá.

the nascent Pacific Alliance, and to the creation of a joint international body named Foundation EU-LAC⁹¹.

⁹¹ European Union-Latin America and the Caribbean Foundation. Created by the Heads of State and Government of both continents at the VI EU-LAC Summit held in Madrid in 2010.

Chapter 5: The path leading to the negotiation's relaunch

The Madrid Declaration has a superlative significance for this thesis, as it was the episode in which the relaunch of negotiations to reach an AA between the EU and Mercosur was officially announced.

As mentioned in the previous chapter, the period of stagnation of the negotiations began in 2004 after the anticipated end of the XV Meeting of the BNC due to disagreements between the delegations. Thus, from that event until 2010, the negotiations remained frozen, with only talks at the political level where the interest in continuing with them were reaffirmed.

However, the international situation during the aforementioned period showed major changes. The accession of the Eastern European states in 2004, the failure of the Doha Round, the international economic crisis, and the consolidation of China as an emerging power changed the panorama of the international system and had repercussions on the interregional negotiating dynamic, modifying the priorities of the parties with respect to the agreement.

Likewise, the economic outlook created a window for the EU to search for new allies. In July 2007, the EU signed a bilateral Strategic Partnership Agreement with Brazil, an episode that not only gives a glimpse of the European interest in strengthening geostrategic ties with the booming emerging economy, but also of the interest in positioning Brazil as the preferred interlocutor for establishing trans-regional political dialogues. Moreover, this meant a change in the regional strategy of the European bloc towards Mercosur. According to Commissioner Ferrero Waldner:

There is a huge potential to unlock in our relationship with Brazil at the multilateral, regional and bilateral level. This Strategic Partnership will allow us to further develop our co-operation in key sectors such as energy, maritime transport and regional development, and to build new and long-lasting links between our people. And I believe that by activating dialogue we will motivate Brazil to move forward towards more regional integration in Mercosur and encourage them to be more open in our negotiations.⁹²

⁹² European Commission. *EU-Brazil: Commission proposes Strategic Partnership*. May 30th, 2007. Press Release Database. Available online in: http://europa.eu/rapid/press-release_IP-07-725_en.htm?locale=en

Thus, the European Commission called for the establishment of a direct line with its main trading partner within the south-American bloc, rather than continuing to negotiate with the bloc as a whole. This rapprochement generated intra-Mercosur tensions as it affected the interests of the rest of the members, especially those of Argentina in its position as the second power in the bloc, which feared that Brazil would abandon the trans-regional negotiations and proceed to negotiate unilaterally. For this reason, following the assumption of Cristina Fernández as President of Argentina in 2007, this country began to deploy a repositioning strategy with regard to relations with the EU.

At the same time, Spain took over the temporary presidency of the Council of the European Union in January 2010. This fact is very important to understand the reason for the rapprochement between the EU and Mercosur in 2010, since the importance of the historical and identity links that this country shares with the entire Latin American continent must be taken into account.

Thus, on May 4th, 2010, through a press release, the European Commission announced its willingness to relaunch negotiations with Mercosur on the condition that in order to reach an agreement it had to be done correctly, taking into account a series of points described by the then President of the Commission, José Manuel Barroso:

With today's decision to relaunch this negotiation with Mercosur, the EU is seizing an important opportunity. As we look to strengthen the global economy after the downturn, a successful outcome can offer real benefits in terms of jobs and growth for both sides. But we are starting a negotiation here, and we can only conclude if we get it right. A number of conditions, ranging from sustainability to Intellectual Property rights and Geographic Indications, most importantly, will accompany this decision. We will address any adverse impact on certain sectors with specific measures, in particular in agriculture.⁹³

Fourteen days after the press release, the 6th EU-LAC Summit was held in the city of Madrid with the aim goals of “deepening political dialogue and regional integration, promoting social inclusion and cohesion as well as intensifying bilateral relations between individual countries from both regions.”⁹⁴ Based on this, the Madrid Declaration entitled *Towards a new stage in the bi-regional partnership: innovation and technology*

⁹³ European Commission. *European Commission proposes relaunch of trade negotiations with Mercosur countries*. May 4th, 2010. Press Release Database. Available online in: http://europa.eu/rapid/press-release_IP-10-496_es.htm?locale=EN

⁹⁴ Council of the European Union. Madrid Declaration. *Towards a new stage in the bi-regional partnership: innovation and technology for sustainable development and social inclusion*. May 18th, 2010. Available online in: http://www.europarl.europa.eu/cmsdata/124265/vi_18_5_2010_madrid_en.pdf

for sustainable development and social inclusion emerged, which marked the initial kick-off for the relaunching of negotiations between Mercosur and the EU.

Point 24 of Chapter II in the Declaration clearly establishes the resumption of negotiations and the interest of concluding an AA: “EU-MERCOSUR negotiations: we recall the importance of the negotiations recently re-launched in view of reaching an ambitious and balanced Association Agreement between the two regions.”⁹⁵

The analysis of the declaration's discourse is interesting in order to understand part of the EU's strategy for rapprochement with Mercosur. In it, the premise of considering both blocs as equal is highlighted, committing to negotiate a balanced agreement, which must represent the common interest of both actors.

For the EU, Mercosur is at the same level as LAC. This discursive element is not consistent with the existing asymmetries between the two blocs, both from the points of view of institutional and legal complexity and from the point of view of geopolitical, economic and commercial power and relevance in the international concert. However, the EU's strategy of empowerment towards Mercosur in this respect (even having to "lower a step" in the discursive in order to achieve it) clearly shows the will to align the South American bloc with its interests.

With the Madrid Declaration, the EU-LAC Foundation is also created “conceived as a useful tool for strengthening our bi-regional partnership and a means of triggering a debate on common strategies and actions as well as enhancing its visibility.”⁹⁶

The use of the first person of the plural for the consideration of both blocs is recurrent throughout the declarations in the Summits, appealing to the generation of a kind of community and similarity that responds to close historical ties. These are used as tools for rapprochement and alignment between the two regions.

⁹⁵ Ibid. Page 7

⁹⁶ Ibid. Page 9

Chapter 6: The EU and its competitors in Latin America.

In terms of international negotiations, the EU's increased interest in the Southern Cone cannot be seen as a mere product of its negotiating goodwill. This chapter aims at showing how the EU's decision to resume negotiations with Mercosur in 2010 was influenced by the actions of its two main competitors in the region: the US and China.

First of all, it is important to bear in mind, the threat posed by the potential establishment of the Free Trade Area of the Americas (FTAA)⁹⁷ to European interests in the continent. Despite the fact that, based on the Monroe doctrine, the US managed to consolidate itself as a dominant power in the political and economic spheres throughout the Western Hemisphere, its marked inclination towards multilateralism in its trade policy hindered the establishment of preferential arrangements with its southern neighbors. This began to change at the end of the 1980s after the implementation of the Free Trade Agreement with Canada in 1988, and subsequently with NAFTA, which entered into force in 1994 and led to the implementation of a new North American strategy on trade policy: simultaneous recourse to multilateralism and discrimination of trade partners through the conclusion of preferential agreements with other actors.⁹⁸

As a result, the FTAA process⁹⁹ reinforced this new North American trend, the result of which would be the strengthening of the influence of the US over many countries in Latin America and, consequently, the establishment of a strategic alliance to ensure Latin American support in discussions with other powers such as the EU, Russia or China in various international forums. Likewise, the potential concretion of this process would result in the consolidation of relations of legal dependence between the US and LAC, which would encourage the signatory countries to gradually adopt the US economic, institutional and legislative model in order to open the door to the establishment of important multinational companies in this country.

⁹⁷ The multilateral free trade agreement was signed in Miami during the First Summit of the Americas in 1994, in which all the states of the American continent participated, with the exception of Cuba. The FTAA was to start operating from the IV Summit of the Americas to be held in Mar del Plata in 2005, but this meeting did not end successfully, which led to the abandonment of the project.

⁹⁸ This strategy was developed during the presidency of George W. H. Bush (1989-1993) who proposed the idea of the FTAA. This became a strategic objective of US trade policy during the presidency of George Bush (son), while the second key priority was to launch a new round of WTO negotiations.

⁹⁹ As well as other initiatives such as NAFTA and APEC.

In other words, the FTAA represented serious competition for pre-existing and eventual agreements that the countries of LAC signed with other actors, not only with respect to trade preferences but also in terms of the disciplines and rules applicable to trade and non-trade policies. This new US orientation did not go unnoticed by the EU, so the trade bloc decided to consolidate its activist position in preferential negotiations in a geographical area where such policies had not yet been implemented aggressively: Latin America.¹⁰⁰

Nevertheless, crisis arose in the FTAA process in 2003 as a result of a change in the Mercosur negotiating approach promoted by the new governments of Argentina and Brazil¹⁰¹; a change that was later joined by Bolivia, Chile, Ecuador, Nicaragua and Venezuela. The motivations of the debate proposed by these countries were strictly against the essence of the FTAA process and differed from the US position on issues such as educational, cultural, social and security policies, among others. In short, the objective of the Latin American leaders was to build a more independent Latin America, without explicit subordination to the hegemonic influence of the US. Thus, after the lack of progress in the various meetings that took place, the region formally rejected the implementation of the FTAA project during the Summit of the Americas held in Mar del Plata, Argentina in November 2005.

In this context, the stagnation of the negotiations between the EU and Mercosur in October 2004 did not pose an immediate problem for the European bloc with regard to the conditions of access to the markets of the South with respect to those of the US; but it did provide an opportunity to pre-empt its competitor after the failure of the FTAA negotiations. Therefore, if the EU and Mercosur were to commit to signing an AA, the European bloc demanded that the AA included in the trade dimension not only trade in goods, but also services, investment, government procurement, intellectual property,

¹⁰⁰ The EU signed treaties with Mexico and Chile, which entered into force in 2000 and 2003 respectively. Likewise, in April 2007, during the 21st Ministerial Meeting between the EU and CAN, both blocs expressed their mutual commitment to initiate a negotiation process for the establishment of an AA that would include the chapters on cooperation, political dialogue and trade.

¹⁰¹ Néstor Kirchner assumed the presidency of Argentina in May 2003, while in Brazil Luiz Inácio Lula da Silva took office in January 2003. At the international level, both presidents were part of a group of presidents from several countries such as Michelle Bachelet (Chile), Tabaré Vázquez (Uruguay), Evo Morales (Bolivia), Hugo Chávez (Venezuela) and Rafael Correa (Ecuador), who, for the first time in Latin American history, proposed the need to form a regional coalition that would establish policies independently from the hegemonic world powers.

geographical denominations, trade facilitation, sanitary and phytosanitary measures, trade and sustainable development, competition or trade defense instruments.¹⁰²

Note that these commercial components add a normative character to economic power. Beyond tariff measures, the EU's primary objective in requiring the inclusion of these elements was to pre-empt the US in order to consolidate the rules regulating such spheres unilaterally. In other words, when the actors in the system that have managed to accumulate sufficient economic power to influence the regulation of the world economy (such as the EU and the US) fail to reach a consensus on the establishment of the rules that will govern non-tariff measures, the immediate result will be competition or a dispute between those powers to consolidate them.

At the same time, it should be pointed out that in an international system where the interaction between the different actors is presented as something regular, their mutual influence is an inevitable result. This means that the action of one influence the action of the other, perpetuating an action-reaction relationship. In this way, the EU's normative demands towards Mercosur can be interpreted as a reaction (according to its economic interests in the region) to the constituent elements of the FTAA promoted by its immediate competitor in the region: the US.

This competition between the EU and the US to maintain and increase their economic influence in the region appears with the aim of achieving their survival as powers and not as mere actors in the international system. Specifically, the EU sought to establish better conditions for European access to goods, services and investments than its US competitor.

In this context, the rapprochement with Mercosur after the failure of the FTAA project responds to a geopolitical strategy of the EU to maintain its commercial and regulatory influence in LAC. Observing the relations that its potential partners maintain with the EU's main competitors forms one of the functional elements of the bloc's trade policy. Therefore, being attentive to the evolution of the FTAA process was not a fact to be overlooked by the EU, highlighting as an influential factor in the decision to resume negotiations in 2010 the fact that Mercosur has practically no real trade agreements with any other partner.

¹⁰² European Economic and Social Committee. Opinion on *Towards an EU-Mercosur Association Agreement: civil society's contribution*. Ob. Cit.

In short, just as the US proposed to conclude trade agreements with countries individually or in groups, the dismantling of the FTAA motivated the EU to implement similar initiatives in order not to lose influence in the region.

A clear example of this was the conclusion of an AA between the EU and Brazil in 2007, previously analyzed in chapter five. This episode is extremely important, since it should be remembered that the outbreak of the international financial crisis in 2008 was a new expression of the international scenario, which resulted in the increased relevance of the BRICS in the governance of the world economy. In this respect, some Commissioners from the European bloc expressed the urgency to establish relations with the new emerging economies.

It is clear that the EU's interest in Mercosur was concentrated in Brazil. It could therefore be said that the outbreak of the international financial and economic crisis would motivate the EU to seek the resumption of negotiations with Mercosur, since the signing of an agreement with the South American bloc would provide it with an attractive alternative for greater access to dynamic markets, fundamentally Brazilian, of major attraction and interest to the European industrial sector.

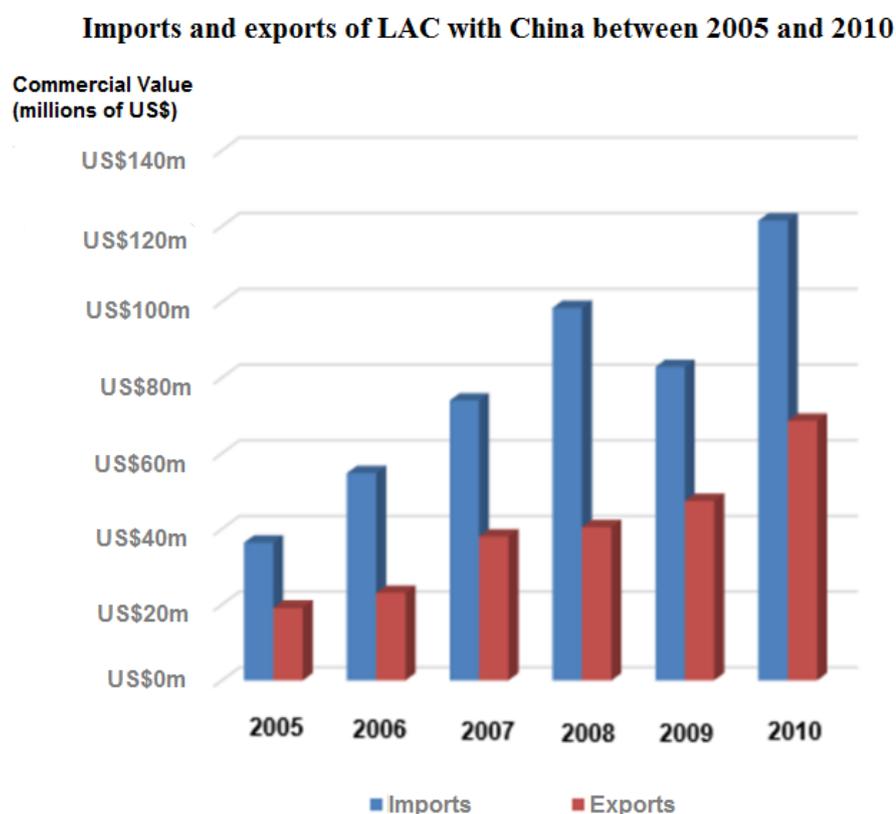
The relationship between the above-mentioned factors can be seen following the publication of the opinion of the European Economic and Social Committee on *Towards an EU-Mercosur Association Agreement: the contribution of organized civil society*:

An AA with Mercosur would enable the EU to strengthen its economic and geopolitical ties with a strategic partner. By means of a bi-regional agreement, the EU would move ahead of other international competitors such as the USA and China. Furthermore, the AA would bolster the Strategic Partnership with Brazil – which does not cover trade – a country of particular importance in the geopolitical framework of international relations, since it is a member of the two key mechanisms coordinating the interests of the emerging economies – BRIC and IBSA.¹⁰³

In relation to emerging economies, the second factor influencing the European Commission's decision is the profound transformation of the global economic competition board following the take-off of China and its weight in the regulation of the world economy, especially in Latin America, which posed new and important challenges for the EU's economic interests LAC. Thus, the context of the international financial crisis highlighted China's growing commercial and investment protagonism in the region, as

¹⁰³ Ibid.

can be seen from an analysis of the evolution of LAC imports and exports with China between 2005 and 2010.



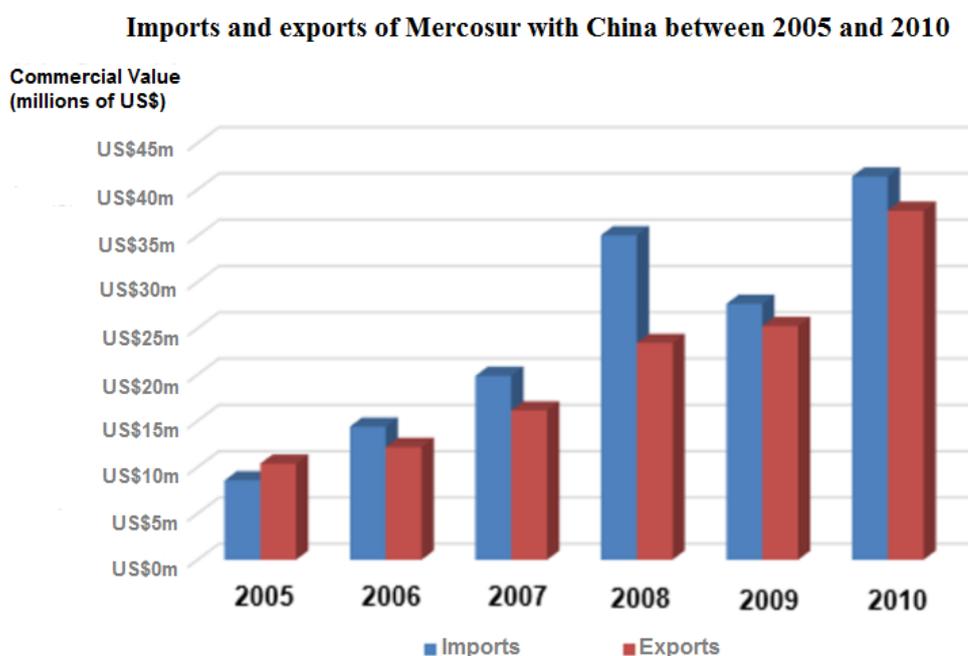
As can be seen from the graph above¹⁰⁴, LAC trade in goods with China has been the most dynamic, as both imports and exports systematically increased at high rates in the period from 2005 to 2010, with the exception of 2009, when imports fell. According to ECLAC, the take-off of regional trade with China in 2010 was possible thanks to the recovery of international prices of several commodities such as oil, copper, wheat and soybeans, as a result of the sharp increase in demand for these products that China maintained from the second quarter of 2009.¹⁰⁵

The countries that have benefited the most from this situation were those of South America, since they are net exporters of commodities, raw materials and minerals. The

¹⁰⁴ Values taken from <https://www.trademap.org/>

¹⁰⁵ United Nations Economic Commission for Latin America and the Caribbean (ECLAC). *International trade in Latin America and the Caribbean 2009: crisis and recovery*. 2010. Santiago de Chile, United Nations. Available online in: https://repositorio.cepal.org/bitstream/handle/11362/3159/1/S2009418_en.pdf

increase in Chinese demand for such products underpinned the region's exports to that country, as can be seen in the graph below¹⁰⁶.



As can be seen in the graph presented, both imports and exports increased systematically throughout the period, except in 2009 where (as in the case of LAC trade) there was a drop in imports, despite the fact that exports continued to rise.

While Mercosur has not signed a treaty with China, its presence in the region has grown exponentially in recent years. Argentina and Brazil are key to China's arrival, as shown both in trade and by the increase in Foreign Direct Investment (FDI) and financial support for infrastructure development.¹⁰⁷

This rise of China was happening at the same time as the EU and the US were losing relative presence in the region. According to ECLAC data, China has played a prominent role in the promotion of Latin American exports. While in the first nine months of 2009 exports to the US fell by 32% and those to the EU by 33%, exports to China fell by only

¹⁰⁶ Values taken from <https://www.trademap.org/>

¹⁰⁷ European Economic and Social Committee. 2018. Opinion on *Towards an EU-Mercosur Association Agreement*. Available online in: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018IE1010&from=ES>

2%.¹⁰⁸ In fact, forecasts indicated that China would slightly surpass the EU as the second source market for regional imports.¹⁰⁹

Without a doubt, the weight of the Asian giant in South American trade and investment played an important role in modifying the expectations of the countries of this region. China's growth, related to a greater demand for food, energy and minerals, offered an attractive external trade alternative to Mercosur, which did not exist at the beginning of the talks with the EU. Aware of this, the European Commission recognized that one factor to consider was the excessive dependence of Mercosur's exports to China on raw materials.¹¹⁰ In this regard, the increase in the prices of primary products diminished the relative importance of an agreement with the EU, especially with respect to the decrease in European agricultural subsidies. Therefore, the importance for the EU of concluding an AA with Mercosur was based on providing “a means for maintaining an international economic and political presence at a time when economic and political power is shifting from the Atlantic to the Pacific”.¹¹¹

Although it cannot be said that the EU had lost all importance for Mercosur, it cannot be denied that China's presence as an outstanding extra-regional actor in LAC, fundamentally in Mercosur, began to transform the trade dynamic between the parties. The leading role that China began to play in Latin American trade left the door open for the negotiations that several countries in the region began to establish with Asia, with a view to strengthening commercial ties and diversifying their markets.

Thus, it could be said that China's growing presence in the region acted as one of the influential elements in the European Commission's decision to renegotiate with Mercosur in 2010. Specifically, the primary objective of the European bloc was to halt the loss of its economic and regulatory power on the continent, and “by means of a bi-regional

¹⁰⁸ ECLAC. *International trade in Latin America and the Caribbean 2009: crisis and recovery*. Ob. Cit. Page 28

¹⁰⁹ Makuc, A.; Duhalde, G. & Rozemberg, R. 2015. *La Negociación MERCOSUR-Unión Europea a Veinte Años del Acuerdo Marco de Cooperación: Quo Vadis?*. Inter-American Development Bank. IDB-TN-841, 1-68. Available online in: https://publications.iadb.org/bitstream/handle/11319/7126/La_negociacion_MERCOSUR_Union_Europea_a_veinte_anos_del_acuerdo_marco_de_cooperacion.pdf

¹¹⁰ European Economic and Social Committee. *Opinion on Towards an EU-Mercosur Association Agreement*. Ob. Cit.

¹¹¹ European Economic and Social Committee. *Opinion on Towards an EU-Mercosur Association Agreement: civil society's contribution*. Ob. Cit.

agreement, the EU would move ahead of other international competitors such as the USA and China”.¹¹²

All in all, the EU is a world power that continuously seeks to establish and further strengthen its trade and regulatory power vis-à-vis other actors.¹¹³ This power is represented, among other aspects, by economic and political relations, within which the actors of the system compete to improve their position with respect to their peers. The basis for improving this competitiveness lies in establishing trade and political links in the form of FTAs and AAs with external partners.

Trade integrates a wide range of factors, such as the export and import of both industrial and agricultural products. Today, non-traditional sectors such as services, investment, and non-tariff barriers have also become a fundamental part of trade between the actors.¹¹⁴ In addition, it is important to note that, in some countries, the trade of industrial goods and agricultural products has become an integral part of trade. These components of trade have added a normative ingredient to economic power. In certain cases, the powers may establish regulatory rules unilaterally. When these highly industrialized states face disagreements over the use and establishment of trade rules, the immediate consequence will be the struggle or competition among these powers to consolidate them.

Negotiations of this type of agreement are, in this sense, a vital instrument for the establishment of regulatory norms, as well as presenting the possibility of expanding one's own market and establishing a new economic potential related to services and investments. In short, in order for the EU “to continue to play a leading role in the current complex international context, it needs partners and allies who are not only able to share in development and trade but who also have the same fundamental values and principles”.¹¹⁵

In this regard, the EU's quest to resume talks with Mercosur seems to be a geostrategic movement of the European bloc to advance in greater South American integration, first,

¹¹² European Economic and Social Committee. Opinion on *Towards an EU-Mercosur Association Agreement: civil society's contribution*. Ob. Cit.

¹¹³ Zimmermann, H. 2007. *Realist Power Europe? The EU in the Negotiations about China's and Russia's WTO Accession*. Journal of Common Market Studies. Vol. 45, 4, 813-832.

¹¹⁴ Young, A. & Peterson, J. 2014. *Parochial Global Europe: 21st Century Trade Politics*. Oxford, Oxford University Press.

¹¹⁵ European Economic and Social Committee. Opinion on *The new context for EU-CELAC strategic relations and the role of civil society*. Ob. Cit.

and then Latin American integration, and for the AA to act as an outstanding episode of attraction for other sub-regional integration processes in LAC:

A 'strategic alliance' between the two regions - between the 27 Member States of the EU and the 33 countries of Latin America and the Caribbean - would carry significant weight within multilateral bodies. It would lead to greater influence in the G-20, of which three Latin American countries (Brazil, Mexico and Argentina) and five European countries (Germany, France, the United Kingdom, Italy and Spain), as well as the EU itself are members.¹¹⁶

In summary, an AA between the EU and Mercosur would bring about the emergence of a bi-regional bloc with great specific weight on the new world stage. Thus, given the transformed global context between 2004 and 2010, the European Commission's decision to relaunch negotiations with Mercosur in 2010 opened up an interesting opportunity to establish more effective and solid ties between Europe and the entire Latin American continent: "this agreement represents a major challenge for the EU in that -if adopted- the entire Latin American region, with the exception of Bolivia and Venezuela, would enter into a close political and economic relationship with the EU".¹¹⁷

In the light of what is presented in this chapter, the EU intends to establish, maintain and then strengthen its economic and regulatory power, competing with other major players in the international system for the achievement of FTAs with external markets.

The Latin American region is therefore one of the geographical areas of interest for the EU to reach trade agreements on a global scale, in order to increase its influence and power. Given that Mercosur represents the continent's most important trade bloc, the path of interregionalism is a viable option, at the level of the international system, to increase the EU's power with respect to the US and China.

¹¹⁶ European Economic and Social Committee. Opinion on *Towards an EU-Mercosur Association Agreement: civil society's contribution*. Ob. Cit.

¹¹⁷ European Economic and Social Committee. Opinion on *The new context for EU-CELAC strategic relations and the role of civil society*. Ob. Cit.

Chapter 7: Conclusions

In understanding global trade, it helps to imagine a jigsaw puzzle. At the beginning we visualize the details of a formed image. The same image is the one we yearn to obtain after working on the hundreds of parts we find scattered on the game table. We carefully observe each end of the pieces, trying to find coincidences that allow us to join them, and gradually approach the final picture.

In a puzzle, each piece plays a vital role. It is frustrating to look at the almost complete picture. Although we have hundreds of ordered figures, the lack of only one of them implies that the image is not complete. Therefore, only when all the parts are united will we be able to obtain the final finished result.

The relaunch of the negotiations between the EU and Mercosur in 2010 is a puzzle in itself, where a multiplicity of factors and inputs (or pieces) come together to form a final image. But this puzzle is also framed within a larger one: the international tendency to generate interregional agreements.

Undoubtedly, the stagnation of the Doha Round in 2006 modified the international structure in several aspects. The "forgetting" of the multilateral trade model is one of the most remarkable consequences, if not the greatest. This phenomenon, in turn, meant that the actors began to rethink their trade strategies at a new level, which no longer had the WTO as a forum for talks and a nucleus among all its Members. But the world was no longer the same in terms of power either: the financial crisis of 2008 served as a breeding ground for the emergence of multiple units that gained weight in the international concert, among which the BRICS countries stand out. This generated sort of a state of anarchy, understood as the absence of clearly marked and efficient hierarchies to exercise hegemonic international leadership.

In this context, and faced with the need to act to survive, achieve and satisfy their own objectives, the units began to redraw their strategies, always trying to maximize their level of power against competitors. In this way, the generation of interregional agreements became an interesting option, also allowing to include issues such as trade in services, environment, intellectual property, and investments. Examples such as the PPT, the TTIP and the relaunch of the negotiations between the EU and Mercosur in 2010 materialized this trend.

The pieces then came together to form a new international image, a renewed puzzle in which: China consolidated itself as an economic power, generating a shift in the commercial world towards the Pacific; the traditional hierarchies of power disappeared; the reigning multilateral trade model was temporarily extinguished; and the tendency to establish or negotiate interregional agreements proliferated.

Within this structural framework at the international level, the EU was no exception to the prevailing need to rethink strategies after the pause of multilateralism, despite the fact that multilateralism was and will always be its ideal model, which also laid the foundations for its integration process. According to Waltz, the actions of the units are strongly influenced and are therefore determined on the basis of the actions of their competitors. In this sense, the Bush administration's initiative in 2005 to join the TPP negotiation process was a clear demonstration that a new model of agreements was beginning to take shape, on the one hand, and that the economic and commercial world was strengthening the Pacific region as a new global center or pole, on the other. In this scheme, the EU remained in principle as a peripheral unit, on the fringe of the new currents.

The consolidation of China as a world economic power after the financial crisis of 2008 began to have a direct impact on the Latin American countries, and more precisely on Mercosur member states. Trade between these nations and the Asian giant multiplied greatly during the second half of the first decade of the 21st century. At the same time, the US and the EU lost relative weight in the region. This scenario played against the interests of the European Commission, which undoubtedly seeks to strengthen its commercial and regulatory power vis-à-vis its competitors constantly. As a consequence, the idea of curbing China's regional presence was first materialized through an agreement between the EU and Brazil in 2007.

The European agenda was beginning to redraw itself. Its strategy focused on establishing means to institutionalize its relations with other actors, and thus secure a "rule-making" position vis-à-vis the other units of the international system.

There were still pieces missing in the puzzle, and the picture did not close completely for the relaunch of negotiations between the EU and Mercosur. However, the global structure is dynamic and small details can generate modifications. The year 2010 brought with it a circumstantial coincidence that played a vital role in the resumption of talks between the

blocs: Argentina then held, through Cristina Fernández, the pro tempore presidency of Mercosur, while Spain, under the command of José Luís Rodríguez Zapatero, was at the head of the EU Council. The historical cultural link between Spain and Mercosur countries, and the viability existing at the time of resuming the interregional agreement negotiations, fit perfectly with the rest of the parts of a puzzle that seemed to be almost complete.

All of the above were clear inputs for the Madrid Declaration to kick off the definitive relaunch of the negotiations for an agreement between the two blocs on May 18th, 2010. The economic viability of the AA, based on the commercially complementary nature of the economies of both regional blocs, was also a factor of interest from the outset, which undoubtedly played in favor of the resumption of talks. However, it is clear that, although an AA would be beneficial for both units, the EU's interest was also based on a rethinking of its geopolitical strategy, centered on strengthening the region's power vis-à-vis its competitors.

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