

***Economic asymmetry and institutional shortfall in
Mercosur: predictions for deepening Mercosur
integration***

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List of abbreviations

ALADI	Latin American Association for Integration
CAN	Andean Community
CET	Common External Tariff (Mercosur)
CELAC	Community of Latin American and Caribbean States
CMC	Common Market Council (Mercosur)
CMG	Common Market Group (Mercosur)
EC	European Commission
ESCF	Economic Social Consultative Fund
EU	European Union
EP	European Parliament
FOCEM	Mercosur Structural Convergence Fund
FTAA	Free Trade Area of the Americas
GDP	Gross Domestic Product
LAFTA	Latin American Free Trade Association
MTC	Mercosur Trade Commission
NAFTA	North America Free Trade Agreement
ODM	Democracy Observatory
PA	Pacific Alliance
PICE	Program for Integration and Economic Cooperation
UNASUR	Union of South American Nations
US	United States

1. Introduction

“Mercosur RIP¹”?

Nobody can deny that today’s world is intertwined in every aspect of life; social, cultural and political, and especially economical. After the end of the Cold War the world faced a huge transformation, which resulted in the end of the American domination and gave rise to emerging powers as China, Russia, India, and Latin-America. Latin-America went through a phase of transition. In 1980 most of the Latin-American countries were still ruled by authoritarian leadership. But these were soon to be replaced by a form of democracy. In this more open world the concept of globalization was an opportunity, as well as a challenge for Latin-America to integrate their (economic) relationships to give an answer to the fast changing world. The attempt to bring their economies closer together had already started in the 1960s. After the great depression, the Latin- American countries began to industrialize. In order to develop more, processes of integration came into the minds of the country’s leaders. In 1985 Brazil and Argentina started a process of economic integration that paved the way for the creation of The Common Market of the South, Mercosur (Mercosul in Portuguese) in 1991. Mercosur was in a way a response to the various changes and developments in the international system. The rest of the world saw Mercosur as a promising integration plan for Latin America, because of its final objective of creating a common market and by representing a powerful bloc more independent from the United States. In general, Mercosur has been considered as the most sophisticated and long lasting example of integration of the region. No other Latin-American integration project has reached (in theory) the level of Mercosur.² Nonetheless, the bloc is far from reaching its initial goals the founders dreamed of.

1.1 Scope and structure

This research paper tries to answer the question whether or not Mercosur can reshape its current institutional structure and economic policies to further develop into a strengthened politically and economically integrated bloc, by referring to

¹ The Economist *Mercosur RIP?* (online) Accessed on June, 14, 2013.
<http://www.economist.com/node/21558609>

² G.L. Gardini. *Latin-America in the 21st century*. Zed Books, London/New York, 2012, p. 61.

the level of integration of the European-Union. The research will follow a practical approach by essentially focus on the internal (institutional) structure of Mercosur and its member countries by analyzing the main deficits in Mercosur's road of (economic) integration and hereby 'predict' Mercosur's prospects for the future, and its potential to deepen institutional and economic integration in order to continue more successful. By answering the research question, historical factors cannot be ignored, since they make up the groundwork for successes and failures of the integration project. By taking this into consideration, the (asymmetric power) relations between the member states, their domestic interests and their objectives, motivations and role in Mercosur are analyzed, since it became clear that asymmetries in terms of size and level of development existed from the beginning and persisted over time.

To this day, the European Union is the most far reaching project of integration, and its experiences inspired the integration process of Mercosur. For this reason, the (institutional and economic) integration process of the European Union is examined in a separate chapter. However, one has to keep in mind that the two blocs differ tremendously in almost every aspect. They have made a completely different road of integration which makes it unrealistic to place Mercosur in the same category as the European Union, or to state that this is necessarily preferred by Mercosur (although since the creation of Mercosur there was the hope that the bloc could repeat the successful process of the European-Union). These issues will be discussed more detailed in the subsequent chapters, but in order to be clear it has to be said that the European- Union and Mercosur both came from a different start point whereby the European-Union has a long history of integration which started in the 1950s as an initiative of developed countries. Mercosur, formed by less developed countries, dominated by poverty and inequality, is a relatively young phenomenon (it was launched in 1991).³ The decision to create a European Community was dominated by political interests, executed by economical methods. Similar, it was first and foremost a political (presidential) decision to integrate Latin-America in order to establish regional security and build democracy, in which economic integration was seen as the

³ J.W. Cason. *The political economy of integration; the experience of Mercosur*. Routledge, 2011, pp. 2-3.

method for integration. In this context, the European regional integration theory is used as a reference for Mercosur's integration. In the concept of regional integration, a region that becomes economically integrated should become politically integrated as well, via a combination of supranational institutions and intergovernmental decision making.⁴ The EU can be considered as a more advanced model of regional integration. Mercosur's process of (economic) integration revealed economic policy flaws and the final objective of establishing a common market has not been achieved. In addition, the process has been characterized by a state-led, intergovernmental or even 'inter-presidential' decision making.⁵

1.2 Research question

The following structure will be used to answer the research question: *"Can Mercosur further develop into a strengthened politically and economically integrated bloc, towards a level of integration according to the European Union"?*

In the first chapter, general information about The Common Market of the South (Mercosur) will be given and its origins and evolution will be explained. Following, an analysis of the road Mercosur has followed from the beginning years of 1990 until the present day will be given. Subsequently, chapter 3 will focus on the institutional framework of both Mercosur and the European Union by give an explanation and comparison of the legislative powers, the executive powers and the judiciary powers, by studying the concepts of intergovernmentalism and supranationalism. Chapter 4 will examine Mercosur's process of economic 'integration', while taking a look at the economic integration of the European Union as well. Chapter 5 will discuss the different member countries of Mercosur and explicate their political, economic and social role in Mercosur as well as their intention of being in the partnership. The recent accession of Venezuela will be addressed and assumptions will be made about how this will affect the political dynamics within the trade bloc. In relation to this,

⁴ F. Cameron. *The European Union as a model for regional integration (online)* Accessed on June, 3, 2013. <http://www.cfr.org/eu/european-union-model-regional-integration/p22935>

⁵ A. Picard, et al. "The European Union: promoter of regional integration in Latin America?" *Alternative Regionalisms Programme*, April 2009, pp. 13-14.

the concept of widening will be discussed, to answer the question whether or not enlarging Mercosur would be beneficial for the bloc itself or for the rest of Latin America. The conclusion will try to put in plain words the future perspectives for Mercosur by making the strengths and weaknesses of the bloc clear and to see the problems, obstacles and opportunities that will be faced by a potential deepening of Mercosur. Hereby an answer at the research question will be given.

2 THE COMMON MARKET OF THE SOUTH (MERCOSUR)

The Common Market of the South (Mercosur⁶) is an economic and political agreement originally between Brazil, Argentina, Paraguay and Uruguay⁷ (currently Paraguay is suspended from Mercosur and Venezuela joined in 2006 but the ratification just completed in July 2012) that commenced on 26 March 1991 with the signing of the Treaty of Asuncion. The purpose was the establishment of a common market⁸ and a common external commercial policy (custom union⁹) by December 1994.¹⁰

A transition period would involve trade liberalization, (the free circulation of goods, services and factors of production among the member countries) a common external tariff, the coordination of macroeconomic policy and the adoption of sectoral policies for fair internal competition to create the common market. There was no real management (with the exception for interregional trade liberalization) for how these instruments should be implemented and the adoption of the common external tariff in 1995 saw a lot of imperfections. Accordingly the goal of implementing the common market was not met in the projected time frame. In practice Mercosur is still a mixture of a free trade area and an incomplete custom union.¹¹ Nevertheless, Mercosur is the world's- fourth largest

⁶ Mercado Común del Sur in Spanish or Mercado Comum do Sul in Portuguese.

⁷ Associate members are Bolivia (accessing member), Chile, Colombia, Ecuador and Peru. They don't have all the privileges full Mercosur members have.

⁸ A common market is a customs union, where also capital and labor move freely within the regional borders.

⁹ In a custom union, free trade is complemented by a common external tariff.

¹⁰ F. Dominguez, M. D. De Oliveira. *Mercosur: between integration and democracy*. Peter Lang AG, 2004, p. 11.

¹¹ G.L. Gardini, p. 63.

trade bloc and the biggest economic bloc in Latin America, with a population of approximately 276 million and a GDP of circa 3,5 trillion US dollars.¹²

2.1 A growing alliance between Brazil and Argentina: the origins and evolution of Mercosur

It is useful to go back to the origins of Mercosur, since economic integration was already entangled in the Southern Cone countries¹³ since the 1960s, when the Latin American Free Trade Association (LAFTA) was founded. Two decades later the Latin American Integration Association (ALADI) was created in an attempt to promote economic and regional integration. The ALADI was badly timed because of the debt crisis in 1982; but both treaties did not accomplish remarkable results. With these failures in the back of their mind, diplomatic relations between former rivals Argentina and Brazil started to improve. Different agreements on important issues as nuclear energy and energy supply were signed and a tripartite agreement involving Argentina, Brazil and Paraguay resolved a dispute about the use of border water resources, which had damaged relations between Brazil and Argentina in the 1970s.¹⁴

The improved political relations should lead to political stability and democratic rule and therewith restore international credibility, but it did not directly lead to a development of economic relations. The two countries were traditionally led by authoritarian regimes that faced the pressure of democratization, thus the political instability followed by this as well as the foreign debt crisis of 1982 prevented the start of new (economic) integration projects. Nevertheless, the course of 'redemocratization' in Brazil (1985) and Argentina (1983) brought the two closer together. Both the Argentine and the Brazilian leadership had a clear view of the goals the new democracy had to pursue. For Argentina it was essential to modernize the economy and integrate the democratic values with respect for human rights. Brazil had an outdated development model and was in need of an improved external image, as well as improved financial and administrative

¹² W. Grabendorff, R. Seidelmann, p. 280.

¹³ The Southern Cone is a region with the most Southern countries of Latin America; it consists (geographically) of a part of Brazil, Argentina, Chile, Uruguay and Paraguay. The Southern Cone is supposed to be the most prosperous region of Latin America.

¹⁴ R. Roett, p. 9.

policies.¹⁵ For the first time in history, the countries underwent a political transition in a more open world which provided the opportunity for an improved relationship and overcome their traditional rivalry.

This resulted in a closer alignment in 1986 with the Program for Integration and Economic Cooperation (PICE), followed by the Treaty on Integration, Cooperation and Development in 1988.¹⁶ The Argentine President Raul Alfonsin was one of the main figures in the stressing for economic integration. However, in the next period, the spirit of integration went down. Few of the initial goals of the agreements were reached and domestic economic and political obstacles prevented further integration.¹⁷ The economic situation in Argentina and Brazil weakened with slow growth and a high level of inflation. A change in economic policy was needed.

2.2 The neo-liberal period

The period of neo-liberalism in Latin America brought significant change in many areas. In negotiations between Argentina and Brazil there was no longer a focus on industrial policies, but on opening trade, on privatization and deregulation. For opening up the market, the Presidents saw regional integration as the ultimate method. Macroeconomic stability was, together with an open trade policy, the main goal.¹⁸

The process of integration prolonged when in 1990 president Menem and Collor de Mello signed the Act of Buenos Aires, with the creation of a common market in their mind to be completed in 1995. This introduced a further motivation for integration and finally the Treaty of Asuncion was signed, creating Mercosur, by bringing Paraguay and Uruguay also in the process.

Conclusion

The years before the creation of Mercosur had gone through a period of problems, but also new challenges. There was a need for democracy, stability, security,

¹⁵ G.L. Gardini. "Mercosur at 20: the state of the art and the shadow of the EU". *European law journal*. Volume 11, issue 5, September 2011, p. 375.

¹⁶ Gardini, pp. 9.

¹⁷ K. Kaltenthaler, F.O. Mora. "Explaining Latin American integration: the case of Mercosur". *Routledge*, 2010, p. 75.

¹⁸ J.W. Cason, p. 49.

cooperation and progress but especially economic development and democratic consolidation were important for the governments of Brazil and Argentina. Latin America needed to adjust to a changing international order. Therefore they were seeking to become an independent economic and political bloc inside the global economy, instead of outside. As it was better to face this new global situation together, Paraguay and Uruguay were also brought in to Mercosur, to create a possibly stronger and more influential bloc. Thus the choice to deepen the (bilateral) integration process is mostly because of (new) national objectives in an upcoming trend of regionalization of the global economy, when Brazil and Argentina recognized a growing asymmetric situation in the world, with (new) economic powers such as the United States. After the announcement of Bush in 1990 to create a free trade in the America's, especially Brazil was seeking for greater leverage in hemispheric and international negotiations.¹⁹

2.3 The start and transition period of Mercosur towards a crisis

This chapter covers the first years of Mercosur during the transition period of 1990/1991 until 1994 wherein negotiations took place about the formation of the customs union followed by the developments from 1995 onwards when issues of deepening integration came on the agenda, until crisis hit the Latin American countries in 1999.

With the Treaty of Asuncion which created Mercosur, the heritage of the neo-liberal ideology reflected the objectives to establish macroeconomic stability and an open trade policy, by creating a customs union and finally establishing a common market. The first step was the elimination of trade barriers. The limited institutional structure in the first period contained of the Common Market Council (CMC) and the Common Market Group (CMG), intergovernmental bodies that made decisions by consensus.²⁰

The signing of the Ouro Preto Protocol in December 1994 put an end to the transition period for reducing trade barriers and consolidated the agreements negotiated on. There were few institutional changes, except a change for Mercosur of the international legal status, which made it possible for the bloc to

¹⁹ K. Kaltenthaler, F.O. Mora, p. 75.

²⁰ Ibid, pp. 9-11.

participate in the international arena as single entity.²¹ The Mercosur Trade Commission (MTC) was established, which supervised and implemented the instruments for common trade policy within Mercosur and between Mercosur and third countries.²² Besides, two other intergovernmental bodies were set up: the Mercosur Joint Parliamentary Commission (superseded in 2006 by Parlasur, the regional Parliament), the representative and consultative body existing of legislators from the member countries²³ and the Economic Social Consultative Forum (ESCF), which represented social and economic issues in Mercosur and was formed in regard to the participation of business and labor from outside the government. As support body, the Administrative Secretariat was created, which mainly assisted the CMG.²⁴

The transition period was of limited success considering the realization of common regional policies, rules and institutions. The economic asymmetries between the member countries appeared and these asymmetries were followed by an atmosphere of tension and uncertainty how to deal with conflict situations.²⁵ Nonetheless, after the transition period the countries expected a move forward in the integration process.

In contrast, the years 1995 and 1996 saw little effort for the improvement of Mercosur's institutional infrastructure. Following the financial crisis of Mexico in 1994, the Mercosur countries preferred to address their attention to stabilization plans. In addition, the countries retained a sensitive attitude in the macroeconomic environment where they rather solved problems on a national level than collectively. Overall, the Mexican crisis had severe impact on the bloc, and together with the reluctance of Brazil to give up sovereignty, Mercosur showed its weaknesses.²⁶

Nevertheless, at a later stadium negotiations continued and the integration process was picked up. In 1995 Mercosur's Program of Action to the Year 2000 was

²¹ J.W. Cason, p. 11.

²² F. Dominguez, M. D. De Oliveira, p. 92.

²³ Ibid, p. 92.

²⁴ Ibid, p. 93.

²⁵ R. Roett., p. 13.

²⁶ R. Roett, pp. 14-15.

launched to develop the social aspects in Mercosur.²⁷ Other priorities in this proposal were the improvement of the customs union and the deepening of integration, which spread to foreign and security policies, such as environmental protection, drug trafficking, and nuclear and military cooperation.²⁸

However, the neoliberal policies proved to be unsuccessful to encourage further progress in the institutional structure of Mercosur after 1995. In this context, the bloc itself did not set concrete achievements. Although member states negotiated about the institutional interaction within Mercosur, no proposal was given for a solid and more powerful institutional structure, especially because of the reluctance of Brazil to create supranational institutions.²⁹

Conclusion

The launch of Mercosur with the Treaty of Asuncion had focused mainly on tariffs and macroeconomic policies, without thinking about how to structure and regulate these in practical terms considering the different and weak economical situations of the member countries. Aside from reducing the intra-regional tariffs, Mercosur did not go further in the integration process during the first years. There was a political will for integration, but facilitating progress would be a slow process since no decision could be made without the unanimous agreement of the member countries. Disputes and problems were mainly dealt with at the presidential level. The objective of becoming a free trade area and agreeing on the rules of a customs union by 1995 were (too) ambitious and eradicated the visions, ideas and especially the expectations of the governments about Latin America in a globalized world.

2.4 The crisis years of Mercosur

The speed of the integration process between the Treaty of Asuncion and the Ouro Preto Protocol had surprised many. But after the Ouro Preto Protocol economic cooperation in Latin America was brought to a halt. The growing economies of Brazil and Argentina (Argentina more than Brazil) and the increase in trade during the first years of the 1990s had made it possible to accomplish the

²⁷ Ibid, p. 14.

²⁸ However, the Action Plan to the year 2000 was limited to consultation and recommendation.

²⁹ R. Roett. pp. 16-17.

economic integration up to that point, together with a high political commitment to move the integration process forward. The spirit that existed in Argentina and Brazil pushed the integration process forwards. Optimism about the future of Mercosur had spread. However, Mercosur showed its weaknesses and the years after 1995 marked the end of a period of a stable international political economy. By 1999 the Latin American countries faced a period of economic insecurity.³⁰ Brazil, under president Cardoso, experienced a severe crisis with the devaluation³¹ of the Brazilian currency, after the Asian financial crisis had spread from Russia to Brazil. The devaluation caused problems for Brazil's neighbor countries in terms of trade and export.³² On top of this the economy of Argentina collapsed³³ in 2001 that together with the problems in Brazil caused a major setback for Mercosur.³⁴ The weaknesses of the bloc came to the front when different conflicts within Mercosur put integration at risk as national interests were placed before regional solidarity.³⁵

Suggestions were made about the 'relaunch' of Mercosur to strengthen integration through a process of convergence between the countries of not only the economic sector but especially the political sector. In 2002 Luis Inacio Lula da Silva was elected as President of Brazil. With his statement that Mercosur would become of supreme importance, the bloc could be saved from its problems.³⁶ But to put this ideology into practice proved to be problematic. The crisis in the economies of Argentina and Brazil had damaged their relationship. It revealed the need of a dispute settlement system, which was actually set up with the Ouro Preto Protocol, but this system did not help the countries in solving disputes because the decision making was not binding and conflicts were dealt with at an ad hoc basis.

³⁰ R. Roett, p. 64.

³¹ The Brazilian currency was devaluated by 40%, and Brazil adopted a new floating exchange rate regime. The impact on Mercosur in terms of trade within the bloc was huge. A decline in trade lasted for several years.

³² G.L. Gardini. p. 377.

³³ The Argentinean economy had been in down turn for a few years already and its currency was overvalued. In 2001 this reached a point of explosion.

³⁴ J.W. Cason, p. 85.

³⁵ Ibid, p. 86.

³⁶ J.W. Cason, pp. 86-104.

Brazil was reluctant to give up sovereignty on this issue, but also the smaller countries did not want to commit themselves completely.³⁷

In sum; the international and domestic environment under the integration process changed around the turn of the century which shaped also the ideas of the most important states of Mercosur, Argentina and Brazil with their new presidents.³⁸

To take a step further in the integration process, Mercosur depended on these actors. The bloc had faced international and domestic crises, and together with a lack of supranational institutions, the bloc exposed its limits.³⁹.

2.5 *The turn to the left*

From the year 2000, Latin American faced an upcoming of left wing politics, including in the countries of Mercosur. This ‘turn to the left’ or ‘Pink Tide’ brought left leaning progressive and reformist presidents to power.⁴⁰ They were critical towards neo-liberalism and shared a tendency to nationalism. The state became the main actor in the promotion of regional integration and development. After almost a decade without any remarkable progress, the plan was to give Mercosur a new identity in order to grow economically and at the same time develop effective social policies, to boost the evolution of the bloc.⁴¹ In this context, President Lula and President Kirchner signed a document that put social concern more on the agenda, the *Consenso de Buenos Aires*. The process of renewal confirmed the right of the people to develop with the importance of integration and the involvement of civil society. In addition, summits of social actors were organized and the Social Institute of Mercosur was established.⁴²

3 The institutional framework of the European Union and Mercosur

³⁷ J.W. Cason, p. 105.

³⁸ Ibid, p. 108.

³⁹ G.L. Gardini. “Mercosur at 20: the state of the art and the shadow of the EU”. p. 377.

⁴⁰ Ibid, p. 378.

⁴¹ Ibid, p. 378.

⁴² M. L. Pont. *Southern American Common Market*.

As Mercosur is often compared to the European Union, critics about the inadequate supranational institutional framework are heard frequently. The institutions of Mercosur are subscribed as ‘weak’ and ‘powerless’.⁴³ To further examine this, this chapter will focus on the institutional structure of Mercosur and the European-Union. The analysis is divided in the executive, the judiciary and the legislative powers of both blocs.

In the foundation years of Mercosur discussion prevailed about the shape of the political apparatus. The Latin American states went through a long history of fragile economic situations, where crisis and huge debt problems were not absent. Together with corruption, social inequality and exclusion, poverty and the struggle for security and democracy this kept the countries occupied with their domestic problems and made them reluctant to transfer power to another (higher) level. Accordingly, the two promoters of the bloc, Argentina and Brazil ‘chose’ for intergovernmental procedures taken by unanimous decisions.⁴⁴ In addition, the rules and procedures set up from the Treaty of Asuncion and the Ouro Preto Protocol were broad and not effective. Brazil and Argentina preferred staying flexible which in their view would make it easier to progress in the integration process.⁴⁵

3.1 The decision making bodies within Mercosur

The treaty of Asuncion and the Ouro Preto Protocol together established six institutions that implemented Mercosur’s principles and rules. The decision making bodies consisted out of three: The Common Market Council, the Common Market Group and the Mercosur Trade Commission. The political leadership of Mercosur is in the hands of the Common Market Council, its most powerful body, consisting of the member states ministers of Foreign Relations and Economy, but without permanent staff. The CMC carries out the legal personality of Mercosur and is in charge of the integration process. In addition, it formulates policy and responds to policy proposals, send in by the Common Market Group and holds budgetary power. The Common Market Council also communicates and negotiates with third parties and supervises over

⁴³ M.A. Guedes de Oliveira. “The Southern Cone model”. p. 121.

⁴⁴ F. Dominguez, M. D. De Oliveira, p. 93.

⁴⁵ J.W. Cason, p. 26.

the other institutions.⁴⁶ The meetings of the CMC are attended by the Presidents of the member countries. The Committee of Permanent Representatives is part of the CMC, and exists of representatives from each member country. In 2003 the informal position of President of this body was created but it lacks any efficient power. The Committee assists the CMC, can give proposals for legislation and is the communicative link between economic, social and parliamentary actors within Mercosur.⁴⁷

The executive organ of Mercosur is the Common Market Group. It is composed of four permanent and four rotating members from each country, appointed by their governments, and must include representatives from the Central Banks and Economic and Foreign ministries. Its tasks include drafting policy proposals, carry out decisions taken by the CMC, and turn them into resolutions.⁴⁸

The Common Market Group is, among other bodies such as working groups and technical committees, supported by the Mercosur Trade Commission. This body has the responsibility of the intra-trade relationships and implements Mercosur's trade policy. Furthermore it controls the implementation of agreements within Mercosur countries and employs the policies agreed on by the CMC. The Mercosur Trade Commission is composed of representatives from each member state, managed by the Ministries of Foreign Affairs.⁴⁹ The body enjoys a certain decision making power since it issues Directives and Proposals.⁵⁰

3.1.1 Parliamentary power in Mercosur

The Joint Parliamentary Commission was the legislative body of Mercosur but changed in 2006 into the permanent body Parlasur, which has its main workplace in Montevideo, Uruguay. It consists of members of the national parliaments from the member countries. The nature of the Joint Parliamentary Commission was advisory. Its main function was to support the implementation of policies and let them harmonize with national legislation as smooth as possible. The

⁴⁶ M. Rowat. *Competition policy and Mercosur*. World Bank Technical paper no. 385, 1997, p. 14.

⁴⁷ J. Magone. "Challenging the Monroe doctrine? The relations between the European Union and Mercosur".

⁴⁸ M. Rowat, p. 15.

⁴⁹ Mercosur, *European Commission Regional Strategy paper, 2007-2013*,. (online) Accessed on June, 4, 2013. pp. 15. http://eeas.europa.eu/mercosur/rsp/07_13_en.pdf

⁵⁰ M. L. Pont. *Southern American Common Market*.

transformation into *Parlasur* went along with the intention of regional integration by increasing the legitimacy of the body and developing popular participation by representing the citizens of the member countries. However, its functioning is still not satisfactory. *Parlasur*'s recommendations have to be approved by the CMC and the advisory bodies of Mercosur. Furthermore, it does not have the authority to appoint or remove members of the three main decision making bodies, or to decide about the budget. In addition, the composition of the organ and the powers transferred to it are still issues being discussed on. The plan was to have direct elections in 2011. But since the population size of the member countries differs, from 3,4 million citizens of Uruguay to 195 million of Brazil, the problem raised how to convert votes into seats. A fair proportional system of seats would still give too much seats to Brazil which would be unacceptable for the smaller countries, when as Brazil would be given less seats the country would not agree on this either.⁵¹ When *Parlasur* proposed the solution of a fixed number of seats combined with a certain amount of seats according to the population size, the CMC opposed this idea. For the first period the countries agreed upon sending each 18 parliamentarians, each serving four years. They are appointed by the national parliaments, which gives them a double task; on the national and the regional level. Currently Brazil has 37 representatives and Argentina 26. By 2015 the number of representatives for Brazil will rise to 75, Argentina will have 43 representatives while Paraguay and Uruguay will stay with 18 each, without change.

From 2011 onwards, its members should be directly elected. Yet, at the moment not all Mercosur countries have legally approved its representatives to be directly elected for *Parlasur*, and direct elections are now planned to be held in 2014. The rules of *Parlasur* are not completely binding, but the body enjoys special jurisdiction in important areas such as the development of the integration process, the implementation process of new rules and member states and the protection of the democratic system in the member countries.⁵² As *MercoPress* defined the

⁵¹ Gardini, p. 285.

⁵² Mid-term review and Regional Indicative Program for 2011-2013, (online) Accessed on June, 8, 2013. http://eeas.europa.eu/mercosur/rsp/11_13_mtr_en.pdf

future of Parlasur: “Hopefully, by 2014 it will be elected by universal, direct ballot and have some legislative powers binding the group”.⁵³

3.1.2 Popular representation in Mercosur

The Economic and Social Forum was set up with the Ouro Preto Protocol and consists of representatives from social and economic sectors of the member states, such as business, workers and organizations from civil society. The forum is organized through National Sections and its main task is to give (non-binding) advice to the CMG; therefore its function is mainly consultative. As a support for the Forum, the Mercosur Political Direction body was created in 2003, to strengthen the social, economic and parliamentary relations within Mercosur.⁵⁴

The evolution of the participation of civil society in Mercosur is shaped and changed according to Mercosur’s integration process, depending on the particular sector. Trade unions and business groups have always been the best represented sectors in Mercosur. In contrast, social groups and citizens were not reasonable represented and criticized Mercosur of being a ‘top down’ process without giving a voice to the population.⁵⁵ Yet, after the ‘turn to the left’ of Brazil and Argentina, more focus was put on the social and cultural sector, including the expansion of the involvement of civil society, further developed with Agenda 2000. The participation of civil society improved to a certain extent, but the sectors with higher lobby power still disfavored the representation of citizens. In an attempt to increase the influence of civil society, the possibility of taking part in the supportive bodies of the CMG, such as the working groups, is used.⁵⁶ However, meetings where decisions are made are closed for public participation. From 2005 onwards, more initiatives were launched for the improvement of the institutional participation of citizens, aiming at improving the social and cultural dimension in Mercosur. Parlasur offers public hearings and a seminar for citizen representation, while plans for establishing a Mercosur Citizenship Statute and a Mercosur

⁵³ Mercopress, *about Mercosur* (online) Accessed on June, 12, 2013.
<http://en.mercopress.com/about-mercosur>

⁵⁴ Mercosur, *European Commission Regional Strategy paper, 2007-2013*, pp. 15.

⁵⁵ M. L. Pont. *Southern American Common Market*.

⁵⁶ *Ibid*, pp. 27-28.

Strategic Social Action Plan are created. In addition, the Mercosur Social Participation Support Unit was set up.⁵⁷

3.1.3 Secretariat of Mercosur: powers

In 2002, the Administrative Secretariat changed into the Technical Secretariat of Mercosur, and is permanently based in Montevideo, Uruguay. It should operate in the interests for regional integration and represent Mercosur as a whole. It consists of a (national) Director, elected by the GMC, and operates on a rotating basis. In 2007 the structure and the function of the Secretariat were further expanded. It has no decision making power, therefore its basic function is to give technical assistance to the other Mercosur institutions.⁵⁸

3.1.4 Judiciary power within Mercosur

The Dispute settlement procedure was improved with the creation of the Permanent Review Court. This international Court for public law was established in 2002 with the Protocol of Olivos and operates since 2005 at an interstate level. It differs from the ad hoc Arbitration Court, where disputes among member countries were resolved through direct negotiations while working to a solution with help from the CMG. This process was formed under the Brasilia Protocol, which consisted of a dispute resolution process in three steps. The first step included negotiation between the involved member states with supervision of the Secretariat. In case of failure, the CMG stepped in and presented a recommendation. If one of the parties did not accept this solution, it could choose to seek arbitration before an ad hoc arbitral tribunal to resolve the conflict. Since the Arbitration Court was not subject to appeal, the limited functioning of this system required an improved organ, which is presented as the Permanent Review Court. The ambition was to solve conflicts no longer only in a ‘diplomatic way’.⁵⁹ The Courts main goal is “to guarantee the correct construction, application and

⁵⁷ IDB Integration and trade sector – Institute for the integration of Latin America and the Caribbean. *Mercosur Report 2010-2011* (online) Accessed on June, 12, 2013. <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=36712280>

⁵⁸ Mercosur, *European Commission Regional Strategy paper*, 2007-2013, p. 15.

⁵⁹ A. Malamud. *The internal agenda of Mercosur: interdependence, leadership and institutionalization*, (online) Accessed on June, 17, 2013. www.ics.ul.pt/rdonweb-docs/AndresMalamud- p. 128.

fulfillment of the fundamental instruments of the integration process and the whole set of Mercosur rules in a consistent and systematic fashion."⁶⁰ Thus the Court deals with conflicts between member countries about possible disputes that arise out of the interpretation of the Treaties, Protocols and decisions, resolutions or directives adopted by the CMC, CMG and the MTC. Private parties can submit a claim in case they feel restricted or discriminated by Mercosur's regulation, but only to a member country and not directly to a Mercosur body. However, the Court does not operate completely independent. Under the provisions established in the Protocols of Brasilia and Olivos on Dispute Resolutions, it is only possible to dissolve decisions (from for example the CMC or the CMG) of the bloc in relation to a disagreement, whereby individuals have to turn to the national section of their country.

Thus, when analyzing the functioning of the Court, doubts exist about the permanent character and its 'improved' capacities, since its weak enforcement capacities and intergovernmental based dispute settlement. It basically remains a Court of appeal. In contrast, the European Court of Justice operates completely independent from the European states and granted a role as guardian in its ability of applying EU law to all the member states. In addition, it can operate as arbiter between the institutions and EU governments, as individuals and states have direct access.

The Centre for the Promotion of the Government of Laws was created in 2004. Its main tasks are all concerned with the regional integration process of Mercosur, and it operates through the Permanent Court in Asuncion. Together with the Permanent Representatives of Mercosur, it coordinates the Democracy Observatory (ODM) which was created to commit Mercosur (and Bolivia and Chile) to democracy, considering the tensions Latin America and Mercosur had experienced with democracy. Already in 1998, Paraguay had presented itself as the main supporter of the 'democratic clause', which was introduced to ensure a democratic government of countries aspiring Mercosur membership.⁶¹

⁶⁰ M. L. Pont. *Southern American Common Market*.

⁶¹ Gardini, p. 63.

3.1.5 Mercosur's legal system

The legal system of Mercosur consists of the regulations of the different treaties, protocols and annexes agreed on. It depends on the national law system of each country how effective these treaties are on the national level, as the place of the 'community law' depends on the different constitutional law of each member state. Therefore, in every country a common rule of the CMC, the CMG or a recommendation of the Trade Commission must first be internalized in the member countries legal system to come into force. The 'administrative law' of Mercosur is obliged (with the Ouro Preto Protocol) for all member countries to implement on the national level, but not performed consequently. Only 48% of the Mercosur legislation was in force in 2004.⁶² Especially Brazil and Uruguay had difficulties in amending their constitutions according to Mercosur law and erasing the inconsistency between domestic law and Mercosur law. International treaties do not enjoy the supremacy over national law, although the constitution of Uruguay mentions the importance of integration of Latin America in social and economic sectors.⁶³ In contrast to this, the Argentine and Paraguayan law systems place international treaties and the 'community law' above the national law.⁶⁴ In sum, Mercosur's common law lacks direct applicability, effect and superiority over the national legal systems. The rules of the bloc first have to be converted through the institutions and hereby are subject to the different interests of the member states' representatives. More than half of the rules of the bloc need requirements before application. On top of this, member states in different occasions fail to implement them. The nature of the rules and the process of their application is thus an issue that has to be improved.⁶⁵

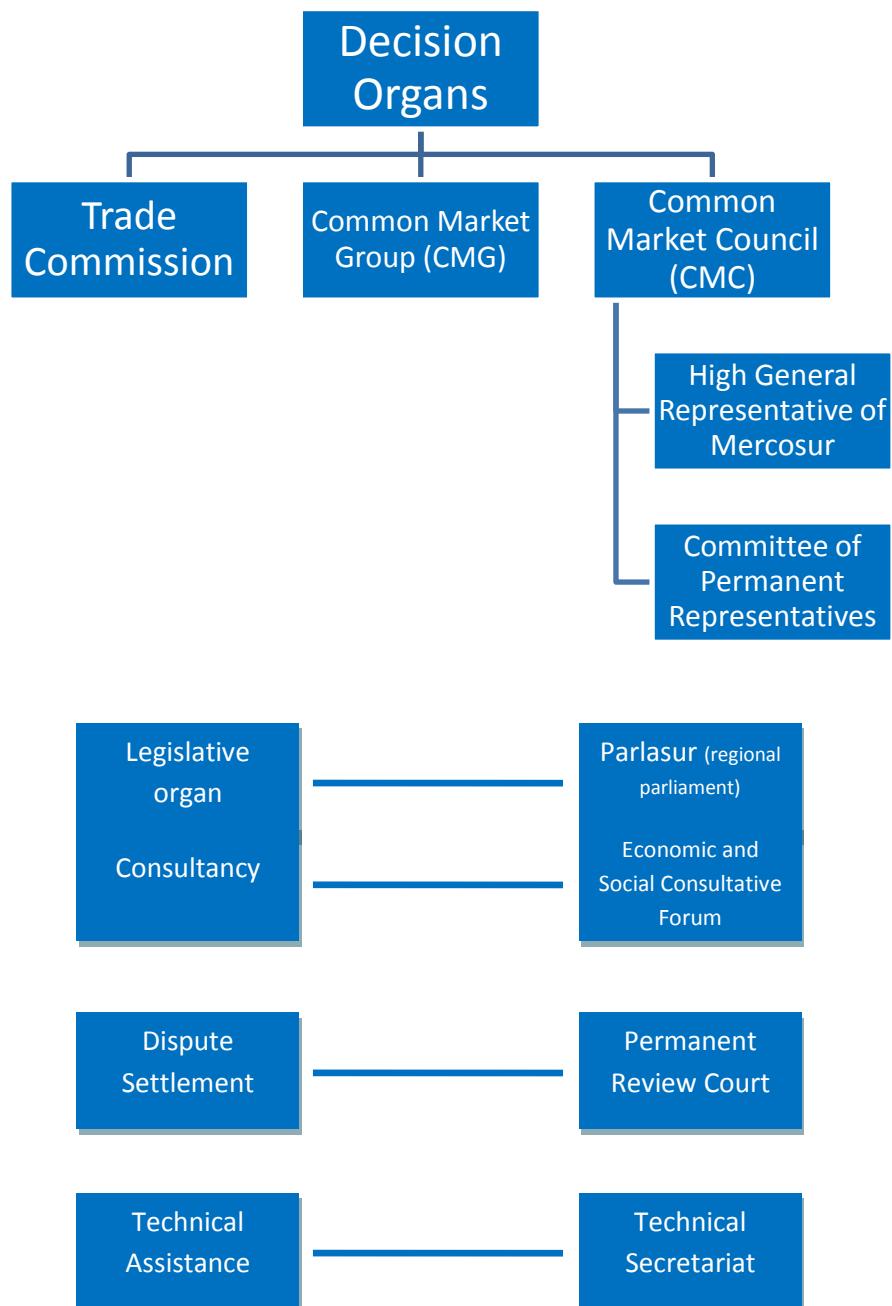
⁶² Mercosur, *European Commission Regional Strategy paper*, 2007-2013, p. 14.

⁶³ M. L. Pont. *Southern American common market*.

⁶⁴ M. Rowat, p. 83.

⁶⁵ M.L. Pont. *Southern American common market*.

Table 1. The institutions of Mercosur



Based on *Mercosur*, (online) Accessed on June, 1, 2013.

http://www.mercosur.int/t_generic.jsp?contentid=492&site=1&channel=secretaria, modified by the author.

3.2.1 Institutional development of the European Union

The European Union is by many considered as the most advanced integration model in the world. Therefore, the European Union is constantly used as a reference for Mercosur. Integration in Europe has been going on for more than 60 years. It started after the Second World War, when the European states were completely destroyed in social, political and economical aspect. To make sure a war would never occur again, the Schuman Plan was proposed by Jean Monnet with the aim to create a supranational community of Europe. As traditional rivals, France and Germany were particularly meant to cooperate in accomplishing this goal. When the European economies grew, the integration process also went forward. But European integration was not free from problems and faced many obstacles. In the 1960s France, under President Charles de Gaulle, was reluctant to give up sovereignty to supranational institutions. The integration process got a further setback with the oil crisis of the 1970s. However, in the 1980s an incentive for further integration finally resulted in the Maastricht Treaty of 1992. From then on a process of widening started. Criteria for accession to the Union were formulated and the European Union expanded significantly in the years that followed.⁶⁶

European Integration has been very different from the integration process of Mercosur. From the start, European promoters of integration had a clear view about why and how integration should be accomplished. This tendency was mostly absent in Mercosur. Besides, the member countries of the European Union have (voluntary) given up sovereignty in the interest of economic integration. Since all states did this and actually saw it as beneficial, power could be transferred to supranational institutions, which has been a decisive factor in the success of the European Union. The integration process started with developed countries and still is largely dominated by developed countries. They depend to a much lesser extent on the international economical situation, in comparison to Mercosur, which consists of developing countries. When an economical crisis

⁶⁶ D. Dinan. *Ever closer union: an introduction to European Integration*. Lynne Rienner, 2005. pp. 13-23.

occurs (in one of the neighboring countries or worldwide), the integration process in Mercosur is heavily affected. However, with the debt crisis of 2008, the European countries faced severe problems as well, which forced them to focus on their economic and monetary system to consolidate their future within the euro zone, and exposed a fragility of the supranational institutions in overcoming the crisis.

3.2.2 The European institutions

The European Union consists of seven institutions, from which the ones relevant in connection with Mercosur will be analyzed in this paragraph.

3.2.3 Executive powers within the European Union

The European Council (officially not a European organ) is made up by the heads of state from each member state. It gives the European Union impetus for development and defines the general political directions and priorities.

The European Commission came into existence with the Treaty of Rome in 1957. This executive body proposes legislation and implements decisions and European laws. It is the day to day running of the European Union and consists of 27 members who defend the interests of the EU, not of their home state. The Commission by time became more important in promoting the integration process of the European Union. The administrative body of the Commission, the Directorates-General, each deals with a certain policy area.⁶⁷

3.2.4 Legislative power within the European Union

The EP is the (supranational) parliamentary institution of the European Union. The European Parliament has gone from a long way and transformed significantly over time. It achieved more and more power and today it is the main law making body of the Union as it passes European laws and has the budgetary power together with the Council of the European Union. The European Parliament consists of 754 parliamentarians which are directly elected by the European

⁶⁷ Ibid, p. 187.

citizens. The Parliament elects the president of the European Commission, as the Commission is accountable to the Parliament.⁶⁸

The Council of the European Union (or Ministers), is an intergovernmental body that represents the governments of the member states. It is a core decision maker since it decides on all legislative acts (together with the European Parliament), and passes European laws, coordinates the (economic) policies of the member countries and adopts the budget with the EP.⁶⁹

3.2.5 Judiciary power within the European Union

An important organ that could push an integration process forward is a supranational court. In the European Union it is the Court Of Justice that establishes the Community Law. The body became a significant and legitimate judiciary power in the European Union. It has a crucial role in policies relating to the internal market, but a limited role in external policies. Its 27 judges take action when a member state does not implement European law, since European law breaks the national law. Furthermore it puts into practice the binding interpretation of the European treaties.⁷⁰

3.2.6 Theories: supranationalism and intergovernmentalism

In the 1950s, Jean Monnet already stressed the importance of supranationalism in the European Union. With the European Coal and Steel Community, the High Authority was based on the principles of supranationalism. Supranationalism suggests the process of giving up sovereignty in favor of a different body beyond the national level in order to create common policies. In the European Union supranational bodies were created gradually; today consisting of the European Commission, the European Parliament, the European Central Bank and the European Court of Justice. These bodies defend the upper interests of the EU. On the other hand, intergovernmental institutions defend the national interests of the member states and are performed through the Council of the EU and the European Council.

⁶⁸ D.Dinan, p. 259.

⁶⁹ D. Dinan, p. 225.

⁷⁰ Ibid, p. 289.

The two concepts are not contradictory; they complement each other as the relationship between them is in constant movement. At times the range of policies within Europe has extended gradually, but member states also have changed treaties in order to revive European integration. Supranationalism became one of the most important principles of the European Union. Since it makes the integration process more predictable and committable, it is easier to move forward, were in the case of the EU, national economies became interdependent which led to further integration of other areas as an effect of ‘spill-over’.⁷¹ In the case of Mercosur, ever since its creation, and despite some modest improvements, the bodies within the institutional framework depend on the member states. This makes the process of integration in Mercosur an intergovernmental one, which gives the heads of state the legislative power, the ultimate say over parliamentary decisions, the power to decide over Mercosur’s agenda and overall the executive power, to the loss of common institutions.⁷²

3.2.7 The institutional structure of the European Union and of Mercosur: a comparison

The CMC could see its counterpart in the European Council. In both intergovernmental organs, representatives of the member states (national ministers) represent the body and set out the general political objectives and process for integration. The office of President in the CMC is held by a member country for six months. The heads of State meet once a semester in a (presidential) Summit, but could meet more frequently when necessary. Representatives of the economic and social sector or international organizations are not excluded from attending these meetings.

The Summits of the European Council take place twice per six months with the national leaders, who set out the general agenda for the EU and stimulate the process of integration. The EU Council officially lacks any formal powers, but employs a great influence in high policy areas and thus could be described as the most essential body of the European Union, similar to the CMC, the highest political body of Mercosur.

⁷¹ R. Roett, pp. 52-55.

⁷² M. L. Pont. *Southern American Common Market*.

The CMG can be compared with the European Commission for the reason that both organs have the power to propose and implement policy. However there are significant differences between the European Commission and the CMG that challenge this comparison. The European Commission is a supranational body that consists of 27 commissioners who represent the European Union as a whole, without political control of the member states. The Commission has the right of initiative; it proposes new legislation to the European Parliament and the Council, and is not accountable to the national parliaments. In contrast, the Common Market Group consists of representatives of the member states governments, accountable to the national parliaments of the member states, and under the supervision of the national Foreign Ministries. Proposals from the Trade Commission are coming through the CMG (to the CMC) and the CMG monitors the implementation of the agreements made by the CMC.⁷³ Because the CMG has ‘strong’ executive powers and prepares the decisions of the CMC, at some point it controlled the activities of Mercosur’s meetings, and gave the members, among them national Foreign and Economic Ministries, more influence in negotiations, while the decision making kept within the CMC. In addition, lower ranking bodies do not fully participate in the preparation of the higher ranking bodies. Thus, the overlap of decision-making bodies could lead to discrepancy, conflicts and differing priorities. The dominance of the member states influence representing the CMG clearly sets out the difference with the independently acting members of the European Commission. The European Commissioners solely act in the European interest, and take on the ‘European identity’ in their daily work.

Parlasur, Mercosur’s parliament, resembles the European Parliament. Both organs have the legislative power. However, efficient decision making in Parlasur is still not obvious, as the body faces difficulties while trying to improve its own role and to give the Mercosur citizens a voice. However, the power of the European Parliament as it exists today also developed over time. The body made great

⁷³ M. Rowat,, p. 94.

transformation overtime. When the European Parliament was founded, its members were appointed. It was in 1979 when the first direct elections took place. It started with an advisory role but after the Maastricht Treaty and the Treaty of Amsterdam it gained more parliamentary and representative powers. It was with the Lisbon Treaty that the European Parliament got more competences in budgetary affairs and gained the same right in decision making as the council of the European Union, although the Parliament is not always involved. In contrast, Parlasur is still not completely settled, as its power and composition remain unsure, but it has the potential to expand progressively in a body that is involved in every area of Mercosur policy. It is the only body in Mercosur that decides by majority, but the power of the legislative function of the EP is superior weighed against to the non binding decisions of Parlasur. However, as we have seen with the European Parliament it takes time to become an efficient operating and powerful body.

The Economic and Social Forum of Mercosur can be compared to the European Economic and Social Committee. European workers, employers and trade unions represent this body that is of consultative nature because it gives advice to the EU Council, the Commission and the Parliament. Both consultative bodies represent civil society in advising their superiors, wherein their members act independently from their national governments. However, the European counterpart represents a wider area of interest groups, which extended to for example education, health, environment and taxes. Mercosur's representation of civil society is of a much more limited nature to have an effective impact on the decision making within the bloc.⁷⁴

3.2.8 Mercosur's limited institutional powers

The institutional structure of Mercosur can be referred to as weak, in regard to the separation of the different bodies. The three bodies (CMC, CMG, and the Trade Commission) all consist of representatives of national governments but differ in status and capacity. They can be divided in the highest body represented by the

⁷⁴ M. L. Pont. *Southern American common market.*

CMC, the executive body represented by the CMG and the Trade Commission with more limited powers. What's more, the incomplete identity of the parliament and its liability on the CMC results in limited effective legislative power. Even though the powers of the Permanent Review Court improved the last years, it not yet established a uniform system with consistent rules, equal liability for all parties and individuals, and the ability to give penalties. The existing difficulties within the Parliament and the Permanent Court make it obvious that effective means of control of the actions of the member states' governments lack within Mercosur. Also external means of control, for example from civil society are limited. The way civil society is integrated in the bloc excludes powers for decision making, liability and control capacity over the decisions adopted by the bodies of Mercosur.

Conclusion

Supranational institutions are considered to be a tool for the creation of common juridical rules that will guide and regulate the integration process. In the European Union the national governments of the member states transferred power to (supranational) institutions and rules, for example represented by the European Court of Justice and the European Commission. This was a step by step process, based on the method of Jean Monnet to build on concrete achievements with the effect of spillover in certain areas that did not only rely on general treaties and rules.

In contrast, an effective supranational institution like the European Commission or the Court of Justice of the European Union is not active in Mercosur. Instead, when taking a closer look at the institutional structure of Mercosur, the intergovernmental approach is obvious, because the presidents of the member countries are the actors setting out directions for integration and take the important decisions, because they head the most important, and powerful bodies. Thus representatives of Mercosur's institutions are most of the time heads of governments or significant Ministries, and not regional representatives, which concentrates the entire decision making in the national executive powers. The summits 'diplomatic procedures' in decision making is a common 'tradition' in

Latin America, where presidents of the member countries have been decision makers, dispute settlers and negotiators at the same time. As Malamud argues “(..)The presidents of Mercosur member states have concentrated power and enjoyed high levels of autonomy, mainly because of institutional factors, which includes decisional autonomy from the assembly and the cabinet, legislative initiative, decree power, and veto power”.⁷⁵ This in turn is backed up by the weak institutional structure. Accordingly; “Mercosur summits have become a display of empty rhetoric, full of protocol and ‘family photos’ but with no full hearted willingness to achieve a solid, fair integration (...)”,⁷⁶ according to Mercopress, the South Atlantic News Agency, in 2011. ‘Interpresidentialism’ is still forthcoming within Mercosur. Hence the creation of a new body, such as Parlasur, might not improve Mercosur in this context.⁷⁷

Table 2 Division of power in Mercosur and the European Union.

	Executive power	Legislative Power	Judiciary Power
Mercosur	CMC, CMG (with support of the Trade Commission)	Parlasur	Permanent Review Court
European Union	European Commission, European Council	European Parliament, European Commission (initiative) Council of the European Union	Court of Justice of the EU

⁷⁵ A. Malamud. “Presidential diplomacy and the institutional underpinnings of Mercosur: an empirical examination”. *Latin American Research Review*, volume 40, number 1, 2005, p. 142.

⁷⁶ Mercopress, *Parlasur member claims Mercosur summits have become display of empty rhetoric* (online) Accessed on June, 11, 2013. <http://en.mercopress.com/2011/06/27/parlasur-member-claims-mercosur-summits-have-become-display-of-empty-rhetoric>

⁷⁷ A. Malamud, p. 159.

	Consultative Organ	Dispute settlement	Technical Assistance
Mercosur	Economic and Social Consultative Forum	Permanent Review Court	Technical Secretariat
European Union	European Economic and Social Committee	Court of Justice of the European Union	Commission Directorates- General

Source: authors own chart

4 Analyzing economic integration of Mercosur and the European Union

In general, the reason for economic integration within The European Union and Latin America are comparable, both responding to global economic challenges backed up by domestic interests of security and stability. In 1957, The European Economic Community was created, with mainly economic objectives. But, already starting from the Treaty of Rome, Europe had the intention to create common institutional bodies and from the end of the 1970s the EU established coordinated macroeconomic policies. This process of economic integration - from a free trade area to a customs union followed by a common market and finally a monetary union with a single currency - went in different steps, wherein member states agreed on giving up more and more sovereignty in the economic policy areas. This was necessary, but also seen as most beneficial for the European states, in order to further develop economic integration.⁷⁸ As a first move, a free trade area without internal tariffs was established. What followed was the adoption of a common external tariff and a common trade policy in 1968, which completed the customs union. A logical next step was the creation of the common market, which made the free movement of goods, capital, services and labor possible. The ultimate step of forming a common economic and monetary union

⁷⁸ A, Malamud. p. 16.

was taken with the creation of the single market including a single currency, the euro, and a common monetary policy.

In contrast, within Mercosur, the two big players Brazil and Argentina were reluctant giving up autonomy, by creating common macroeconomic policies to address the asymmetries between the bigger and smaller members in terms of market size, development or competitiveness. This paragraph examines the economic integration process, method, objectives and shortages of Mercosur by looking at the European process of economic integration to point out the problems that jeopardized Mercosur's economic integration process.

Table 3 Economical facts of Mercosur in short

The first phase	The first years of Mercosur, between 1991 en 1999, the bloc experienced a significant increase in trade, both intra-regional as worldwide.
The second phase	In the crisis years of Mercosur, from 1999 onwards, the economic slowdown of Argentina and Brazil (and also worldwide) were major factors in the decrease of intra-regional trade. Export within the region in this period fell from 25% to 11,5%, and also intra-regional imports dropped from 21% to 17%. ⁷⁹
The third phase	From 2003 onwards, the economies recovered, and intra-regional trade increased to 44 billion US dollars in 2010. ⁸⁰ However, compared to the total trade flow, intra-regional trade decreased in 2011 to 26 billion US dollars. ⁸¹ The worldwide trade of Mercosur expanded, which makes the European Union, China and Canada its main trading partners (especially of Brazil). ⁸²

⁷⁹ A. Averbug. *Mercosul: economic trends and outlook* (online) Accessed on June, 14, 2013. http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_en/Galerias/Download/studies/re v101.pdf

⁸⁰ For more statistics on trade see table 6 and table 7 in the appendix.

⁸¹ IDB Integration and trade sector – Institute for the integration of Latin America and the Caribbean. *Mercosur report 2010-2011* (online) Accessed on June, 15, 2013. <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=36712280>

⁸² A. Averbug. *Mercosul: economic trends and outlook*.

4.1 Mercosur's (difficult) economic integration

With the establishment of Mercosur, the members agreed on the objective of creating a common market which would include the free movement of goods, services and factors of production, non tariff areas, a common external tariff, the adoption of a common trade policy, and the coordination of macroeconomic and sectoral policies. The common market had to be established in a three step process; the transition phase, the creation of the customs union and finally the common market. Mercosur's economic success of the first years started with the lowering of tariffs, and by 1997, most of the intra-trade tariffs were removed, which caused an enormous increase in (intra-regional) trade during the first years.⁸³

However, the second half of the 1990s exposed tensions and conflict in various economic areas, such as about free trade barriers. Ever since, Mercosur tries to complete the customs union and aims to implement the completing elements for a common market. But this road towards the creation of a common market went without structured rules or a strict schedule. With 'Agenda 2000', more clear directions for the establishment of the customs union were set out, but such guidelines were not further developed for the realization of the common market.

Until 2010, imported products paid a 'double duty': when entering the free trade area and when crossing borders within this area. Nevertheless, during the San Juan Summit the members agreed on removing this 'double duty' in three stages up to 2019. The common external tariff (CET) - the tariff members apply to trade with non member countries or associate countries - has also been a source of conflict and therefore changed frequently. Most of the time, Brazil and Argentina favor higher tariffs to protect their industry, while Paraguay and Uruguay favor lower tariffs.⁸⁴

⁸³ K Kaltenthaler, F.O.Mora, p. 75.

⁸⁴ Gardini, p. 289.

4.2 Asymmetries among the member countries

In regard to the heterogeneous composition of the bloc, different factors play along in the limited level of economic harmonization. The Mercosur members differ immensely in terms of GDP, market size, level of development and population. For example, the in some areas limited infrastructure causes problems for effective transportation.⁸⁵ Table 4 shows the size asymmetries of the member countries, in geography, demography, nominal GDP and GDP per capita in US dollars. Brazil accounts for more than 75% of Mercosur's population and nominal GDP. But in GDP per capita, small member Uruguay performs the best of all members, followed by Venezuela. Thus Brazil dominates in terms of size, but is relatively less developed with more poor regions. Other significant problems lie in the level of competitiveness and interdependence among the countries. Brazil, as expected, depends to a lesser extent on exports to its neighbors, where intra-regional export from Brazil declined after 1999. As a result Brazil increased its exports to the EU, US and China as it saw itself as a worldwide trader. In contrast, Argentina, Uruguay and especially Paraguay depend to a larger extent on intra-regional export, which becomes visible in table 5. Export to Mercosur members accounts for a large percentage of their total trade, although after 2009 this dependency decreased slightly.

Table 4 Geographic, demographic and economic asymmetries of Mercosur

	Land size (km ²) *	Population *	Nominal GDP in billions of US dollars (2012) **	GDP per capita in US Dollars**
Brazil	8,515,767	193,946,886	2,395,968	12,078,834
Argentina	2,780,400	41,281,361	474,954	11,576,212
Uruguay	176,215	3,318,535	49,404	14,614,147
Paraguay	406,752	6,561,748	25,999	3,903,261
Venezuela	916,445	28,946,101	382,424	12,956,079

Sources : *G.L. Gardini, *Mercosur at 20; the state of the art and the shadow of the EU*, pp.

**IMF (online) Accessed on June, 20, 2013.

http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/weorept.aspx?pr.x=52&pr.y=17&sy=2011&ey=2013&scsm=1&ssd=1&sort=country&ds=.&br=1&c=213%2C223%2C288%2C298%2C299&s=NGDP_R%2CNGDP_RPCH%2CNGDP%2CNGDPD%2CNGDPD%2CNGDPRPC%2CNGDPPC%2CNGDPDPC%2CTM RPCH%2CTMG RPCH%2CTX RPCH%2CTXG RPCH&grp=0&a=

⁸⁵ Gardini, p. 391.

Table 5 Export to Mercosur in % of total



Source: The Economist, *Mercosur RIP?* (online) Accessed on June, 7, 2013)

<http://www.economist.com/node/21558609?zid=305&ah=417bd5664dc76da5d98af4f7a640fd8a>

In regard to the structural differences between the Mercosur countries, FOCEM was established, a redistributive instrument to reduce the asymmetries between members. However, as this may be a step forward, the different levels of prosperity within the Mercosur members are more difficult to solve, which requires a more extended FOCEM.⁸⁶

A related problem that hinders the efficiency of the (incomplete) common market is the difference in macroeconomic policies of Brazil and Argentina. Between 1994 and 2005, the average growth of the Mercosur members was low. Especially during the first years of integration, the countries were trying to reform and stabilize their national economies. From this point of view, the creation of common macroeconomic policies and effective common regulation was difficult.⁸⁷ This is reflected for example in the current protectionist trade measures of Brazil and Argentina. In addition, every member country maintains different investment, producing and export policies. As a consequence, fair competition in these economic areas depends on the domestic rules, which are not harmonized.

⁸⁶ M. Mukhametdinov. "Mercosur and the European Union: Variation among the factors of regional cohesion". *Cooperation and Conflict: Journal of the Nordic International Studies Association* vol. 42(2): 207, p. 216.

⁸⁷ M. E. Carranza. "Can Mercosur survive? Domestic and International constraints on Mercosur", *Latin American Politics and Society* 45, no. 2, 2003, p. 67.

To conclude, the purpose for establishing a customs union or a common market is to increase economic efficiency which is supposed to establish closer political and cultural ties between the member countries. In addition, according to Malamud⁸⁸, economic interdependence is a pre-condition for (further) integration. However, asymmetries in geography, market size, level of development and GDP prevented this to happen in Mercosur. At the moment, the customs union and the common market are incomplete and the free trade zone is lacking efficiency; since exceptions on products in sensitive areas remain and protectionist measures are still applied by Brazil and Argentina. As a result, economic interdependence decreased in previous years in Mercosur. Particularly Brazil was already ignorant towards the smaller members and sought (trade) relationships outside Mercosur. But sequentially the smaller members increasingly favor external bilateral relationships. Since Brazil and Argentina are reluctant in overcoming national interests or in creating regional economic rules for the completion of the customs union and the common market, trade barriers and protectionist measures still disfavor Uruguay and Paraguay. To balance the asymmetries, common macroeconomic policies, and harmonized, effective regional rules should be implemented. As a first step trade barriers should be completely removed in order to improve Mercosur as a whole.

5 Political, economic and social role and intention in Mercosur

5.1 Brazil

The Mercosur countries differ hugely in terms of economic size and dimension, their level of development, population, geography, territory and social indicators. Brazil is the largest country in territory, population and economy of all Latin American countries. With over 193 million inhabitants, Brazil's emerging economy is one of the fastest growing in the world, which has given the country new influence on the international world stage in its endeavor to become a world power. The position of (economical and political) predominance of Brazil also

⁸⁸ A. Malamud. "Mercosur turns 15: between rising rhetoric and declining achievement". *Cambridge review of international affairs*, volume 18, number 3, October 2005, p. 432.

accounts to Mercosur. Brazil is seen as the leader of the Latin American countries, and especially of Mercosur. Needless to say, Brazil, as the main driving force behind the creating of Mercosur, shaped to a large extent the development of the bloc and still shapes to a large extent the agenda and priorities.⁸⁹ To understand Mercosur's integration process and to estimate future integration of the bloc it is important to analyze the interests and role of the biggest member. This paragraph will analyze the role and intentions of Brazil in Mercosur. In what manner did Brazil fulfill its political, economical and social role in Mercosur and how does it operate in Mercosur nowadays?

Brazil as upcoming giant

With the need for Brazil to obtain a position on the international stage, and create macroeconomic stability, regional integration was put first on the agenda of Brazil (and Argentina) and Mercosur was established. In the domestic sphere, Brazil's main aim was to strengthen democracy.⁹⁰ The gains the country could get from trade liberalization were considered as important and President Collor took the initiative in promoting this, as Mercosur was the perfect opportunity to open up the economy to the rest of the world.⁹¹ Nevertheless, in terms of trade and industry, Brazil considered a competitive import sector as more important compared to the export oriented sectors in determining their micro economic policy. Thus it preferred to keep flexibility within the economic sector. Also in foreign policy Brazil followed the tradition of keeping a strategic position that favored a degree of autonomy in their development. Especially the Foreign Ministry of Brazil, the 'Itamaraty', has operated according to this trend.⁹²

In the early stages of the bloc, Brazil resisted developing closer ties with the United States by using Mercosur for this resentment. Collor's presidency ended because of different corruption scandals, and he was replaced by his vice-president, Itamar Franco. At the beginning, the administration was not sure about the direction the economic policy should take. Nonetheless, in the second half of

⁸⁹ R. Roett, p. 25.

⁹⁰ J.W. Cason, pp. 108-109.

⁹¹ R. Roett, p. 30.

⁹² J.W. Cason, p. 73.

1994, Brazil's commitment to the integration of Mercosur increased, but Franco followed a different style compared to Collor de Mello.⁹³

In foreign affairs, Brazil continued to grow more in becoming an important international player. This changed the perceptions and gave rise to a more open and cooperative attitude in world affairs. In the national arena, the new minister of Finance, Fernando Henrique Cardoso, implemented the *Plano Real*, a plan prioritized to stabilize the domestic economy.⁹⁴ Brazil secured the supply to their markets and protected the local producers against competition from abroad. This plan proved to be successful and led to Cardoso's appointment of president in 1994. Cardoso defended a position that was in favor of further integration; while Mercosur was going through a difficult phase, he supported maintaining Mercosur as a customs union and deepen and widen the bloc. In this period the institutional structure of Mercosur was extended by the Ouro Preto Protocol. The influence of Brazil over the bloc became more and more evident, but the country's negotiation position changed. Despite Cardoso's policy to continue and intensify the process of neoliberal reforms, economic openness and modernization, Brazil was forced to implement a less open foreign trade agenda as the Mexican crisis put a major setback on the trade balance, that had ran into deficit. Small businesses went into crisis as well since they were exposed to strong foreign competition after the Plano Real. As a result, the government had to adopt new measures in export and industry to defend the trade sector. New investment and export were encouraged. This resulted in an impressive increase of Brazil's export to the other Mercosur countries, especially Argentina, until 1996.⁹⁵

In the second term of Cardoso's presidency, Brazil began to feel the consequences of the neo liberal policies it had followed. The crisis in Asia in 1997 and in Russia in 1998 had a huge impact on Brazil. After years of a liberal foreign trade and industrial policy, which also lead to policy initiatives for Mercosur, Brazil took a step back in its regional commitments and could not give new incentives to develop the customs union.

⁹³ J.W. Cason, p. 70.

⁹⁴ G.L. Gardini, p. 10.

⁹⁵ R. Roett, p. 28.

The changed policy of Brazil in important sectors for the sake of liberalization gave the country a comfortable position in Mercosur where the bloc depended on initiatives from the country's leaders. At the same time the other member countries faced the consequences of Brazil's national policies, since the interdependence among the countries grew as trade grew. As a result, Brazil and Argentina expanded their interstate relations. Mercosur also needed incentives for further integration. However, in this matter efforts coming from Brazil were less ambitious. Loosing autonomy in decision making was the biggest fear of the country's administration. Initiatives to remove the obstacles to complete the fully free flow of goods and services were not taken by Brazil and incentives to further develop the custom union were not always given.

Moving regionalism and changing foreign policy

When the left oriented Luiz Inácio da Silva "Lula" came to power in 2003, hopes raised to solve the social issues of Brazil. He had a different perspective on Mercosur than his predecessors. Lula followed an active foreign policy, especially on South-South cooperation (first offer to Venezuela), in which he promoted the importance of Mercosur, and made the bloc a priority on the agenda, mainly for strategic reasons. He even spoke about improving Mercosur "like the European Community model".⁹⁶ Under Lula's presidency Brazil started to cooperate more closely with Argentina in foreign policy, trade and Brazil and Argentina became increasingly committed to strengthen Mercosur together. Brazil also engaged in the creation of UNASUR. However, Lula's attempts to strengthen the institutional framework and create supranational institutions were neglect able.

When Lula was succeeded by Dilma Roussef, her administration continued more or less in the same line, but Roussef supported deepening Mercosur integration more strongly. Since she took office, efforts to improve relations between Brazil and the United States have increased.⁹⁷ However, Roussef also emphasized the

⁹⁶ A. Klom. "Mercosur and Brazil, a European perspective". *International Affairs* 79, 2003, p. 367.

⁹⁷ Mercopress, *Biden meets Rouseff, underlines the importance of a broader relationship with Brazil* (online) Accessed on June 10,, 2013. <http://en.mercopress.com/2013/06/01/biden-meets-rousseff-underlines-the-importance-of-a-broader-relationship-with-brazil>

importance of Latin America and Mercosur as “Brazil’s foreign policy priorities”, aiming at improving the cooperative atmosphere.⁹⁸

Conclusion and outlook

Brazil has always been the most important power in Latin America, considering its size and population. Therefore it has seen itself as natural leader of the region and of Mercosur. The will to create and integrate a bloc as Mercosur was motivated mainly for geostrategic and political reasons (strengthening of the new democracy) and carried by economical objectives: Brazil considered Mercosur as a manner to strengthen its national economy on the world scale by opening up the markets. Brazil not only wanted to strengthen its own position, it also wanted recognition by the international community for Mercosur as important player (to consolidate its own power) and use regional hegemony to stand strong against the United States, since Brazil was reluctant towards closer ties with the US. However, after a process of involvement in the regional integration process, the period after 1994 meant a change in attitude and policy where Brazil took distance from its regional commitments and from the objectives of perfecting and deepening the customs union, as it preferred loose economic agreements. Because of Brazil’s transformation into a more dynamic and competitive economy, tighter rules would be not favorable. The 2000s saw a change in the policy towards Mercosur. Under Lula’s administration, Brazil put Latin American integration on number one of the agenda as it was suspicious towards hemispheric integration with the United States.⁹⁹

The international dimension of Mercosur was important for Brazil to gain leverage on the international stage and reinforce their position as leader in Latin America in negotiating with other international blocs and countries (US). However, due to its economic strength and being close to become a world power; Brazil has not taken the responsibility of supporting effective (supranational)

⁹⁸ Mercopress, *Latinamerica and Mercosur, priorities of Brazil foreign policy ratifies Roussef* (online) Accessed on June 17, 2013. http://en.mercopress.com/2013/06/17/latinamerica-and-mercosur-priorities-of-brazil-foreign-policy-ratifies-rousseff?utm_source=newsletter&utm_medium=email&utm_campaign=daily

⁹⁹ R. Roett, pp. 26-27.

institution- building as it preferred to keep flexibility without seeing its actions being constrained by preferences of the other Mercosur members. The asymmetries in (market) size raise the question of the bloc's relevance for Brazil. It would suggest that potential (economic) benefits for Brazil from Mercosur have been little, (which explains why Brazil from the start of Mercosur adopted a moderate position in the further integration process) because of the small markets of the neighbor countries. But in fact Brazil has benefited the most from intra-regional trade in the last 10 years, although overall intra-regional trade dropped since 1998. Between 1990 and 1996, the economical benefits Mercosur brought should also not be underestimated. According to Mercopress, this is self evident because *"Brazil has the initiative in all negotiations and it is only logic that they have obtained the most attractive results"*.¹⁰⁰ However, the current signals coming from Brazil's economy are pessimistic. The economic growth is slow and inflation is increasing, which is causing major popular uprising.¹⁰¹

Former Brazilian President Fernando Cardoso said in 2012: *"If we really want to reactivate Mercosur we would need a far greater integration effort and not feel satisfied where we stand now"*.¹⁰² In addition, the country is criticized especially by Uruguay and Paraguay for not giving full access to their market. They became dissatisfied with the increasing protectionist policies Brazil is following and did not well receive the decision to accept Venezuela into the bloc. They argue that Brazil turned Mercosur into its own area of influence, as Mercosur is becoming mainly a political organization, less focused on the initial economic objectives.

5.2 Argentina

Argentina is the second largest member country of Mercosur and after Brazil the most important member of the bloc. Despite the joint efforts in the creation of Mercosur, the countries always followed different interests, where distinct views

¹⁰⁰ Mercopress, *Mercosur has only benefited Brazil in the last ten years with a surplus of 36,8bn* (online) Accessed on June, 12, 2013. <http://en.mercopress.com/2012/08/07/mercosur-has-only-benefited-brazil-in-the-last-ten-years-with-a-surplus-of-36.8bn>

¹⁰¹ Reuters, *Sluggish Brazil economy erodes Rousseffs popularity* (online) Accessed on June, 11, 2013. <http://www.reuters.com/article/2013/05/30/us-brazil-economy-idUSBRE94T00T20130530>

¹⁰² Mercopress, *Mercosur needs to be reborn with an honest integration spirit, says Cardoso* (online) Accessed on June, 4, 2013. <http://en.mercopress.com/2012/05/08/mercosur-needs-to-be-reborn-with-an-honest-integration-spirit-says-cardoso>

on integration and the form of relationship of the Latin American countries with the rest of the world have always been present.

Genesis and motivations

When Raúl Alfonsín was elected president of a new democratic Argentina in 1983 he called for a consolidation of democracy, national unity and economic recovery.¹⁰³ Especially the values of democracy and human rights were important to show to the international arena. In 1984 Argentina took the first step for improving bilateral relations with Brazil. After the Argentine economy went into depression, Carlos Menem won the elections and became the new president in 1989. He promised economic growth by adopting neo liberal measures. The situation in Argentina changed drastically by the privatization of public industries, economic openness and deregulation. Argentina's foreign policy was reluctant of influence from the United States, but with the coming of Menem, the country shifted towards a pro-United States position. Argentina supported a hemispheric free trade area and wanted to join NAFTA, to the prejudice of Mercosur, which Argentina 'used' as a manner to integrate with the US.¹⁰⁴

However, Mercosur was also of great importance for Argentina, and under Menem the bilateral relationship with Brazil expanded to the Southern Cone with the idea of building a single market. Exporters from Argentina saw great opportunities in the Brazilian market, and it became clear that Argentina would not join NAFTA. Thus Mercosur became an important market for Argentina but it also increased its dependency on Brazil.

Trade policies were transformed under the Menem administration and restrictions on import and tariffs were removed or reduced. Overall this meant far less state intervention than before in the economic sector. To trim down the inflation, the exchange rate of the new Peso was fixed with the US Dollar.¹⁰⁵

76. Gardini, p. 17.

¹⁰⁴ W. Grabendorff, pp. 300-301.

¹⁰⁵ J.W. Cason, p. 52.

Argentine crisis

In 1996, the Argentine economy went into decline and faced a severe crisis from 1999 onwards. President Fernando De La Rúa continued Menem's economic policies, regardless of the declining economic performances. The protectionist measures and the incomplete customs union of Mercosur were of little support for Argentina. The opinions about the functioning of Mercosur became more and more divided. The president and his supporters wanted to continue the integration of Mercosur other than the industry and business sector, which became more opposed to the idea of integration. However, the government of Argentina (and Brazil) decided to maintain the mission of integration.¹⁰⁶

The crisis of the Argentine economy between 1999 and 2002 had severe consequences. It meant the end of the government, the fixed exchange rate and a huge debt and unemployment. In 2003, Néstor Kirchner was elected as new president. As he had faced the economic downturn in Argentina, he followed a more protective policy towards industry as the country was focused on national issues. This meant also the adoption of a cautious position in the integration process of Mercosur. In late 2002 the crisis in Argentina ended. With a renewed role of the state both in economic as in social terms, the Argentine economy started to grow again. The efforts to start the integration process of Mercosur again became apparent in Kirchner's foreign policy.¹⁰⁷ Both Kirchner and President Lula of Brazil emphasized on restructuring Mercosur as political, social and cultural integration project. Argentina started, together with Brazil, to focus more on the European Union, instead of the United States. In 2007 Kirchner's wife Cristina Kirchner succeeded him. The positive, cooperative mood of Argentina (and Brazil) could encourage the pragmatic way to change some of Mercosur's main deficits.

Conclusion and outlook

The Treaty of Asuncion was important for Argentina in order to coordinate economic integration (market opening) and to obtain regional security. Argentina sought to full alignment with the US, whereas Brazil used to be more opposed to

¹⁰⁶ J.W. Cason, p. 73.

¹⁰⁷ Gardini, p. 20.

influence of the United States. Mercosur could not enforce a change in the different foreign policies of the countries.

On the one hand, asymmetries in the integration process made progress sometimes difficult, since Brazil as biggest power ‘overruled’ Argentina. Therefore the country has always been more supportive of creating supranational institutions in Mercosur in order to counter Brazil’s power. On the other hand, Argentina is seen as Brazil’s ally, and is also criticized of adopting protectionist measures by the smaller members. Currently Argentina is hold responsible by the agriculture sector of Brazil for being the main obstacle in Mercosur, because of their extremely protectionist policies, where Brazil is looking for a bilateral agreement with the European Union in this area. According to Brazil’s National Agriculture Confederation: *“How are we going to advance, how are we going to open markets if one of our members wants to lock us in and slap tariffs on imports”*.¹⁰⁸

5.3 Uruguay

Uruguay is the smallest member of Mercosur. The country has the strongest democratic and liberal traditions and has always been a dedicated supporter of a strong Mercosur. The decision to join Mercosur came from the President, Luis Alberto Lacalle himself, and the country had a modest role (together with Paraguay) in the establishment of the regional free trade agreement.¹⁰⁹

At first, Uruguay was reluctant in the (political) decision to join Mercosur. But the country needed to position itself at the international level and at the same time gave Mercosur them the opportunity to strengthen the (economic) relations with (the markets of) Brazil and Argentina. In this context, regional integration was also seen as a strategy to open up their economy.¹¹⁰

¹⁰⁸ Mercopress, *Main Mercosur obstacle is Argentina, say Brazilian farmers promoting an EU/Brazil trade accord* (online) Accessed on June 21, 2013 en.mercopress.com/2013/06/21/main-mercocur-obstacle-is-argentina-say-brazilian-farmers-promoting-an-eu-brazil-trade-accord

¹⁰⁹ W. Grabendorff, p. 305.

¹¹⁰ Ibid, p. 304.

Position towards Mercosur

When Mercosur went into crisis, Uruguay and Paraguay were set aside in the decision making and the crisis management of the bloc. In response, Uruguay desired a deepening of the institutions by creating supranational bodies in Montevideo or Asuncion in order to increase their participation and influence. Moreover, their attempts to strengthen (trade) relations with the United States were not well received by the bigger states. Currently, Uruguay depends to a large extent on economic exchange with Brazil and Argentina and is hampered by the protectionist policies of both countries.¹¹¹ As a result, the country set up bilateral trade deals outside Mercosur, but Mercosur claims this can only be done ‘as a block’. All these factors together led to major discontent about the bloc from the 2000s onwards and a more critical attitude towards integration.¹¹²

Conclusion and outlook

Uruguay is the current chair of the CMC, and blames Mercosur for being ‘inactive’.¹¹³ For this reason Uruguay is applying for membership of the Pacific Alliance, next to Chile, Mexico, Peru and Colombia.¹¹⁴ According to the Vice-President of Uruguay, Danilo Astori: “*Uruguay views the new block as “a project with greater integration potential” since those countries are more open and have “a coverage of foreign links that is far broader”, besides the fact that they are targeting a region that is “the principal factor in world trade and investment correlations which is Asia Pacific”.*¹¹⁵ However, he admitted that “*for Uruguay Mercosur is essential since ‘any country must begin integrating with its*

¹¹¹ Mercopress, *Mujica says Mercosur is a stalled pachyderm and needs trade accords with third parties* (online) Accessed on June 13, 2013. <http://en.mercopress.com/2013/03/02/mujica-says-mercosur-is-a-stalled-pachyderm-and-needs-trade-accords-with-third-parties>

¹¹² W. Grabendorff, p. 305-306.

¹¹³ Mercopress, *Uruguay can’t ignore Mercosur reality and is applying for full Pacific Alliance membership* (online) Accessed on June 13, 2013. <http://en.mercopress.com/2013/06/05/uruguay-can-t-ignore-mercosur-reality-and-is-applying-for-full-pacific-alliance-membership>

¹¹⁴ The Pacific Alliance has a different vision compared to Mercosur. It was launched in 2012 by Mexico, Peru, Chile and Colombia and works with the principle of common goals and approaches. In its short existence, the Pacific Alliance gives the impression to become effective and successful. The Alliance provides open free trade policies, in contrast to the protectionist policies of Mercosur.

¹¹⁵ Mercopress, *Uruguay can’t ignore Mercosur reality and is applying for full Pacific Alliance membership* (online) Accessed on June 12, 2013. <http://en.mercopress.com/2013/06/05/uruguay-can-t-ignore-mercosur-reality-and-is-applying-for-full-pacific-alliance-membership>. Accessed on June 12, 2013.

neighbors' and "we can't ignore reality which is showing us the impossibility of this block to have common economic policies". We never made it to the common market, the customs union it totally destroyed and the free trade zone is not working because there is no free transit of goods and services. Mercosur is in a state of inactivity, virtually total".¹¹⁶ Thus, the disadvantages for Uruguay of being a member of Mercosur seem to increase. The problems mainly consist of economic constraints and the lack of supranational mechanisms of decision making which costs the (market) asymmetry within Mercosur and the 'ignorance' of the position towards Uruguay (and Paraguay).

5.4 Paraguay

The difference in expectations and interests, but also in level of (economic development) between the bigger and the smaller member states is probably the most evident in Paraguay. The most important issue related to Paraguay is that the country is currently suspended from Mercosur. But, the next summit of Mercosur in July this year will officially announce the return of Paraguay.¹¹⁷

The suspension was made by the Mercosur members after the Paraguayan President Lugo was removed from his office by an impeachment after seventeen people were killed in a fight between farmers and the police. Mercosur argued that this act was undemocratic, and considered it as a coup d'état. The bloc decided to suspend Paraguay until a new President could take office, since Mercosur did not recognize Frederico Franco who succeeded Lugo. Paraguay protested and claimed the decision of removal was made by a majority according to the rules of the institution. In the meantime, a new President was elected, but he will only take office in August. After the suspension, the Mercosur members agreed on the accession of Venezuela to the bloc. Paraguay was always a strong opponent but was not involved in this decision due to its suspension, to the outrage of the country who argues that Mercosur rules state that this kind of

¹¹⁶ Ibid, accessed on June, 12, 2013.

¹¹⁷ Mercopress, *Mercosur July 12 summit in Montevideo will confirm return of suspended Paraguay* (online) Accessed on June 13, 2013. http://en.mercopress.com/2013/06/13/mercosur-july-12-summit-in-montevideo-will-confirm-return-of-suspended-paraguay?utm_source=newsletter&utm_medium=email&utm_campaign=daily

decisions must be made unanimous.¹¹⁸ According to one of the main advisors of coming President Horacio Cartes, Venezuela “*is not part of Mercosur, it was not ratified by the Paraguayan congress*”.¹¹⁹

Genesis and position

In general, Paraguay is the least developed country in the bloc with a low level of development, a relative high poverty rate and an unstable democracy. The latter was a decisive factor for Paraguay to join Mercosur. Beside the political dimension, Paraguay considered modernization and strengthening of its position in international politics necessary. The country came out of a long period of dictatorship and faced difficulties in its return to democracy.¹²⁰ The regional integration project appeared to be the right way to move forward, also to enjoy economical gains if the country could increase its bargaining position in the trade system. On top of this, the alternative of staying outside Mercosur was not an option.¹²¹

However, the rapid entering in Mercosur was ill prepared by Paraguay and in the first years the country showed slow progress in the adaptation to Mercosur. In the 1990s, Paraguay showed the lowest growth rate among the Mercosur members, and significant reforms within the country failed. In many cases, Uruguay was the leader of the two countries in negotiations because Paraguay lacked the specific knowledge to be effective. In 2001 Paraguay still had not formulated its national policy on regional integration.¹²²

Just like Uruguay, Paraguay also faces the problems of economic constraints and the ‘ignorance’ by the bigger members. Paraguay adopts the same position as

¹¹⁸ Council on Foreign Relations, *Mercosur: South America’s fractious trade bloc*, (online) Accessed on June, 10, 2013. <http://www.cfr.org/trade/mercosur-south-americas-fractious-trade-bloc/p12762>

¹¹⁹ Mercopress, *Venezuela is not part of Mercosur; it was not ratified by Paraguayan congress*. (online) Accessed on June 16, 2013. http://en.mercopress.com/2013/06/16/venezuela-is-not-part-of-mercosur-it-was-not-ratified-by-paraguayan-congress?utm_source=newsletter&utm_medium=email&utm_campaign=daily

¹²⁰ Since 1996 Paraguay faced three attempts to overthrow the government. The Mercosur members responded actively and were decisive in consolidating Paraguay’s democracy. The question is which form of democracy they defended, since the democratic accountability in Paraguay is limited.

¹²¹ P. Lambert. *Paraguay in Mercosur: Para que?* In: *Mercosur: between integration and democracy*. Peter Lang AG, 2004, pp. 159-160.

¹²² Lambert, pp. 170-173.

Uruguay in supporting stronger supranational bodies, to be able to participate and influence the decision making in Mercosur. But also Paraguay got disappointed in the decision making process. The economy of Paraguay is the most open one in Mercosur, and therefore depends to a large extent on trade with Brazil.¹²³ However, this is not (yet) compensated by the necessary reforms and harmonization in Paraguay's economic policy. In regard to regional aid, FOCEM, the fund created to resolve asymmetries between the member countries is a first step to address the asymmetry problem.¹²⁴

Conclusion and outlook

The unprepared entry of Paraguay in Mercosur showed its consequences for the future. Mercosur exposed the shortcomings of Paraguay's economic model. In order to develop as a country, Paraguay and Mercosur should cooperate. However, Mercosur at present does not offer a great amount of (economic) benefits for Paraguay and Brazil is ignorant in support further development of the country. At the moment, the Pacific Alliance seems more promising for the improvement of its economy to be able to transform into a flourishing state. Recently Paraguay became an observer of the Alliance of the Pacific, probably one step before becoming a full member.¹²⁵ According to the former Foreign Minister of Paraguay, Leila Rachid: *"Paraguay must look for new markets and trade agreements and the best reference is the Pacific alliance"*. However, *"it can't and shouldn't abandon hastily any of the blocks to which it belongs, particularly Mercosur"*.¹²⁶ Critics addressed to Mercosur coming from former Paraguayan ambassador Luis Enrique Chase Plate: *"The time will come when they will beg Paraguay to return actively to Mercosur. They have become a discredited group, and they will ask us to join them at the summits" (...)* Mercosur is no

¹²³ L. Manzetti. "The political economy of Mercosur". *Journal of Interamerican Studies and World Affairs*, vol. 35, no. 4, 1994, p. 130.

¹²⁴ L. Arce. "Transforming and integrating: Paraguay during the years of Mercosur". *Regions Magazine*, vol. 281, issue 1, 2001, pp. 14-16.

¹²⁵ Mercopress, *Paraguay becomes observer of the Alliance of the Pacific, despite Brazil and Mercosur* (online) Accessed on June, 8, 2013. <http://en.mercopress.com/2013/05/25/paraguay-becomes-observer-of-the-alliance-of-the-pacific-despite-brazil-and-mercosur>.

¹²⁶ Mercopress, *Paraguay suspended from Mercosur has requested Pacific Alliance observer status* (online) Accessed on June 8, 2013. <http://en.mercopress.com/2013/01/30/paraguay-suspended-from-mercosur-has-requested-pacific-alliance-observer-status>

longer a trade group, a customs union, but rather “a political entity which has nothing to do with the original charter of the (1991) Asuncion Treaty”

5.5 Venezuela

In 2006 Venezuela was accepted as a member of Mercosur but had to wait for recognition from Paraguay until the country could join officially and become a full member. The reason Paraguay refused to sign had to do with the country's doubts about the democratic level of Venezuela. Finally, the opportunity for Venezuela to join Mercosur came when Paraguay was suspended from the bloc. The Bolivarian Republic of Venezuela is shaped by the revolutionary policies of former President Hugo Chavez. Under his Presidency the foreign policy of the country changed when it placed itself opposed to the power of the United States. In this context Venezuela sought closer relations with Brazil and aimed to enter Mercosur.¹²⁷

The accession process and motivations

The objective to join Mercosur had a political motivation rather than an economical one, since the discovery of the large oil reserves in Venezuela. The country was more aiming at influencing Latin America and forming a strong bloc against the United States. The Mercosur countries also saw benefits of the enlargement, as Venezuela offered a large economy that would enlarge Mercosur's food and energy market and could possibly counter the power of Brazil. But in fact Brazil presented itself as the main supporter for taking in Venezuela, to moderate its unrestrained behavior and to benefit from their economy.¹²⁸

However, soon Venezuela realized that accession entailed the acceptance of commercial rules and obligations, as it should open up the market to the competition of the other countries. Doubts increased with both parties. The member states concern grew about Chavez's policies and his growing

¹²⁷ G.L. Gardini, p. 381.

¹²⁸ Ibid, p. 383.

authoritarian rule. It became clear that Mercosur's values represented the opposite of Venezuela's foreign, national and economical policies.¹²⁹

The accession presented challenges for Venezuela; the economy has to adapt to the free trade area of Mercosur. Given the many economic areas that were under the control of the government, Venezuela has to strengthen and open up the economy in certain areas, such as export, to fill up asymmetries and gaps with the other Mercosur members.¹³⁰ What's more, many viewed the accession as an institutional setback for Mercosur because Venezuela could bring political instability to the bloc. As a result the process of ratification was characterized by a reserved position of all the countries as it faced problems since the technical negotiations were constantly being postponed.

Conclusion and outlook

The official admission of Venezuela in 2012 shows an example of the institutional weakness of Mercosur. Politics within the bloc seemed to be more important than a set of laws. In regard to Venezuela's domestic situation, it does not apply to the official values and principles of Mercosur. However, the country was given four years to adapt to all the formal rules.¹³¹ A presidential Commission (in the form of a working group) was set up in order to work on issues related to the accession.

Brazil under Rousseff currently views the trade relationship with Venezuela as an encouragement for the support and commitment towards further regional integration of the Mercosur countries. In contrast, Uruguay, and especially Paraguay, criticized the admittance of Venezuela. In their view, the country is the new ally of Brazil. The question rises whether or not Venezuela's entering will open up new possibilities for integration. On the one hand, the enlargement with Venezuela could restrain its behavior, but on the other hand Mercosur could become more unstable. However, Venezuela can possibly make a difference with their left government that holds a strong will to take part in the international arena and could provide impetus for stronger institution building.

¹²⁹ Ibid, p. 384.

¹³⁰ El Universal, *Venezuela: four years to adopt Mercosur rules* (online) Accessed on June, 13, 1013. <http://www.eluniversal.com/economia/120707/venezuela-four-years-to-adopt-mercosur-rules>

¹³¹ However, the country has until 2014 to meet all the economic requirements.

6 The concept of widening

In regard to Mercosur's future scenario, the concept of widening must be included in this research. The previous year, Venezuela was adopted as a new member of Mercosur after twenty years of consistently having four members. The circumstances within and condition under this accession took place expose an enlargement method mainly motivated by political interests, without an effective preparation or analysis of the costs and benefits for the involved countries. In this chapter the widening process of the European Union will function as a reference to a potential further enlargement of Mercosur. It becomes clear that the European enlargement process shaped along a unique road, whereby special methods were developed to accept new members.¹³²

6.1 Widening in the European Union

Widening means expansion by welcoming new member countries. Widening and deepening are concepts related to each other, and complement one another. The deepening of integration can attract new members, which happened with the completion of the Single Market in the EU, attracting Austria and the Scandinavian Countries. On the other hand, at times widening pointed out the need for deepening of the integration process, as the Eastern enlargement has shown. However, the process of deepening and widening is not necessarily a sequent process, where enlargement has been an effective foreign policy tool of the European Union. But, with (in July this year) 28 members, the limits in adopting new members might be close. It can be stated that the size and attractiveness of the European market has build the further success for the EU in expanding its membership.¹³³

Accessing the Union consists of three stages which is an extensive, time consuming and detailed process. New members have to adopt the *acquis communautaire*, the body of EU law, before joining the EU, as well as the political criteria in the form of stable institutions that provide democracy,

¹³² W. Grabendorff, p. 296.

¹³³ D. Dinand, p. 268.

freedom, the rule of law, respect for human rights and a functioning market economy.¹³⁴ For countries that are reluctant to become a full member, the European Union offers quasi membership, and also maintains relations with candidate countries and neighbor countries (European Neighborhood Policy). Quasi member countries (for example Norway and Liechtenstein) are not full EU members but have adopted most of the European rules. In contrast to full members, they do not take part in the decision making process, but have a role in the preparation of laws. Quasi-membership countries maintain high economic interdependence with the EU but are opposed to becoming a full member. The EU has become a major actor in exporting its rules, norms and values to quasi-member countries, candidate and neighborhood countries. By spreading its sphere of influence in the world, states want to become part of the EU.¹³⁵

6.2 The prospects for Mercosur enlargement

Mercosur started with just four (currently five) countries, but optimism about an expansion to the whole of Latin America existed, as the name ‘Common Market of the South’ suggests.

Peru (in 2003), Colombia, Ecuador, Bolivia and Chile are the current associate members of the bloc, a status that seems similar to the quasi membership of the EU, but which is much less economically and politically entangled. Associate members enjoy to a certain extent the benefits of the free trade area, but are not included in the customs union and do not have any (voting) power in Mercosur’s organs.

For Mercosur, enlargement means adapting to different levels of national governance, economic conditions and social policies of the other Latin American countries. Currently, Chile is the country with the most stable economy and political system, and holds from 1996 free trade agreements with Mercosur, but also sought closer relations with the United States. Mercosur would be happy to welcome it as new member, but economically this would not benefit Chile since the common custom tariff of Mercosur is higher than the one of Chile. Thus at the moment the costs for Chile to join Mercosur would probably exceed the

¹³⁴ Also known as the ‘Copenhagen criteria’, adopted in 1993.

¹³⁵ K. Weber. *Governing Europe’s Neighbourhood*. University Press, Manchester, 2008, p. 28.

benefits.¹³⁶ When looking at the case of Chile, a further extension of the economic rules and policies could give more difficulties for other Latin American countries when applying to all the commitments of Mercosur.¹³⁷

Many Latin American countries are governed by moderate left oriented governments, such as Brazil, Argentina, Uruguay and associate members Chile and Peru. However, Venezuela and associates Bolivia and Ecuador are more radical left oriented.¹³⁸ Political and ideological differences might bring a setback to the integration process and new members could face problems adopting Mercosur's regulations and values. In economical aspects; Mercosur enlargement would generate significant changes in export and import for all the members, not necessarily beneficial for all of them. Recently was announced that Bolivia will join Mercosur without leaving the Andean Community, as the country is one of the most underdeveloped in Latin America, it needs a broad scope for regional integration for future development, which seems to be its main motive in the aim to join Mercosur.¹³⁹

The more countries included, the more difficult it could become to reach agreements. In this context, the necessity and importance of a strong institutional framework again becomes apparent. Europe, in regards to its strategic location, adopted a wide range of countries. For the long term, if Mercosur accepts its associate members to become full members, the complete Southern Cone would be under Mercosur influence. This could have a positive effect on the power balance within the bloc.

But as should be clear by now, Mercosur is struggling in numerous aspects; at this time it's not self evident that, especially the (future) smaller members, (will) benefit from being a member of Mercosur, also taking into consideration other Latin American trading blocs. However, the bloc remains an (attractive), giant power in the region, incorporating Latin America's two largest economies.

¹³⁶ Gardini, p. 66.

¹³⁷ This does not mean that the situation and motivation of the different (associate) member states should be the same.

¹³⁸ Gardini, pp. 40-48.

¹³⁹ Mercopress, *Bolivia will hold double membership of Mercosur and the Andean Community* (online) Accessed on June, 24, 2013. <http://en.mercopress.com/2013/06/24/bolivia-will-hold-double-membership-of-mercosur-and-the-andean-community>

7 Conclusion

Central in this research was the question whether or not Mercosur can reshape its current institutional structure and economic policies to further develop into a strengthened politically and economically integrated bloc, by using the process of European integration as a reference.

After examining the genesis of Mercosur, its internal (institutional) structure, studying separately the member countries and by analyzing the main deficits in Mercosur's road of (economic) integration, it can be stated that it is not the time within Mercosur for a breakthrough of the traditional patterns of state led decision making to evolve towards a integrated bloc according to the European Union. Twenty-two years after the Treaty of Asunción was created, the objectives set out in it are not yet accomplished.

Despite political will for (economic) integration among the founders of Mercosur, based on my research, after looking at Mercosur's genesis, unavoidable asymmetries in terms of different aspects of size and power between the member countries reflected irregularities in interests and national policy priorities within the bloc. After analyzing the institutional framework of Mercosur, measured along the European institutions, it becomes clear that the bodies are not comparable in regards to power, tasks, and representation. Mercosur's institutions are characterized by an intergovernmental nature, led by heads of government or important Ministers, where the European Union members gradually gave up sovereignty and developed powerful supranational institutions balancing the intergovernmental ones.

This brings us to the asymmetries among the Mercosur member countries. As my research exposed, the structural differences in (market) size, level of development, geography, demography, etc. among them hinders deepening of the integration process.

As becomes clear by looking at the European case, economic interdependence is needed for further integration. However, each of the member states of Mercosur follows their own economic policy, and 'use' Mercosur to fulfill national economic interests. This trend is especially evident in Brazil and Argentina, but also Paraguay and Uruguay are reaching out to other trading blocs, as the smaller members' discontentment increases because of the unfinished economic goals of Mercosur that results in protectionist measures in trade by Brazil and Argentina. As a result, economic entanglement of the Mercosur countries remains low. In turn, the structural asymmetries play a role in causing these problems.

As a first step to improve the economical situation of Mercosur, national macroeconomic policies and interests of Brazil and Argentina should change in order to be able to reform regional economical policies. A discipline for integration is required, to for example create an institution dealing with the coordination and regulation of regional macroeconomic policies, monetary and financial issues. I believe it is of decisive importance to first complete and perfection economic integration, which can help decrease the asymmetries between the countries - since the unfair competition between them damages further integration - and once economic integration is on the right track, Mercosur may feel the need to deepen the institutional framework after Brazil (and Argentina) realize the benefits of creating supranational bodies. However, it is in a way a vicious circle, since structural differences as geographic ones are difficult to change among the Latin American countries of Mercosur, which slows down economic entanglement and make it more difficult to create a fair balance between the members, compared to the European Union.

In regard to the European Union, in the process of economic integration reducing asymmetries between the members was essential for further integration, supported by a strong role of transnational actors and civil society.

A positive feature for the objective of involving civil society in Mercosur may be seen in Parlasur, which will increase the representation of citizens by direct elected parliamentarians in 2014. Involving civil society (non-state actors, social

movements, etc.) might be the right way to push the integration process from the bottom up in order to restrain the intergovernmental, state-led, nature of Mercosur.

After twenty-two years of integration, the strong tradition of state-led decision making left its marks on the integration process of Mercosur, and I believe in the near future Brazil will remain reluctant in reducing its autonomy. Yet this is exactly what has to be done for further deepening the integration process, since Brazil's (too) competitive economy is the most powerful one that hampers the integration process. In this context, Venezuela could play a positive role by balancing the dominant power of Brazil, as in a continuing shifting international context, deepening the economic and political integration process of Mercosur is of significant importance to remain a credible actor, but it depends on the political will to further integrate.

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Appendix

Table 5 timeline: history and evolution of Mercosur

1960	LAFTA
1979	Signature of tripartite agreement between Argentina, Brazil and Paraguay
1980	ALADI
1984	First informal talks about integration between Argentina and Brazil
1985	Presidents Alfonsin of Argentina and Sarney of Brazil commit their countries to future integration.
1986	Presidents Alfonsin and Sarney establish PICE, involving economic integration between Argentina and Brazil.
1988	Treaty on Integration, Cooperation and Development between Argentina and Brazil. The Treaty establishes a common economic space and introduces the concept of common market as a objective for the future.
1990	Signature of the Act of Buenos Aires which provides for the establishment of a bilateral common market for December 1994.
1991	Treaty of Asuncion, creating Mercosur official.
1994	The Ouro Preto Protocol, amending the Treaty of Asuncion from a free trade area to a customs union.
1996	Bolivia joined Mercosur as associated member.

2003	Peru joined Mercosur as associated member.
2004	Mercosur signs a cooperation agreement with the Andean Community of Nations. Colombia and Ecuador joined Mercosur as associated members.
2004	Creation of FOCEM, the Structural Convergence Fund. This fund was created in order to finance projects that would benefit the smaller economies in Mercosur. It is the first instrument of the bloc established with the aim to reduce the asymmetries between less developed countries and regions.
2006	Protocol for the accession of Venezuela. However the country had to wait for recognition.
2007	Mercosur Parliament (Parlasur) inaugurated.
2008	12 Latin American countries establish UNASUR, which brings the free trade areas of Mercosur and the Andean Community together
2011	Montevideo Protocol (Ushuaia II).
2012	Protocol for the accession of Bolivia.

Table 6 Mercosur trade flows in millions of US Dollars

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Intra-regional export	15,151	10,214	12,724	17,313	21,108	25,750	32,429	41,565	32,713
Export outside Mercosur	72,734	78,669	93,375	118,275	142,697	164,499	191,531	236,809	184,526
Total export	87,885	88,883	106,099	135,588	163,805	190,249	223,960	278,374	217,240
Intra-regional import	15,331	10,380	13,059	17,600	21,327	25,564	32,730	42,429	31,955
Import from the rest of the world	65,613	49,322	53,083	73,387	88,014	109,992	143,764	205,765	147,923
Total import	80,945	59,703	66,142	90,988	109,341	135,556	175,494	248,194	179,878

Source: CEI, <http://www.bcp.gov.py/>, <http://www.bcu.gub.uy/Paginas/Default.aspx>,
<http://www.bcb.gov.br/?english>, http://www.bcra.gov.ar/index_i.htm

Table 7 Intra-regional trade in Mercosur in billions of US Dollars

	2002	2005	2008	2009	1 st half of 2010
Export					
Argentina	5,718	7,689	16,123	13,865	7,969
Brazil	3,311	11,746	21,737	15,829	9,697
Paraguay	0,553	0,893	2,135	1,533	1,228
Uruguay	0,607	0,783	1,601	1,529	0,964
Import					
Argentina	2,895	10,909	20,287	13,159	8,270
Brazil	5,615	7,054	14,934	13,107	7,681
Paraguay	845	1,502	3,619	2,632	1,745
Uruguay	944	1,631	3,919	3,130	1,391

Source: Inter American Development Bank (IDB), DataINTAL

Figure 8 Composition of Mercosur

