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**Publication Date**

2003-06-02

Center for Latin American Studies  
University of California, Berkeley



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Mercosur

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# **Trade Strategies in the Context of Economic Regionalism: The Case of Mercosur**

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In the early nineties, the Southern Common Market (Mercosur) emerged as a promising and challenging initiative of economic integration among four very asymmetrical developing countries: Argentina, Brazil, Uruguay, and Paraguay. Mercosur was part of the resurgence of regionalism, a structural trend in the world economy since the mid-eighties. It evolved from a bilateral integration process between Argentina and Brazil begun in 1986 as a response to common domestic political and economic challenges and to the external financial constraints both countries then faced.

However, the new bloc developed to be more than the heir of the bilateral initiative of the eighties, which was more effective in political than economic terms. Indeed, Mercosur played an essential role in support of the economic reforms both countries implemented in the early nineties. The effectiveness of the bloc in performing this role helped to restore the credibility and economic functionality of regionalism in Latin America after three decades of frustrated experiences of economic integration in the region. Mercosur also introduced a new approach and new mechanisms that helped to stimulate impressive growth of trade flows among the four countries and, to a lesser extent, of trade with other countries. In addition, it played a secondary but meaningful role in stimulating unprecedented levels of inflows of foreign direct investment to the region.<sup>1</sup>

However, from the mid-nineties on, the euphoria of the trade bloc's first years receded as successive trade conflicts rose and external financial constraints dramatically changed the political and economic environment in which Mercosur had come into existence. Economic policymakers of the Southern Cone were forced to adapt their policies to a more restrictive and unstable external context while preserving macroeconomic stability domestically.



Macroeconomic stability was maintained, but at the expense of the liberalization drive of the preceding years and, therefore, of regional integration. Low and even negative economic growth rates, competition for foreign investment and markets, and acute financial and sectoral imbalances began to impose growing constraints on Mercosur, often seriously straining its political and economic underpinnings.

Mercosur also faced challenges derived from its external agenda, where key issues included both the negotiation of trade agreements with its main neighbors and economic partners and issues related to the enforcement of the Uruguay Round agreements. The simultaneous management of these challenging and complex internal and external agendas required increasing political and diplomatic resources and technical expertise. The strong political commitment of the four countries to the integration process was essential for the harmonization of conflicting particular interests, the creation of a minimally coordinated strategy of internal development, and external initiatives regarding the relations of Mercosur with non-member countries and other economic blocs.

The purpose of this article is to assess the responses of Mercosur to the challenges that have arisen within its own development and to those related to the diverse international commercial negotiations in which it is engaged. How has Mercosur responded to distinct and often contradictory challenges regarding its development and external relations at different stages of its evolution? What policy models, principles, and objectives have oriented the dynamics of Mercosur and shaped its trade profile during its evolution? How have they been adapted to changing circumstances? What have been the main features, successes, and pitfalls of Mercosur's external relations?

The assumption underlying the present analysis is that the features of trade strategies pursued by Mercosur have been defined at each stage of its development in the interplay of (i) interests, objectives and possibilities as interpreted by governmental authorities responsible for their promotion through the bloc; (ii) the micro- and macroeconomic contexts in which integration occurs; (iii) the governmental perceptions of the framework of incentives and interests at stake internally and externally; and (iv) external injunctions which raise opportunities and constraints that, in turn, influence the bloc's domestic and external agendas.

The following sections present an outline of three stages that comprise the trajectory of Mercosur since its creation, and identify the elements and features of the bloc's commercial strategy as it shifted over time. The first section discusses the context and the strategy pursued in the so-called "transition period," which ranges from the signature of the Treaty of Asunción on March 26, 1991, to December 31, 1994. This period witnessed the inception of the free trade regime and the emergence of the basic instruments of a customs union. The second section analyses the shift from the domestic to the external realm as the main locus of activity in Mercosur in the 1995-1998 period. This change was brought about by the negative externalities of successive international financial crises that severely restricted the chances for Mercosur countries to pursue more advanced objectives internally. Under such unfavorable economic conditions, external relations provided a valuable opportunity to reassert the bloc's cohesion and identity, to project itself internationally, and to address some strategic issues related to market access and the enforcement of multilateral trade disciplines. The third section is dedicated to the developments and shifts observed from 1999 to the

present, a period in which Mercosur has undergone an unprecedented crisis. This section highlights some important features of the commercial strategy currently pursued by Mercosur: the strive for a better balance between the basic requirements for its internal consolidation and its external possibilities, a more flexible approach to the application of norms and instruments, and more assertive position in international economic negotiations.

#### I. MERCOSUR'S TRADE STRATEGY IN THE TRANSITION PERIOD (1991-1994): FORGING THE FREE TRADE REGIME AND THE CUSTOMS UNION

A predominantly integrative agenda and an inward orientation marked the dynamics of Mercosur and the trade strategy it pursued in the transition period. Like the preceding bilateral initiatives of Argentina and Brazil, Mercosur was a political project carried out in the economic and commercial realms. It is worth mentioning, however, that the economic content of this regional political project has not always been self-evident. The bilateral integration initiated by Argentina and Brazil in the mid-eighties was deeply rooted in political interests and objectives, such as the consolidation of democracy, the promotion of regional stability, and the overcoming of xenophobic positions internally, particularly among the military.<sup>2</sup> This bilateral political project was expected to take the form of a *common economic space* to be built incrementally accomplishing three basic goals: (i) to stimulate a managed and balanced expansion of bilateral trade on the grounds of economic complementarity and political symmetry; (ii) to foster productive and technological changes in key economic sectors through the expansion of bilateral investment flows; and (iii) to promote cooperation in areas of critical importance for joint economic development such as energy, transports and technology. Sectoral agreements were the main instruments utilized to

accomplish these objectives and to promote higher levels of economic interdependence between both countries.<sup>3</sup>

In other words, it was a strategy framed around the internal complementation and integration of productive sectors across the border with emphasis on those sectors capable of providing stronger positive externalities to economic growth and technological change. Capital goods were identified as a key sector, and represented a strategic nucleus for integration. Advancement in this sector was promoted through policy instruments designed to secure financial equilibrium, foster investments, and stimulate the creation of binational corporations. In this strategy, trade was expected to play an essential role, but it was approached carefully and selectively, since the main objective was to stimulate a balanced and managed growth of trade flows. Trade liberalization was expected to proceed smoothly, as long as it was compatible with this approach and to other trade and industrial policy objectives that were at the core of the development strategies both countries pursued and of the integration process as well.

The development strategies of Argentina and Brazil underwent a dramatic change after 1990. The import substitution model of the sixties and seventies and the selective, gradual, and managed economic opening both countries tried to pursue in the late eighties became irreversibly flawed, and was gradually replaced in both countries by a liberal approach. The political agenda and objectives of the bilateral integration process were not entirely dismissed, but trade liberalization became its main driving force and, subsequently, became the central impetus of Mercosur itself. The broader notion of a *common economic space* or the daring objective of a common market, although preserved in Mercosur, gave way to some

operational definitions of the settlement of a free trade arrangement and a customs union in the short term.

It was the political decision to promote liberal economic reforms unilaterally and to coordinate their response to the Enterprise of the Americas Initiative announced by the Bush Administration in June 1990 that paved the way for Argentina and Brazil to pursue a new strategy of economic integration. In other words, a regional strategy was based on convergent, unilateral economic reforms. In this sense, and contrary to the previous bilateral integration initiatives, the strategy envisaged to settle a new regional economic arrangement was not the outcome of a deliberate and jointly defined approach to common political and economic challenges. Rather, it evolved from the convergence of liberal economic policies pursued unilaterally by both countries. Its immediate appeal was the establishment of a trade liberalization program that could eventually serve as a leveling platform in other international trade negotiations.

The sectoral approach of the preceding years was therefore replaced by a new one centered on a broad trade liberalization program carried out through automatic, regular, and linear tariff reductions. Instead of limited lists of specific goods to which trade preferences would be granted—a feature that characterized previous initiatives of economic integration in the region—trade liberalization within Mercosur should encompass the entire universe of tradable goods, allowing each country to keep a small number of products under a temporary exceptional regime with clear rules and deadlines for their full incorporation to the free trade regime. Starting in June 1991, tariffs were scheduled to be reduced by 7 percent every six months, starting from a 47 percent margin of preference, so that a 100 percent reduction

should be reached by December 1994.

This program was originally proposed by Argentina, and was formally agreed to bilaterally in 1990 in the Buenos Aires Act signed by Presidents Carlos Menem and Collor de Mello. In December of the same year, the program was incorporated into the Economic Complement Agreement no. 14, subscribed to by both countries under the Latin American Integration Association (LAIA). Finally, it was transposed to the Asunción Treaty (signed on March 26, 1991) with a few changes designed to accommodate new signatories Paraguay and Uruguay. These agreements formally marked the departure from the regulated and selective approach of the eighties, and introduced strict commitments to tariff reductions and the establishment of a free trade regime within five years.

Paraguay and Uruguay were encouraged by these commitments from both major countries to attain, within five years, the objectives envisaged in the bilateral treaty of 1988. There was a significant political logic to joining as well, and for Brazil and Argentina to welcome these new members. The possibility of creating a trade bloc to negotiate collectively with the U.S. within the framework of the Enterprise for the Americas Initiative was extremely attractive. Such a bloc would represent an affirmative response to the proliferation of regionalism; moreover, it would grant credibility to the efforts of domestic economic reform and would prompt economic opportunities and favorable conditions for market access on preferential basis.

Despite the ambitious aim of the Treaty of Asunción to establishment a common market, and the short time span projected for its accomplishment (before December 1994), it regulated and provided the instruments for the settlement of a commercial arrangement only.

The centrality of commercial issues was reflected in the bloc's internal agenda through its first four years: the implementation of the trade liberalization program, the settlement of trade disciplines in non-tariff areas, and the establishment of a common external tariff.<sup>4</sup>

The Asunción Treaty also referred to sectoral agreements and the coordination of macroeconomic policies as instruments for the establishment of the common market. The former did not materialize, however, as governments feared they could become channels for managed trade practices.<sup>5</sup> The coordination of macroeconomic policies also could not be carried out for several reasons. Great disparities in terms of exchange, monetary and fiscal policies between the member countries, rising economic instability and inflation in Brazil from 1991 to early 1994, and inverted economic growth cycles between Brazil and Argentina created a highly unfavorable political and economic environment for policy coordination. In addition, economic authorities argued that the commercial objectives then pursued did not require high levels of economic coordination, and therefore there was neither immediate incentive nor existent conditions for this type of coordination. Policy coordination was simply put off, but this did not prevent commercial integration to advance.

The attainment of objectives in the commercial realm, as well as the positive performance of intra-Mercosur trade observed in its first four years (which grew from US\$4.2 billion in 1990 to US\$12 billion by the end of 1994) were closely associated with: (i) the strong political commitment by national governments to market oriented economic reforms, with Mercosur as a forefront initiative to support and promote them; (ii) a favorable external economic environment which stimulated the emergence of outward-driven trade strategies notably in Argentina and Brazil; and (iii) the successful methodology and

instruments envisaged to promote the phasing out of tariffs and settlement of the basic instruments of a customs union.

However, divergent political preferences between Brazil and Argentina as to the the form and levels of coordination of trade policies to be achieved and significant differences in degrees of macroeconomic stability led to mounting disagreement between the two most important partners in Mercosur. Structurally, these divergences between Brazil and Argentina in the transition period reflected acute differences in their respective productive scale and cost levels, levels of industrial competitiveness, and prevailing macroeconomic conditions. Growing microeconomic imbalances stemming from differences in trade and industrial policies reinforced those structural conditionings. The trade strategy pursued by Mercosur during this transition period was largely influenced by these structural economic differences, and the manner in which they were translated into distinct microeconomic policy orientations in each country. Attempts to reach minimum agreement on those issues were directly related to the settlement of a free trade area and a customs union.

It is important to take into account the different trade policy preferences that emerged within the bloc. As the transition period unfolded, the perspectives of Brazil and Argentina in relation to trade policy within Mercosur grew increasingly contradictory. At the onset of intra-Mercosur trade negotiations, Brazil, the region's largest, most diversified and industrialized economy, had begun to shift its trade policy away from a managed trade strategy, which for decades had focused on the development of its large domestic market through imports substitution. This managed strategy was reflected, among other aspects, in the anti-export bias Brazilian trade policy exhibited for decades.<sup>6</sup> In this regard, the challenge



the country faced in the early nineties was to pursue trade liberalization—and indeed Mercosur represented an attractive, supporting environment for that—while at the same time preserving some important industrial sectors and exploiting market opportunities for those sectors within Mercosur and in the whole region in a sort of mercantilist approach.<sup>7</sup> The way Brazil carried this out reinforced the perception by its Mercosur partners, especially Argentina, that in spite of the reforms initiated in March 1990, protectionism still persisted in Brazil's trade policy, even if restricted only to specific sectors deemed of strategic importance for its industrial development.

Argentina, on the other hand, aimed to redefine its economic outlook and the basic parameters of its insertion in the world politics and in the global economy. To accomplish these ambitious goals simultaneously, it engaged in foreign policy activism with the intent to develop a privileged relationship with both its main economic partners on one hand, and on the other with the remaining superpower. Its trade policy included a strong commitment to liberalization as a means of reinvigorating its productive infrastructure and obtaining concessions in terms of market access from its main trade partners, including Brazil.

That initial framework, in which Brazil maintained a limited but persistent protectionist bias while Argentina tried to exhibit deep commitment to the liberal agenda, changed significantly when considered from the perspective of the intra-Mercosur negotiations in the first half of the nineties. In Argentina, rising commercial deficits with Brazil reflected microeconomic imbalances. Pressure increased from domestic economic sectors that bore the costs of unilateral measures of economic adjustment and liberalization, as well as those derived from integration within Mercosur. Argentina's trade policy within Mercosur

gradually incorporated some elements of managed trade. Brazil, in turn, sought to promote, consolidate, and lock in its economic reforms through Mercosur. In order to safeguard its interests in Mercosur as a privileged space for preparation for wider economic opening, Brazil needed to reject several proposals and unilateral measures proposed by Argentina with the purpose of regulating the process of trade liberalization within Mercosur.

Therefore, Brazil emerged at the end of the transition period as a more open economy in relation to 1991, while Argentina, even if it were not the original intention of the government, emerged as an economy in which several limits to trade liberalization had been introduced. For several economic sectors in Argentina, those limits meant a setback to the implementation of a liberal trade agenda. The regime of convergence toward a common external tariff (which was the core aim of the transition phase), the lowering of Brazilian tariffs, and the upward trend of Argentine tariffs, reflected an inversion of the trade policy orientations of both countries within Mercosur.

In brief, the trade patterns of Mercosur and its disciplines were defined within the narrow space left between attempts to harmonize differing national trade orientations at the subregional level, and the intent to achieve and consolidate jointly defined political and economic goals through economic integration. The trade strategy set forth in Mercosur during its first four years for the attainment of the objectives established in the Treaty of Asunción was based on three main principles: the non-negotiability of the phasing out of tariffs in intra-Mercosur trade, reciprocity, and a regular, incremental approach to trade policy goals.

The trade strategy aimed at generating preferential market access for goods among the

four member countries by phasing out tariffs and establishing common trade disciplines in relation to non-member countries. An important feature of that strategy was to grant priority to the negotiation of less controversial issues and to build on successes achieved there to deal with more controversial and complex ones. Therefore, efforts concentrated on the phasing out of tariffs, while non-tariff issues and the disciplines required to build a free trade regime or a customs union remained unfinished. Progress in negotiations in these areas demanded the accommodation of divergent interests and priorities through political and technical trade-offs and side payments.

Trade-offs were vital to overcoming specific stalemates and to achieving the basic objectives of the negotiations within the defined time framework. The fundamental and most important trade-off involved in Mercosur's commercial profile was of a political nature. Brazil conceded preferential access to its large domestic market, in exchange for the establishment of common trade disciplines in the context of a customs union. Several other trade-offs at the technical level were equally important, because they allowed the definition of the structure and levels of the common external tariff, as well as the regime for the exemption of sensitive sectors, in time for the free trade regime and the customs union to be enforced from January 1, 1995 onwards.

Summing up, Mercosur's trade strategy in its first years was marked by: (i) the emphasis on regular, automatic and horizontal tariff reductions; (ii) the management of more complex non-tariff issues through tentative mechanisms for harmonizing sectoral policies; and (iii) the resort to principles, trade-offs and side payments as the ultimate means of leveling asymmetries among the four countries. This strategy was relatively successful in promoting

trade liberalization and growth, as demonstrated by the performance of intra-Mercosur trade in those years, although it should be taken into account that several important dimensions of the free trade regime and the customs union remained at the end of the transition period unfinished, or in some cases even untouched.<sup>8</sup>

Mercosur's limitations were compensated for by the political commitment of national governments to economic reform and the favorable external economic environment. Both these elements, however, would be severely affected starting in 1995 by the rising instability of international financial markets, which brought about the need to adjust the bloc's trade strategy to an increasingly unstable external environment, and by dramatic changes in both countries' domestic situations. In Argentina, those changes were associated with the gradual erosion of the underpinnings of the economic stabilization program set forth in April 1991. In Brazil, however, the most important change was associated with the successful enforcement of the monetary reform and stabilization program initiated in 1994. In both cases, although for different reasons, a conjunction of external and domestic factors led governments and corporations to divert their attention from Mercosur's internal agenda. A shift in the trade strategy of the transition period became inevitable.

## II. 1995 TO 1998: RESPONDING TO ECONOMIC CONSTRAINTS BY ASSESSING INTERNATIONAL OPPORTUNITIES

The completion of the trade liberalization program and the adoption of the common external tariff coincided with the launching of the Free Trade Area of the Americas in December 1994 and with the outbreak of the international financial crisis following Mexico's currency devaluation. After 1994, Mercosur negotiated associative agreements with Chile and Bolivia,

which were signed on June and December of 1996. A framework agreement with the European Union was signed in December 1995.

This set of initiatives represented a landmark in the evolution of Mercosur and a turning point for its trade strategy. Having satisfactorily established a free trade area that encompassed over 80 percent of the tradable goods of its four members and set forth the basic instruments of a customs union, the trade strategy of Mercosur shifted its focus from internal trade liberalization to the external attainment of market access through the negotiation of trade agreements with neighboring countries. The Chilean and Bolivian markets were at the forefront, followed by the bloc's main trading partners in the developed world, notably the European Union and the United States. Negotiations with the Andean Community and Mexico soon followed as part of the renegotiations of the preferences granted under the Latin American Integration Association (LAIA).

In the internal agenda, attention shifted to the completion of the free trade regime and the consolidation of the customs union. As mentioned in the previous section, several aspects of the free trade regime had been left unfinished. In spite of the effort to identify and compare non-tariff barriers with the aim of eliminating or harmonizing them, the issue became a source of intense disagreement among the four member countries. By the end of the transition period, there was slow progress in dismantling and harmonizing non-tariff measures, along with assurances that the benefits of the elimination of tariffs were not reversed by the application of non-tariff restrictions. However, as microeconomic imbalances increased, governments became unwilling to deal effectively with that issue. The option of resorting to non-tariff measures offered some space for policy discretion in facing economic

imbalances and the negative commercial consequences of instability in international financial markets.

Aside from the issue of non-tariff barriers, the achievements of the transition period as to trade liberalization referred strictly to goods. As of yet, negotiations on services had not advanced to the point of allowing any sort of agreement. As domestic regulations in this area were also undergoing important changes associated with privatization programs, governments decided not to support any formal commitment to service liberalization until those reforms and their respective processes of privatization had been consolidated. The issue remained a focal point for the completion of the free trade regime in the post-transition period. Finally, a framework agreement on services was reached in December 1997 with the compromise of full liberalization in ten years after ratification by each member country.

Regarding the consolidation of the customs union, negotiations centered around the issues directly related to the definition of the common external tariff, including its structure, levels, exceptions, and enforcement procedures. Definitions pertaining to other issues that make up complementary disciplines of the customs unions (safeguards, anti-dumping, countervailing duties, policies that distort competition, etc) were postponed to the following period. Considering that important sectors—sugar, automobiles, information and telecommunication products, and capital goods—had been granted exceptional treatment<sup>9</sup> and that several issues related to complementary disciplines were not fully agreed upon, the customs union that came into force on January 1, 1995 was far from perfect. From then on, its consolidation became the most important issue in the internal agenda of Mercosur thus keeping trade issues at the top of the internal agenda.

In principle, the macroeconomic convergence between Brazil and Argentina and the positive impact on bilateral trade balance brought about by the success of Real Plan in Brazil should have favored further progress in Mercosur's internal agenda. However, in reality, circumstances moved in the opposite direction. In fact, opportunities presented by the period of macroeconomic convergence for the consolidation and deepening of Mercosur's trade disciplines and progress toward a common market went underexploited. Despite macroeconomic convergence, microeconomic imbalances persisted, leading to several recurrent trade conflicts between these two countries. Despite being handled politically, outside of mechanism for dispute resolution, these disputes regularly strained trade relations and revealed the bloc's institutional weakness. At the same time, external constraints increased due to the instability of international financial markets in the aftermath of Mexico's crisis in early 1995. In this context, preserving some margin of policy discretion to deal with those domestic and external constraints became a preferable strategy for governments rather than a strict submission to imperfect collective trade disciplines in the framework of economic integration.

From the perspective of the internal agenda of Mercosur and evolution, it was clear that integration was no longer a driving force or priority in the economic agenda of the four countries, most notably for Argentina and Brazil. Circumstances had complicated the possibility of advancements in the internal dimension, and therefore issues of the external agenda grew in importance for Mercosur.

A set of factors reinforced this trend toward external relations, at the expense of internal consolidation: (i) Mercosur countries' need to renegotiate bilateral trade preferences granted

in the framework of the LAIA, given that they were the natural counterparts of negotiations with the Andean Community members; (ii) the effective start of the negotiation process of the Free Trade Area of the Americas with the Denver Ministerial Meeting of June 1995 posed the immediate need for Mercosur to strive for self preservation as a trading bloc and as a recognized partner to the United States; (iii) the negotiations with the European Union within the framework interregional agreement of 1995 for the establishment of a free trade area between the two blocs. These negotiations provided the underpinnings of the trade strategy Mercosur started to pursue in 1995. The external arena had become the dimension of activism for Mercosur. The strategy of the bloc was largely determined by the value its members placed on external negotiations as a means to reassert the bloc's credibility and cohesion, and in order to face their own vulnerability to financial external crisis and to meet the opportunities of acceding to the markets of their main trading partners in the developed world on a preferential basis.

Thus, the push towards external negotiations and the related strategy of Mercosur can be seen as a byproduct of a mix of operational, defensive, and assertive concerns with the clear prevalence of a particular aspect in each context. Negotiations with the Andean Community were launched as a response to the necessity of redefining and adapting the trade preferences granted by each Mercosur member to other LAIA countries, and were justified by what can be termed an operative concern. As for the FTAA, despite the powerful incentive provided by the possibility of preferential access to the U.S. market, the huge economic asymmetries and the threat they posed to the very existence of Mercosur as a free trade arrangement, and the protectionist bias of the United States in relevant sectors for Mercosur exports made



defensive concerns prevail. In the case of the trade talks with the European Union, Mercosur has adopted a more assertive stance towards market access for its agriculture exports. However, the possibility of a free trade agreement with the European Union has not brought the same kind of concerns that has the possible establishment of the FTAA. U.S. hegemony adds a political hindrance to the economic benefits of an eventual FTAA, thus dividing the relevant political preferences of Brazil and Argentina. Besides that, the European Union, in spite of its Common Agriculture Policy, is perceived as a reliable economic partner, less prone to unilateralism than the U.S. and more politically motivated in forging a multilateral world economic order.

The overall strategy with which Mercosur approached its external relations was not then, nor is it now, a carefully designed or homogeneous one. Rather, it is a complex and often ambiguous exercise of evaluating and balancing different perspectives on the incentives and risks of simultaneous trade negotiations in a context of rising financial instability and economic uncertainty. The heterogeneous, multifaceted profile of such strategy does not imply, however, that its main features cannot be identified. On the contrary, there are some common aspects of Mercosur motivations and behavior that help cast light on the rationale of its interests and on the way it has acted to promote and/or safeguard them in international negotiations.

One feature of the strategy Mercosur started to pursue in 1995 was facing external negotiations independently of internal dynamics and agenda. In other words, Mercosur's external relations were to a certain extent dissociated from its internal dynamics in the sense that the latter should not formally constrain the former. On the contrary, having been given

an international juridical profile by the Ouro Preto Protocol in 1994, Mercosur was willing and able to act as a negotiating partner to foster its own development. At the same time, internal issues and divergences should not pose restrictions for exploiting external opportunities. The intent was to have Mercosur's countries speak with a single voice internationally. The external agenda should then be dealt with as if it had no immediate, direct or necessary links to its internal agenda and to its domestic constraints. Having both agendas evolve in parallel fashion would represent the best option to maximize external opportunities and to project Mercosur internationally, while preserving higher levels of discretion to manage its internal affairs. Therefore, Mercosur engaged in external negotiations using the achievements of the transition period to: (i) reaffirm the bloc's identity and cohesion as a negotiating entity; (ii) strengthen its credibility internally and with its external partners; (iii) increase its attractiveness by emphasizing the economic potential of the bloc as a source of opportunities for trade and investments; and (iv) strengthen its negotiating power vis-à-vis its trading partners.

Starting in the mid-1990s, this separation of its internal and external agendas has been a central feature of Mercosur's strategy to face external negotiations. Although hardly sustainable over the long term, this strategy has brought about some immediate benefits. First, it has granted governments a certain degree of maneuverability and discretion in both spheres. Likewise, it has provided a wider range of tactical options in each negotiating stance in face of demands and proposals of its counterparts. Third, it has blocked attempts by Mercosur's counterparts in trade negotiations to push for the acceptance of unfavorable or undesirable terms on issues related to Mercosur's imperfect trade disciplines.

A second feature of the trade strategy of Mercosur was to treat each negotiation in its own terms, but to preserve some basic guidelines for all of them. This was, in part, a pragmatic recognition of a state of affairs, as each negotiation was subject to particular agendas, criteria, principles, procedures, instruments, and institutional frameworks. However, this should not necessarily preclude the possibility of either seeking a more integrated approach to some common issues or taking advantage of what was conceded, accepted or defined in one negotiation process to bargain and obtain desired outcomes in another. Although attractive in principle, this has proved to be more a possibility rather than a frequently exercised component of Mercosur's strategy as the political framework, the agendas, the pace of negotiations, and the expected benefits vis-à-vis its potential costs did not allow much room for the exercising of this bargaining strategy. To some extent, this sort of linkage has been observed in cases of the negotiations of Mercosur in the context of the FTAA and those with the European Union. This has become possible because strengthening commercial and economic ties with Latin America is regarded as an important dimension of broader international strategies for the United States and the European Union, two of the major world economic powers and Mercosur's main economic partners.

Actually, the Mercosur-European Union 1995 Framework Agreement was widely interpreted as a reaction by the EU to the FTAA initiative aiming at countervailing the U.S. trade activism through a preferential arrangement in Latin America. Therefore, the linkage between both processes is not due to any Mercosur strategy, but to the strategy of the European Union. When pursued by Mercosur, the smaller partner in this economic triangle, this strategy tends to assume a predominantly defensive connotation in the sense that it

represents a means of bridging asymmetries rather than an assertive way of promoting interests or reaching desired outcomes.

Third, based on the success of the strategy internally pursued in the transition period, Mercosur strove for broad scope agreements, without permanent exceptions and with clear criteria and rules for the full incorporation of sectors and products temporarily granted exceptional treatment. At the same time, the bloc rejected special treatment for less developed countries, thus sustaining the same principles of symmetry and reciprocity.

These principles were actively discussed in negotiations with Chile and Bolivia, and subsequently in the Mercosur-Andean Community negotiations. They have not yet been dismissed in the FTAA and European Union negotiations, although in both cases the eventual agreements will necessarily have to abide by the rules of the World Trade Organization. Strengthening the rules of the world multilateral trade system, and not advocating non-reciprocity in regional arrangements, was perceived as the first best option to safeguard Mercosur's commercial interests vis-à-vis its main trading partners. Mercosur has endorsed reciprocity, given that its members have opened their economies unilaterally, regionally, and multilaterally. What the bloc strives for, particularly in the context of the FTAA, is an adequate time framework for the eventual agreements to come into force, to allow domestic sectors a favorable condition to prepare for the direct and open competition with U.S. exports and to deepen and consolidate its trade rules and practices to avoid being overwhelmed by competition in the short-term.

This leads to another distinctive trait and objective of Mercosur strategy since the mid-1990s: to approach external negotiations as a means of seeking the full enforcement of

Uruguay Round agreements and strengthening multilateral norms, while refusing to negotiate beyond the World Trade Organization's disciplines. This element of Mercosur's trade strategy is of great relevance because it involves two areas to which Mercosur is extremely sensitive: the ability for partner countries to resort to anti-dumping and anti-subsidies measures to restrict exports, and the restrictions on agriculture trade. This same principle of adherence to WTO rules lies behind the position of Mercosur regarding environmental and social clauses in the FTAA advocated by the United States.

In contrast to the first four years, when the bloc benefited greatly from the trade strategy it pursued internally, the 1995-1998 period saw little internal progress. External relations also slowed considerably in that period. With the exception of the agreements with Chile and Bolivia, the other initiatives did not bring effective results either politically or economically. The negotiations with the Andean Community did not advance. Those with the European Union evolved slowly, but without clear compromises on trade liberalization. The FTAA was still centered on the definition of methodology and time framework of the negotiations.

However, the gap between expectations and external achievements must be attributed to factors beyond the nature of the agreements and to the dynamics of each negotiation. Among these are the constraints imposed by the adverse external economic environment, the priority granted to the management of domestic economic affairs and to the preservation of macroeconomic stability, the unwillingness of some of Mercosur partners to effectively engage in negotiations (as in the cases of the EU and the Andean Community), and the low profile of domestic agents in relation to external negotiations in the aftermath of unilateral, regional, and multilateral economic liberalization.

The results of these external negotiations differed. Negotiations with the Andean Community were suspended in 1998, due to the impossibility of harmonizing the different views and the demands of both sides regarding rules of origins, special customs regimes, sensible sectors, and the more fundamental issue (for the smaller Andean countries) of special treatment for less developed countries.

In FTAA negotiations, Mercosur was relatively successful at safeguarding its fundamental interests, namely gradualism and equilibrium of results, the broad scope of the agenda, the principle of “single undertaking,” compatibility with the WTO disciplines, and the preservation of subregional and regional integration initiatives. The reaffirmation of 2005 as the timeline to start the implementation of the FTAA, decided at the 1998 Santiago Summit, corresponded to a Mercosur proposition. However, it is entirely uncertain whether it will succeed at getting the U.S. to abide by strict norms concerning the application of antidumping, antisubsidies measures, and countervailing duties in the context of the FTAA, or to give up environmental and social clauses.

In relation to the European Union, negotiations under the 1995 framework agreement initially focused on deeper economic cooperation and a tentative agenda for gradual progress toward trade liberalization between the two economic blocs. Mercosur has made it clear that a trade agreement of that sort is only feasible if agricultural protection is effectively resolved. As previously mentioned, developments in this negotiation have also been very sensitive to the dynamics of the FTAA process. The prospects for an Mercosur-EU accord depend not only on the ability of Mercosur to promote its views and interests, but also on the results obtained in the FTAA negotiations as a source of incentives and/or constraints for the

European Union to respond affirmatively to the demands of the Southern Cone.

Summing up, from 1995 to the end of 1998, the trade strategy of Mercosur shifted its focus from the internal agenda to its external relations as the main arena for activism in terms of seeking opportunities for greater market access. This shift did not represent a rupture with the achievements of the transition period, rather Mercosur built upon those achievements to define principles and guidelines for the negotiations it engaged in with several trading partners. With the unprecedented macroeconomic convergence between Brazil and Argentina in the second half of the 1990s, it was the instability of international financial markets that acted as the main constraint on the revision of Mercosur's strategy.

This instability did not prevent the bloc from pursuing a coherent trade strategy, but it curtailed the development of a strategy in which internal accomplishments could be fully incorporated. Policy makers were forced to concentrate on the immediate impacts of international instability on national economies, and on preserving macroeconomic stability. This severely reduced their ability to enhance the integration process with improved coordination of internal and external policies, a necessary step for the creation of an encompassing trade strategy. Moreover, the dispersion of effort caused by simultaneous negotiations made it difficult for Mercosur to develop a single and homogeneous trade strategy in that period.

### III. THE LATE 1990s: STRIVING TO HARMONIZE INTERESTS IN TIMES OF CRISIS

The intensification of macro- and microeconomic imbalances between Brazil and Argentina in the aftermath of the Asian and Russia's financial crises, Brazil's currency devaluation in

January 1999, the progressive deterioration of Argentina's financial condition, the stagnant economic condition of Uruguay and Paraguay, and the decreasing rates of economic growth in the United States, Europe and Japan have exposed the internal fragility of Mercosur and the limits of its external strategy. The unprecedented crisis the bloc has experienced recently is expressed not only in the reduction of trade flows among the four member countries, but also in the upsurge of unilateralism inside the bloc, the weakness of the mechanisms and institutions to counter it, and an overall loss of credibility.

In such a context, external restraints have accentuated internal vulnerabilities, making it impossible to keep on managing external relations and the internal agenda independently. On the contrary, the acute crisis has made it imperative for policymakers to focus on some pending internal issues and on addressing macroeconomic coordination and problems in the external agenda as necessary steps for reinvigorating Mercosur. Moreover, has also become imperative to balance the bloc's internal and external agendas and to adjust its present trade profile to its external interests, possibilities, and challenges. As the agendas of both the FTAA and EU-Mercosur negotiations evolve, it becomes clear that issues long neglected in the internal agenda of the bloc will have to be dealt with in the context of those negotiations and/or also in the context of the WTO negotiation round launched in Doha Ministerial Meeting in November 2001.

As a consequence, issues such as dispute settlement, decision-making procedures, and the transposition of norms have risen in the bloc's agenda, along with those directly related to trade disciplines and to the consolidation of the customs union. It has become necessary to reinvigorate Mercosur from inside to avoid its gradual self-dismantlement and to preserve it



as a viable and effective channel for negotiating with other countries and economic blocs regionally, transregionally, or multilaterally. These perceived needs led to the highly touted “relaunching” of Mercosur in 1999. That agenda was negotiated and formally agreed upon under the Argentina’s Mercosur *Pro Tempore* Presidency in the second semester of 1999. It included previously pending issues related to the implementation of Mercosur’s trade disciplines, such as market access (especially non-tariff restrictions), the transposition of harmonized norms to national legislation, dispute settlement, the application of the common external tariff, commercial defense, protection of competition, and incentives for investment, production, and exports. In addition to these trade issues, others related to macroeconomic coordination (e.g., the harmonization of economic indices and statistics, and the settlement of common goals for fiscal matters, debt and inflation) were introduced to move the integration process beyond trade liberalization.<sup>10</sup> Finally, the agenda included commitments to negotiate trade preferences as a bloc and to resume negotiations with the Andean Community.

The expression “relaunching” was obviously flawed. In actuality, this revised agenda was an effort to update and adjust Mercosur to respond to internal challenges and to those that external negotiations posed in the short and medium term. The operational approach of the relaunching agenda was similar to that applied in the Las Leñas Program in the transition period; that is, the voluntary execution of specific tasks through negotiations at technical and executive levels, according to strict deadlines. This approach was relatively successful at leading Mercosur to a free trade area and an imperfect customs union during the transition period, but it has not been equally successful in driving Mercosur out of the current crisis. Recent efforts have been countervailed, to a large extent, by the political and economic

problems brought about by Argentina's acute financial crisis as well as by economic imbalances in other member countries, including Brazil, and, finally, by important differences in policy areas and issues such as exchange regimes, dispute settlement mechanisms, the nature of Mercosur's institutions, and the FTAA.

In this context, it was almost inevitable that the debate should reopen over what is the most desirable and feasible form of integration among the four Mercosur members, although this contributed to widespread uncertainty regarding the possibility of preserving and attaining its original objective of a common market. At one extreme, many have argued that the bloc is doomed to failure and disappearance. Others suggest that even if it does not disappear, it will likely become increasingly irrelevant.

However, in spite of its fragileness and inconsistency, Mercosur still represents an important political and economic asset that can play an effective role in providing economic opportunities and dynamism for its member countries, as well as in the definition of the prospects for regionalism and multilateralism. Mercosur as an institution is neither easily disposable, nor is it a self-sustaining strategic asset. Its importance and usefulness for member countries varies according to its effectiveness in addressing development needs and problems, political challenges and external risks and opportunities from the viewpoints of each individual member. In other words, the strategic relevance of Mercosur rests on the perceptions and evaluation of each member countries' policy makers and prominent economic actors as to the bloc's functionality in providing viable alternatives to address international economic constraints and domestic problems.

It is important to note that despite the initial skepticism of most economic sectors about

the prospects of integration, as time passed Mercosur came to receive wide political support and to play an important role in advancing liberal trade practices in its member countries. The acute economic crisis that seized Argentina, and spread to Uruguay, Paraguay, and Brazil, fuelled criticism of the economic policies to which Mercosur had been associated. Although only in relatively few instances has overt opposition to economic integration been expressed, in each member country an anti-free trade mood has risen, along with a perception that the bloc does not play a meaningful role in addressing most immediate economic concerns.

This ambivalence has not prevented member countries to reshape their strategies for Mercosur in an effort to adapt to new and more restrictive circumstances. Some features of its present strategy, although not yet fully developed, can be identified. They derive from the assessment of Mercosur's current course and from previous formulations, and reflect a predominantly principled, normative and voluntaristic view of the necessary conditions to reinvigorate the bloc.

One feature of this revamped strategy is a stress on internal cohesion as a fundamental condition for restoring the bloc's self-confidence and credibility. In this regard, the prospect of a new multilateral round of trade negotiations under the aegis of the WTO and the acceleration of FTAA negotiations after the Quebec Summit, as well as the negotiations with the European Union, have played a positive role in terms of stimulating internal cohesion, in spite of the evident differences between Brazil and Argentina as to some important issues, especially in the FTAA process. These positive steps have not, however, been fully met in the quality and strength of Mercosur norms and institutions and in a sound commitment by

its members to free trade policies and deeper integration levels. Even so, the bloc has so far managed to preserve itself internally and as an international negotiating entity, in spite of the increasing loosening of its political and economic threads.

A second feature is the reassertion of the political commitment to the perfecting of the customs union and its disciplines and institutions. Rather than a mere rhetorical manifest, this commitment has practical consequences as it defines a clear agenda with specific issues to be addressed, thus stimulating the mobilization and convergence of efforts towards attainable goals. Nevertheless, this commitment has not found sound and equitable support among the member countries. Argentina repeatedly insisted on downgrading Mercosur to a free trade area, with the support of some economic and political sectors in Uruguay and Paraguay. Such propositions have not progressed due to Brazil's strong stance on preserving and consolidating the customs union as an essential element of the bloc's (and the country's own) regional strategy.

A third feature reflects the effort to update the internal agenda of the bloc to cope with the challenges posed by external negotiations at the regional, hemispheric, transregional and multilateral levels. This implies the establishment of some functional links between the internal and external agendas for the sake of reinvigorating the bloc, which would be an important change from the 1995-1997 period. A fourth feature of Mercosur's late trade strategy is the search of a more active profile in the relations with its main trading partners, namely the United States and the European Union, and in trade talks within the WTO. In spite of its internal crisis, Mercosur maintains its assertiveness externally, notably in issues related to market access and in refusing to negotiate the so-called "grey area issues" as a way

of strengthening the multilateral world trade system and resisting the protectionism of its main trade partners.

Nevertheless, some of the basic requirements for the success of this strategy have not been met. Efforts to advance the agenda of relaunching have bogged down because of the divergent perspectives of Brazil and Argentina, and by an ever-growing protectionist trend that has contaminated trade policies in both countries as well as the perceptions of the bloc's economic health. In addition, governments have failed to establish functional ties between the domestic and the international agendas of the bloc. Dealing with the immediate and short-term consequences of economic imbalances and their negative political, economic, and social externalities became a key issue in 2000 and 2001 not only in Argentina, where it led to a crisis of unprecedented proportions, but also in neighboring countries.

In such a context, policy coordination remains a desired objective rather than an actual accomplishment. Although important incentives for policy coordination exist, several obstacles remain. Domestic economic issues have systematically prevailed over those of the integration agenda. Restoring and preserving macroeconomic stability in face of domestic and external constraints continues to be an essential economic goal of Mercosur countries. Besides that, measures adopted at the microeconomic level reveal important differences in policy preferences within national governments as to what Mercosur should be and the priority to be granted to it in face of other domestic demands. These differences make policy coordination even harder to achieve. As previously mentioned, although the four Mercosur countries have established some common macroeconomic goals, their achievement depends much more on domestic matters and corresponding economic policies rather than on

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incentives for cooperation associated with the regional project.

#### IV. CONCLUSION

The analysis of the strategies by which Mercosur has dealt with trade issues internally and externally indicates that those strategies were not derived from any single, encompassing, long-term operational approach. Rather, they are the outcomes of several adaptive responses to changing contexts, possibilities and constraints posed, at each stage of its course, by internal and external political and economic environments. This conclusion meets the assumption that trade strategies and preferences are, largely, determined by the interplay of strategic political and economic objectives and international and domestic constraints.

Over the course of its first decade, as the bloc faced new challenges and contexts, it developed adaptive strategies to counter them. During its first four years, Mercosur took advantage of a favorable external economic environment to implement its internal commercial agenda through a voluntaristic approach in which automatic procedures for the phasing out of tariffs, and the harmonization of interests through tradeoffs and side payments were key elements. In the following phase, the focus shifted to the external agenda as a means of exploiting political and economic opportunities to consolidate a political profile within a context of more restrictive economic conditions. In more recent times, the bloc has labored hard to harmonize and balance increasing different national interests, to create opportunities to reinvigorate itself and to overcome the severe crises it faces. However, it has become more vulnerable than in previous phases to domestic and external injunctions, and is confronted with the prospect of stagnation or even retrocession. Avoiding these prospects requires the reassertion of its cohesion, of its identity as a negotiating entity, the

strengthening of its trade disciplines and a more assertive profile in its relations with its main economic partners. So far, progress in each of these tasks has been uneven, while domestic and external economic circumstances remain unfavorable for the advancement of integration.

In the external realm, three developments are relevant to the shaping of Mercosur's destiny: the reassertion of the United States' political, economic, and strategic leadership as an immediate reaction to the terrorist attacks of September 11, 2001; the willingness by the European Union to advance steadily in the negotiations with Mercosur and the fate of the Doha Round multilateral trade negotiations. The reassertion of U.S. leadership internationally has produced a two-pronged strategic effort. It has propelled political and military activism, even unilateral if necessary, in areas in which the U.S. feels its has been threatened directly. The military campaign in Afghanistan and the mobilization for a war against Iraq are evidences of such activism. At the same time, the U.S. government seems to have no alternative but to reinvigorate multilateral initiatives at global and regional levels to counter the rising feeling of insecurity and to restore confidence in international institutions and regimes. The willingness not to allow the WTO Doha Ministerial Conference to fail in launching a new round of trade negotiations was one striking piece of evidence of this element of the U.S. agenda. At the regional level, the U.S. assertiveness implies a stronger commitment to the establishment of a comprehensive security regime in the Americas and to the successful completion of the FTAA negotiations.

Mercosur is not equipped politically or institutionally to act collectively in matters of security or defense, and there is no indication so far that governments are willing to assign it any role in this area. At the same time, the renewed commitment of the U.S. to the

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establishment of an FTAA poses a direct challenge to the ability of Mercosur to negotiate with a more assertive United States. The lack of internal cohesion of the bloc and its economic vulnerabilities contribute to the current fragility of its position.

In addition to the weaknesses of Argentina, Uruguay, and Paraguay derived from a deepening economic crisis, Brazil also faced political and economic problems in the final months of Fernando Henrique Cardoso's second presidential term. These problems were associated with political uncertainties brought about by the prospects of victory of the leftist candidate Luis Inácio Lula da Silva in the 2002 October presidential election and by the country's external economic imbalances and vulnerability. In the second semester of 2002 Brazil's Real devaluated strongly, inflation and unemployment rose and investment halted, thus resulting in an extremely unfavorable economic environment in which economic and social inequalities generated or reinforced by the liberal economic policies pursued in the 1990s were accentuated. The election of Luis Inácio Lula da Silva and his Workers' Party with a massive popular support was, in this sense, the corollary of an entangling domestic context.

However, most of internal and external concerns with the policies the new government would carry out dissipated as the commitment to fiscal discipline, sound monetary policy and macroeconomic stability was reassured. In the foreign realm, the new Brazilian government is willing to exercise an assertive role in regional and global affairs. As to the first dimension, the exercise of political leadership to strengthen Mercosur, promote South American integration and reassert the countries key interest in the context of the FTAA negotiations is to become the cornerstone of Brazilian foreign policy in the coming years. The intent to



influence the global agenda to favor balanced economic and social development and strengthening multilateralism are the main general guidelines for the global dimension.

As to trade policy, fighting any form of protectionism that affects Brazilian exports, opening markets, exploiting trade opportunities in emerging markets and promoting import substitution by stimulating production efficiency and competitiveness are the announced priorities of the new government. Reciprocity will be an important Brazilian demand in trade negotiations in which market access and further liberalization of important sectors of the Brazilian market are at stake. After the simultaneous unilateral, regional, and multilateral opening of its markets carried out in the nineties, Brazil is certainly not willing to give up entirely the benefits of free trade, but it is also much less prone to accept further liberalization if clear and more immediate concessions by its main trading partners in key commercial areas are not seen as forthcoming.

These priorities altogether do not indicate any kind of departure from the trade profile the country has exhibited so far. Its trade preferences and strategies will keep on being centered on the knitting of multilateralism at the regional level, with Mercosur as its key component, transregionalism and multilateralism. At the same time, bilateralism has not been dismissed. On the contrary, regardless of its commitment to reinvigorate Mercosur, Brazil is strongly willing to develop new trade partnerships, especially with emerging trade powers like China, and with other important countries like Russia, India, South Africa and Mexico. This implies that Mercosur will be assigned an important role, as in the early nineties, but perhaps a more limited one in the context of the Brazilian foreign trade.

The paths chosen by Argentina to overcome economic crisis and the role played by

Brazil in this regard are also key elements for the definition of the political and economic profile of Mercosur in the short and mid terms. The Argentine nightmare has affected Mercosur directly and in different ways. Most immediately, it led to a significant decrease of trade and investment flows. Politically, the crisis has challenged the prospects of Mercosur if not its continuity, raising uncertainties as to the form and the degree of integration it might eventually assume. In its early stages, the crisis contributed to the gradual rise of managed trade practices that eroded the free trade regime. It forced Brazil and Argentina to give up efforts aimed at restoring and consolidating the common external tariff and the customs union, one of the main objectives of the Mercosur relaunchment agenda agreed upon at the beginning of De La Rúa presidency. Negotiations on this crucial issue were resumed in early 2003 as part of the initiative launched by the Brazilian new government aiming at reinvigorating Mercosur.

However, it can be argued that the prospects for Mercosur's trade policies and strategies will become more clear only as the Argentine government gets to move away from the immediate and short term requirements that have absorbed its policy energies in recent times. The end of the peso-dollar parity model brings with it the possibility of greater convergence with Brazil in terms of their respective exchange regimes. This certainly clears the way for a positive agenda as it removes a source of commercial conflicts among the two main partners and clears the way for future coordination of macroeconomic policies. However, a high level of uncertainty persists as to Argentina's future trade strategies and preferences and the role to be played by Mercosur. There is no doubt that at the present, Argentina is closer to Mercosur than it was in the late nineties. But it might be tempted again to seek a bilateral free trade

agreement with the United States, as Uruguay also attempted, as a hedging strategy in case FTAA negotiations come to a deadlock. This would create a de facto condition in which the trade disciplines of Mercosur and its trade strategy towards third parties would become severely—and possibly irreversibly strained.

In such a context, the fate of the global multilateral trade system becomes a critical variable for Mercosur. The start of a new round of trade negotiations within the WTO will require a more vigorous and consolidated commercial discipline, improved institutions, and enhanced political willingness of its member countries for collective negotiations. The scope and complexity of the negotiating agenda, as presently envisaged, and the highly politicized debates it has already created make it necessary to strengthen the instruments which may contribute to aggregate positions and negotiating capabilities. Regional blocs, like Mercosur, serve this purpose. So far, Mercosur does not act as a single negotiating unit in the context of the WTO. However, there is no indication that its member countries are willing to give up the political and economic utility that the bloc may yet provide in the context of a large multilateral negotiation.

Even if negotiations do not advance as expected or eventually fail, there will be strong incentives for countries to resort to economic regionalism as a second-best approach to trade liberalization. In such a scenario, regional initiatives might represent an important arena of political dynamism, providing a positive environment for the establishment of norms, rules and practices that may eventually go beyond the regulations of the WTO. Mercosur has not endorsed this sort of “WTO-plus” proposition. However, they have been occasionally raised in the context of the FTAA in relation to environmental and social provisions. Whether WTO

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negotiations are successful or not, regionalism will remain as an important underpinning of the world trade regime and Mercosur will certainly at some point have to face these issues.

At stake are the links between regionalism and multilateralism. In the late 1980s and in the first half of the 1990s, there was fierce debate over the nature of regionalism and its consequences for the multilateral trade regime. Regional initiatives were then portrayed either as obstacles or as stepping-stones to the global liberalization of trade. At the present, those expressions seem to be inaccurate in capturing the relationship between regional agreements and the multilateral trade system. These relations cannot be defined any longer simply in terms of either/or propositions. It is important to notice that even in the case of an eventual failure of the WTO's new round of negotiations, the multilateral trade system will not be immediately or inevitably replaced by regional arrangements, no matter how strong and encompassing they are. What may come out then is a very complex system regulated by the WTO but with a wide array of areas subject to regional agreements. Regionalism would become a form of a restricted multilateralism in which new commercial disciplines would be introduced, implemented, and legitimized under the form of WTO-plus arrangement.

On the other hand, the advancement and success of multilateral negotiations will not mean the end of incentives for countries to seek and to join regional agreements and integration mechanisms. What seems to be at stake then is the functionality of such agreements and arrangements regarding the accomplishment of interests and objectives of both national governments, on the one hand, and corporations, on the other, in an ever-changing political and economic international landscape. The ability of regional blocs, like Mercosur, to adapt and shift strategies in response to dynamic internal and external

challenges simultaneously is a key criterion of their performance in the coming years.

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## Notes

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<sup>1</sup> Da Motta Veiga (*O Brasil no Mercosul: política e economia em um projeto de integração*, p. 266).

<sup>2</sup> Luis Felipe de Seixas Correa, *A política externa de José Sarney*, p. 374.

<sup>3</sup> Treaty of Integration, Cooperation and Development Between Brazil and Argentina (1988), Art. 2.

<sup>4</sup> The Treaty of Asuncion, Article 5.

<sup>5</sup> Only one of such sectoral agreement was actually convened and registered at LAIA.

<sup>6</sup> Eduardo A. Guimarães, *Abertura Econômica, Política de Estabilização e Política Industrial*, p. 8. (*mimeo*).

<sup>7</sup> Roberto Bouzas, *Aspectos estratégicos de las negociaciones del Mercosur*, p. 43.

<sup>8</sup> The harmonization of non-tariff measures, liberalization of the trade of services, disciplines against unfair trade practices of third states, safeguards and customs valuation were some of the important issues upon which no agreement was reached by the end of the transition period.

<sup>9</sup> It was agreed that the common external tariff to be applied to capital goods should converge to the 14% level until January 2001; for informatics and telecommunication goods, a 16% level would be reached in 2006.

<sup>10</sup> Institute for the Integration of Latin America and the Caribbean, *Mercosur Report 1999-2000*, p. 90.