



**IIEB**  
**WORKING PAPER**

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**The influence of Brazil's developmental projects  
on its positioning in the negotiation of regional  
and bi-regional trade agreements**

September 2005



IIEB IS PART OF THE  
FACULTY OF SOCIAL SCIENCES  
OF THE UNIVERSITY OF LEUVEN

**Paper to be presented at  
the CSGR 8th Annual Conference:  
“Regionalisation and the Taming of Globalisation?  
Economic, Political, Security, Social and Governance Issues”,  
University of Warwick, UK,  
on 26-28 October 2005**

## **Introduction**

One of the aims of this conference is to look at the role of large states in the process of region-building. In this paper we will focus on the (leading) role of Brazil in different initiatives of regional integration, launched in the America's and beyond, before and after the end of the Cold War. More precisely we will try to trace and explain the role of the economic development (and external economic policy) models of "national-developmentalism" and "open-regionalism" in Brazil's positioning in these different processes of regional integration.

The main hypothesis will be that the end of the Cold War and the steady emergence of regional blocs, the democratization process inside Brazil, and the debt crisis led to an important shift towards the open-regionalism model.

But, despite of this important shift in ideas in foreign trade policy-making at the beginning of the nineties, both the many problems Mercosur is facing at the moment and the current state of negotiations inside the FTAA-process and the EU-Mercosur agreement show that the "national-developmentalism" model of economic development continues to influence the progress of these current regional integration initiatives, albeit in somewhat weaker form.

Firstly, we will discuss the model of "national developmentalism" both in terms of theoretical foundations (Section 1) and practical ramifications (Section 2) in the field of regional integration. Secondly, the shift towards the "open-regionalism" model and its main theoretical assumptions will be introduced (Section 3). After, we will verify to which extent the "open-regionalism" framework model inspired and continues to inspire the evolution of Mercosur as a regional integration project (Section 4) and its external agenda (Section 5). Inside this external agenda we will concentrate on the FTAA negotiations and the EU-Mercosur negotiations as they form acid tests for the open-regionalist character of the regional bloc of the southern cone.

### **1. The model of "national developmentalism" and the doctrine of the Structuralist school**

During the post-war period, development thinking was starting to take form and was mainly dominated by the most important paradigms in sociology and economy: modernization theory and neoclassical economic theory. According to modernization theory, first of all, development was seen to be a "homogeneous and universal transition to modernity" (Baek L., 1989). Most third world societies were seen as "traditional societies" and in their road to modernity they had to loose the characteristics of their traditional societies, as these were considered to be obstacles to the creation of a modern capitalist system.

Early economic development theory, secondly, was the extension of classical economic theory which saw development as equal to growth and industrialisation. As a result, “stage theory” mentality dominated the scientific scene. It argued that all countries passed through the same historical stages of economic development and that current underdeveloped countries were merely at an earlier state in this linear historical progress while first world countries were at a later stage. The task of the development economist then was to suggest “short cuts” by which underdeveloped countries might draw near with the developed ones and leap over a few stages.

Other economists turned to international trade and the idea of comparative advantages as the great catalyst for economic development. Briefly put, these theories argued that through the mechanism of comparative advantages and specialization, the gains of trade would be equally shared and development would be possible for all partners in the international trade system (Krugman, P. Obstfeld, M., 2000).

The conclusions of both modernization theory and the dominant economic theories were not valuable when analyzing the problems of underdevelopment where most third world countries were confronted with. Moreover, these approaches in most cases did not formulate a clear strategy for development for Latin America as they did not take in account the specificity of the continent (Mecham M., 2003). Therefore it was not surprising that in Latin America a few economists and social scientists, as for instance R. Prebisch or C. Furtado, tried to develop a theoretical framework that would enable them to explain their situation of underdevelopment using their own research tools and theoretical assumptions. The most important theoretical assumptions of one of the most influential of these Latin American “development schools”, the “Structuralist School”, were the fundamental unequal nature of the world economic system (centre-periphery paradigm) and the deterioration of the terms of trade (Kay C., 1989).

The centre-periphery paradigm, first, attempted to explain the unequal nature of the world economic system. According to this paradigm, the structural differences between the centre and the periphery of this international economic system were created during the Industrial Revolution. This event gave the countries in the centre (first England, then continental Europe and later North America) the opportunity to increase their productivity by using the new technologies that were developed in all of their economic sectors. In the countries of the periphery (Latin America, Africa and Asia), by contrast, new technologies were only adopted in the primary commodity-producing export sector. This resulted in a disarticulated and dualist economy in the peripheral countries. It was disarticulated because all new technologies had to be imported from the centre countries. It was dualist because

there was an enormous difference in productivity between the export and the subsistence industries. While the export sector could benefit from an increased use of new technologies, the sector providing substantial needs for the people still consisted of pre-capitalist, labour intensive industries.

The other cornerstone of the structuralist analysis was the (a bit controversial) analysis of the terms of trade between the periphery and the centre (Larrain J., 1989). According to traditional international trade theories, the economic specialisation in the periphery in commodities and in the centre in industrial goods, favoured both “poles” in the world economic system. Structuralists, however, argued that the income from trade grew faster in the centre than in the periphery and they assumed that it was due to the international division of production and trade. This division confined the periphery to the production of primary commodities, which is a bad position, since there was a long-term tendency for prices of primary products to deteriorate relative to prices of manufactured goods. This meant, concretely, that the periphery had to export each time more raw materials to be able to continue the same amount of industrial goods.

In order not to be dependent anymore on the external demand of raw materials, the Structuralists from the ECLA claimed that the peripheral countries of Latin America had to substitute this external demand for an internal demand. In other words, the periphery had to evolve from development towards the outside (*desarrollo hacia afuera*) to development towards the inside (*desarrollo hacia adentro*). In Latin America, this process was called Import-Substitution Industrialization (ISI), because it also replaced the import of several industrial goods from the centre countries.

The model of the ECLA described above inspired several governments in Latin America, including Brazil, when elaborating their national economic policies in the period 1945-1980, even though the ISI strategy adopted was never monolithic and unchanging. More striking, however, was the fact that this theoretical model was concretized in a set of foreign policies that could be framed under the common denominator of “national developmentalism”. According to Hurrel, this project of national developmentalism gave rise to the following assumptions related to Brazil's foreign policy that were hardly ever challenged: the intrinsic value of national autonomy, the importance of defending economic and political sovereignty and the imperative of developing a more prominent international role for the country (Hurrel A., 2001).

Several examples of Brazil's foreign policy decisions and orientation, both under Getúlio Vargas' (1930-45, 1950-1956) and Kubitschek's government (1956-1964) and during the period of military dictatorship (1964-1985) illustrate the importance of

these assumptions. In 1951 already, during the 4th Interamerican conference on the engagement of the states of the American continent in the Korean War, Getúlio Vargas clearly stated that Brazil's support to the United States in this conflict would not be unconditional. On the contrary, Brazil's engagement in the Korean War would be a trade off for additional US investments in Brazil's industrial infrastructure (Cervo A.L., 1996). Kubitschek's foreign policy fitted quite well in the "national-developmentalistic" framework as well. His continued search for foreign capital, his battle for stable agricultural prices in different multilateral settings and the launch of the "Operação Panamericana" in 1959, which had as main objective putting Latin America's development strategy on the agenda of the American dialogue, were clear examples of this. For the first time, ECLA concepts like "periphery and centre", underdevelopment, deterioration of terms of trade and import-substitution were introduced in the western hemisphere's diplomatic discourse.

The period of the military dictatorships were the heydays of "national developmentalism". Under the successive military regimes, Brazil's foreign policy was completely dominated by its developmental objectives. According to A.L. Cervo, there was a clear hierarchy in the military rulers' foreign policy priorities. In this hierarchy alignment with one of the powers or ideologies of the Cold War had the lowest priority, collective international and regional security was the middle-priority, the negotiation of bilateral economic agreements (especially with the United States) and approaching other states in the third world (in Latin America, Africa, Asia and the Middle East) enjoyed the highest priority (Cervo, 1996). Especially after the first oil crisis in 1979 this clear search for support among other developing nations resulted in some severe north-south confrontations in multilateral organisms like the GATT, the OECD and UNCTAD.

## **2. The "old regionalism" in Latin America<sup>1</sup>: LAFTA and LAIA**

In the strategy of Import Substituting Industrialisation, the state was a crucial actor in the development process. This "developmentalist" state, as some authors refer to (Prebisch, R. 1965; Larrain J., 1989), played a vital role and was the main actor in industrial planning, the provision of infrastructure, the procurement of foreign capital and the elaboration of regional integration initiatives. For the purpose of this article it is important that we focus on this last function of the "developmentalist" state, the role of the state as a motor for regional integration.

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<sup>1</sup> The wave of regionalism that took place in the 1960s and 1970s in Latin America, is called the "old" regionalism by some authors, as opposed to the "new regionalism" of the 1990s that includes among others Mercosur (Devlin R., Esteveordal A., 2001).

At that time, the ECLA proposed regional integration as a mean to overcome the limitations of the ISI model through the creation of a regional market (Devlin R. and Estevadeordal A., 2001). The idea was to eliminate internal barriers to trade and to expand industrial planning to the regional level, while keeping high levels of external protection. The wave of regionalism that took place in the 1960s included a specific kind of preferential trade agreements (PTAs). Most of the times the liberalization mechanisms were based on multiple positive lists, from which the definition was only fully established after gradual, protracted negotiations. As a consequence of this, schemes had a high degree of selectivity and they did not succeed in meeting their most basic objectives in terms of trade liberalization.

The most important regional integration scheme of the “old regionalism” wave Brazil was involved in was the Latin American Free Trade Agreement (LAFTA)<sup>2</sup>. LAFTA was established after the signature of the Treaty of Montevideo in 1960 by 7 Latin American countries<sup>3</sup>. By means of this treaty the signing partners committed themselves to the creation of a free trade area between those 7 states in a period of 12 years. At the beginning, the initiative did show some early achievements, as intra-regional trade in the LAFTA area increased from 8% in 1960 to 13,6% in 1975 (Van Dijck P., 2001, p. 330) because of tariff-reductions that took place in the first years of LAFTA. However, after this period, no further tariff reductions were negotiated.

Different explanations for the failure of LAFTA are forwarded in the literature. According to some authors the failure of LAFTA was caused by the lack of interest in a larger, competitive market among the largest industrial groups in Argentina, Mexico and Brazil (Medeiros, M., 2000, p.108). Representatives of the private sector from these countries were sent to LAFTA-negotiations in view of representing the interests of a “common” private sector while ironically, their governments were engaged in a strong competition among themselves to attract foreign direct investments from European and American firms.

Moreover, LAFTA was not accepted with great enthusiasm by smaller countries like Colombia and Chile, who were reluctant to face the ever increasing competition for markets.

P. Giordano has a different approach to the failure of LAFTA. In his eyes, the liberalization strategy inside LAFTA, based on a kind of “regional MFN-principle” by which every tariff reduction conceded was valid for all LAFTA members, was inherently wrong (Giordano P., 2001, p. 68). With a positive list of about 9200

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<sup>2</sup> Other regional initiatives that were launched in the same period in Latin America were the Central American Common Market (CACM), the Andean Pact and the CARICOM

<sup>3</sup> Brazil, Argentina, Mexico, Colombia, Chili, Bolivia and Ecuador

products, it was not surprising at all that the reduction of tariffs through intergovernmental negotiations was a slow and difficult process.

According to several observers, regional integration in the region at that time should have rather been pursued through the elaboration “sub-regional clusters of trade preferences” (Giordano P., 2001), a method that was facilitated by the incorporation of the “Enabling Clause” into the GATT-rules during the Tokyo Round.

Due to the lack of success of LAFTA and these latest developments at the multilateral level, at the end of the 1970s most leaders in Latin America, and especially in Brazil and Argentina, started to push for a reformulation of their regional integration strategies. This led to the negotiation of a new Treaty of Montevideo in 1980 and the creation of the Latin American Integration Agreement (LAIA), with more flexible and pragmatic regional integration instruments. In fact, the LAIA agreement, clearly proposed two types of trade liberalisation instruments: on the one hand it provided an overall tariff reduction scheme for all members (with different provisions for the ABRAMEX and the others) and on the other hand it laid out a framework in which the signing partners could commit themselves to additional trade liberalisation schemes or increased economic cooperation (Treaty of Montevideo, 1980, art.4-10)<sup>4</sup>.

But even though the LAIA used different and more flexible methods of tariff reduction among its members, this initiative was embedded inside the ISI strategy just like its predecessor. In fact its success was on beforehand jeopardized by the national-developmentalistic imperatives it aimed at. The explicit goal was to divert third party imports to intraregional production and export, but the sustainability of this strategy depended exactly on successfully opening national markets to intraregional trade and due to a strong competition among different states with similar inward-looking development strategies, this did simply not happen. R. Devlin summarizes this idea like this:

“The primacy of national protection in the ISI-model- which, ironically, undermined the very instrument (regional integration) that emerged to rescue it- (..) contributed to the old integration’s failure to take off, or caused it to stall relatively quickly” (Devlin R., 2001, p.3)

Gradually the LAIA lost its importance to the advantage of the sub-regional agreements that were created in the framework of the agreement and even though

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<sup>4</sup> One could see this agreement as a form of “enhanced cooperation”. The Economic Complementary Agreement nr.14 between Uruguay, Brazil, Argentina and Paraguay, that formed the basis for the Mercosur-agreement, was negotiated under this framework of the LAIA



LAIA still exists up until today, it is no longer considered to be a crucial element of Latin America's regional integration project.

### **3. The shift towards the open-regionalism model**

The end of the Cold War was a key event in the evolution of the international system. The bipolar and vertical order of the Cold War, where ideological questions determined the actions of nation states, was replaced by a new multi-polar world order. In this new situation, some changes in the international economic system were crucial for Latin America (Bresser Pereira L.C., 1993). First of all, economic liberalisation and democratisation became vital objectives for most Latin American countries. Secondly, the entrance of Central-and Eastern European countries to the free-market logic obliged most states in the region to take in account the emergence of new competitors in the world trade system. Thirdly, most Latin American governments started to realize that US credits to the region would no longer be merely based on strategic and political objectives (fight against communism) but would gradually shift to financial aid allocated on the basis of social and economic criteria.

The last important evolution in the international economic system was the weakening of multilateralism (due to the difficult character of the Uruguay Round) and the emergence of regional blocs. G. Bush's initiative of the America's of 1991 and the start of the negotiations of several "Europe-agreements" between the European Union (legally the European Community) and several Central- and Eastern European countries were clear signs of this renewed interest in regional trade agreements. This emergence of regional blocs compelled the Latin American states to look for a new strategy of "insertion" in the international economic system in order to prevent their complete marginalization in world trade.

Not only in the international scene, but also in Brazil's domestic scene an important evolution occurred during the 1980s. According to several observers (Medeiros, 2000 and Devlin, 2001), the ISI strategy had already collapsed in the late 1960s. The artificial maintenance of import-substitution policies during the 1970s led to the debt crisis in the 1980s, which forced the Brazilian government to take a rather passive attitude in relation with its creditors. Slowly, national-developmentalistic approaches of foreign (economic) policy were replaced by policy prescriptions of the Washington Consensus: trade liberalisation, deregulation, and privatisation. The "abertura" or the gradual democratisation process in Brazil was also an important factor engendering a weakening of the "national- developmentalistic" state.

The Latin American reality in general at the end of the 1980s was marked by an overall tendency of the states in the region to move towards "insertion" in the

international economic system combined with the application of neoliberal economic principles. Therefore it was not surprising that, during this transition period, a new set of ideas on regional integration and development started to flourish inside the Economic Commission for Latin America. This new set of ideas converted in the concept of “open-regionalism”.

The concept of “open-regionalism” was first elaborated by Gert Rosenthal, who was president of the ECLA between 1985 and 1997. In his famous article “El regionalismo abierto en America Latina”, he defined the concept of “open-regionalism” the following way:

“The process of growing economic interdependence at the regional level, driven both by preferential trade agreements and other integration policies in a context of economic liberalisation and deregulation, with the aim of improving the competitiveness of the states in the region and maybe creating a building block for a more open and transparent international economy” (Rosenthal G., 1994, p.14)

Many scholars highlighted the clear contrast between the “open-regionalism” and the “national-developmentalistic” models of regional integration in Latin America (N. Phillips N., 2003; Devlin R., Estevadeordal A., 2001; Medeiros M., 2000). Indeed, in a way, the objective of regional integration in the region had shifted with the shift to a new overall strategy of development. This new regionalism’s link to the structural reform process of the 1990s can clearly be verified in its trade liberalisation-component where regional integration is the third tier of a three tiered process of multilateral, unilateral and regional trade liberalisation. In that sense, regional integration played a vital role in ensuring momentum in the overall structural reform process (Devlin R., 2001).

But open regionalism is distinct from mere market opening and promotion of exports as it includes in its core a preferential agreement that aims at enhancing the interdependence between those states that have not only a common economic but also a common historical, social, and cultural background. This interdependence would eventually lead to some kind of “unity” that would mainly be economic but with some embryonic political aspirations. Therefore, it would be wrong to consider the “open-regionalism” framework as a mere instrument of trade liberalisation. Just like the idea of “national developmentalism” described above, it involved a specific foreign policy approach as well. In that respect, the framework of open-regionalism had raised two types of demands for Latin American states, and more specifically for Brazil.

First of all there had to be a clear commitment from the participating states towards regional integration with the neighbouring countries in order to facilitate the insertion into the international economic system, a commitment that went

beyond the mere instrumental approach of using the “regional market” to protect its own industry. Secondly, the outward orientation of the regional integration initiatives required an active and strategic participation in hemispheric and multilateral world forums where the preferential trade agreements would function as building blocks of the wider initiatives.

#### **4. Mercosur and the difficult character of open-regionalism**

There is no doubt about the fact that the creation of Mercosur was inspired by the open-regionalism framework. At the very beginning already, Mercosur's goals were defined as a general commitment to political and economic cooperation in order to open their member states' economy internally and externally, as well as enhancing the region's competitiveness in global markets.

In concrete terms, the treaty of Asunción<sup>5</sup>, established the following objectives for this new initiative of regional integration: the removal of all barriers to intra-regional trade in goods and services, the free movement of labour and capital, the establishment of a common external tariff and macro-economic coordination (Treaty of Asunción, art. 1). These objectives fitted well in the context of structural reforms and open regionalism. In the first place there would be a “progressive, automatic and linear reduction of all customs duties” (Treaty of Asunción, art 5.c.) according to a specific timetable. Even though this overall tariff reduction was disturbed by several exceptions' lists for sensitive products, by 1995, almost 85% of intra-regional trade was fully liberalized (Grandi J., 1999). Secondly, the structure of a Common External Tariff was established by the Protocol of Ouro Preto, signed in 1994. This CET was a complicated network of product specific tariffs that varied between 0% and 20% and had an average level of 11,2%. According to P. Giordano, the structure of the CET reflected in a way the political economy of protection of the two largest states, Brazil and Argentina (Giordano P., 2001, 82). Indeed, the “small states” (Uruguay and Paraguay) had to raise their import duties on most products in order to converge to Brazil and Argentina's external tariffs. Nevertheless, the CET contributed in a substantial way to the further opening of the “large” states' trade regime, as the common Mercosur import duties were at a significantly lower level than those that were individually consolidated by Brazil and Argentina at the WTO. For the four countries as a whole, the average tariff applied to third countries fell from 37,2% in 1985 to a low of 11,5% in 1994.

Macro-economic coordination at last was a long term goal, but up to now, no progress has been made in this field, even though some scholars consider it as

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<sup>5</sup> The treaty of Asunción was signed by Brazil, Argentina, Uruguay and Paraguay in 1991 under the rules of the “Enabling Clause” framework of the GATT.

being the most crucial part in the establishment of the “common market” Mercosur aims at.

In the initial period of Mercosur, it seemed as if the open-regionalism framework functioned rather well. Its initial success could also be measured in terms of trade performance. The early years of Mercosur, saw intra-regional trade boom. Total intra-Mercosur imports rose from \$4.1 billion in 1990 to \$20, 7 billion in 1997. Mercosur’s imports from and export to third countries followed broadly similar trends. Total imports for the Mercosur countries rose from \$27,4 billion in 1990 to \$99 billion in 1997 and total exports rose from \$46 million in 1990 to \$75 million in 1990 (WTO International Trade Statistics, 2001, 54-56). Moreover, since the foundation of Mercosur, foreign direct investment has flooded into the group. Gross FDI in the four full members increased from \$ 2 billion in 1991 to a peak of \$53, 6 billion in 1999 (Economist Intelligence Unit, 2001, 24-26). However, measuring the direct influence of regional groupings on foreign investment is very hard. Some would argue that much of the investment would without doubt have happened anyway.

Mercosur's initial success was not only limited to commercial achievements; from the beginning it played an important political role as well, a political role that essentially consisted of two dimensions. First of all, Mercosur played a crucial role in defending and strengthening democracy and cooperation in South America's southern cone. The formal introduction of the “democracy clause” in 1996 as a condition for remaining member of the group was a clear example of this.

Secondly, Mercosur succeeded in giving its members a higher profile in world forums than they might otherwise have had (Reid M., 2002) . Mercosur became a platform from which its member states positioned themselves both inside the WTO and in the FTAA negotiations.

This (external) political and strategic role of Mercosur contrasted in a way with one of the most important internal political features of the Mercosur: its very poor level of institutionalization leaving the member states with a considerable degree of freedom for unilateral action. The intergovernmental structure of the treaty of Asunción, a result of especially Brazil’s reluctance to loose its sovereignty by conceding powers to the supra-national level created a situation in which decision-making is a result of inter-presidentialism (A. Malamud, 2005). In a way, this “institutionalization deficit” still remains one of the important stumbling blocks to progress in further regional integration.

Even though Mercosur achieved some important commercial and political objectives at the beginning, the same pace of integration that was set after the treaty of Asunción could not be kept. In 1999 already, one could notice an important drop in Mercosur's intra-regional trade. Where Brazil’s exports to other

Mercosur countries accounted for 8,8 billion \$ in 1998, it fell down to 6,7 billion in 1999 in just one year time. At the same time Brazil's imports from other Mercosur countries dropped from 9, 4 billion \$ in 1998 to 6,7 billion \$ in 1999 (Ministério de Relações Exteriores, 2003). In general terms, total intra-regional trade decreased about 50% in the period between 1995 and 2001 (WTO, International Trade Statistics 2002, 20.).

This strong decrease of the intra-regional trade flows was mainly at the beginning a direct consequence of a series of unilateral changes in the Brazilian trade regime. Already in 1995 and in 1996, Brazil raised its tariffs on a range of consumption goods with a ratio of about 70%. Moreover, the leading state of Mercosur, insisted during that same period in a raise of the CET. But apart from this concrete measures contrary to the logic of integration, more fundamental problems related to the integration process became clear both in the Brazilian and Argentinean side. First of all, until 2001, Brazil and Argentina had not managed to define a common commercial regime for the automotive industry (and now?), nor did they succeed in harmonizing their macro-economic policies (Preusse H., 2001). Since 1996, Mercosur has got almost nowhere in "deepening" itself. In 1995, the members agreed upon an agenda for deepening (Mercosur 2000) but very little has been implemented in practice (Reid M., 2001). Only in 2003, after the Argentinean crisis, some important progresses were made in the fields of trade in services, government procurement and dispute settlement mechanisms, even though some would argue that dispute settlement have continued to be handled by presidential diplomacy.

In fact this lack of "deepening" has become a crucial aspect in Mercosur's crisis, a problem that even the election of two leaders strong in favour of Mercosur in Argentina and Brazil was not able to remediate. In the end the boost that some expected from the election victories of Luís Ignacio da Silva (Lula) in Brazil and Nestor Kirchner in Argentina in 2002 did not come about (Da Motta Veiga P., 2005) and it remains questionable whether President Lula's new ideas of adding a popular elected parliament to Mercosur's institutional structure and adopting "structural policies" in order to tackle the fundamental asymmetries inside the regional bloc will be successfully implemented.

Many scholars attempted to explain the slow progress and even the move backwards (cf. imposition of safeguard measures by Argentina in 2004) in the integration process of the southern cone. Some argue that most problems were due to the consecutive Mexican (1995), Asian (1997) and Argentinean financial crisis (2001) (Medeiros, M., 2000, de Almeida P.R., 2000). Both Brazil and Argentina have been engaged in monetary stabilization processes in a period of strong financial

turbulence. In this context, regional integration was not really the first priority and measures contrary to this objective had to be taken in order to tackle the crisis.

Other scholars, however, argue that this lack of progress in the integration process inside Mercosur, has a more structural cause. These scholars seriously question the validity of the concept of open-regionalism in the specific case of Mercosur, but also in more general terms (Preusse H., 2001; Bhagwati J.N., Panagarya, A, 1996). Their reasoning is in fact very simple. With the creation of a regional bloc according to the principle of open regionalism, stronger “incentives” emerged for local interest groups of producers (with concentrated interests) to resist to increased competition. At the beginning, their power basis was limited, because national interests were weakened after the creation of a free trade area. However, the more the regional markets became integrated, the better those interest groups were able to organize themselves and lobby for protection at the regional level. Besides that, even the largest exporters felt compensated by the larger regional market and did not lobby for more external opening. J.N. Braghwati speaks about the “our market is large enough syndrome” (Bhagwati J.N., Panagariya A., 1996, 53).

M. Medeiros criticizes open-regionalism from a different angle. He saw the open-regionalism framework mainly as a strategy of the southern cone states to reduce the undesired effects of globalisation. According to him, this process had significantly reduced the political power of Latin American governments. By means of regionalisation and shared sovereignty, states attempted to get a better grip on the globalization process (Medeiros M., 2000). But precisely because regionalisation is used as an instrument to safeguard political power in a context of globalization, it just could not have overall trade liberalisation as its final objective.

But the problems the open-regionalism model is facing in the case of Mercosur have some political causes as well. Earlier in this article we stated that open-regionalism required a clear (political) commitment towards regional integration and an active participation as a regional bloc in hemispheric and multilateral negotiations. For Brazil, Mercosur mainly serves the political and strategic objectives of this last requirement. This “strategic role” suits Brazil very well in its continued search for autonomy and power in the international trade system because it provides the giant stronger leverage in the wider hemispheric and multilateral negotiations. More and more, Brazil uses Mercosur as a strategic instrument to achieve its own foreign policy objectives<sup>6</sup> and this evolution has been accelerated since Lula's government, a government that has been described by my

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<sup>6</sup> Importance regional market for Brazil is relatively limited in comparison with its importance for the other Mercosur partners. Mercosur took just 14% of Brazil's exports in 2000. The equivalent figures for the other partners are 32 % for Argentina, 45% for Uruguay and 63 % for Paraguay (Reid. M., 2002, p.6.)

many as more “nationalistic” than the previous government. An important ideologist of the PT (Partido dos Trabalhadores, Brazilian Workers’ Party) formulates this evolution in Brazil’s approach to Mercosur in the following statement:

Mercosur has always been considered as a crucial aspect of Brazil’s foreign policy. It forms the strategic basis for the strengthening of political and economic unity in South America. What differentiates the PT government from the previous governments is the perception that strengthening of Mercosur is at the core of a geopolitical view that Brazil has to try to influence its region in order to avoid an articulation of the region’s interests with those of the United States. This would favour a gradual evolution from a US dominated international system to a more multi-polar world order. (Rubens Barbosa, O Globo, 14/12/04)

Where Brazil concedes a very strategic and political role to Mercosur, Argentina on the contrary sees in Mercosur in the first place a mean to achieve economic growth and increase its participation in international trade (S. Turcotte, 2001). This clash of (political) visions is far from being unproblematic because it causes disagreement between the two leading partners on the course that Mercosur should take and reflects itself in many questions related to the deepening of the regional bloc and its (lack of) institutionalization. Moreover it seems as if this limited focus of Brazil on the strategic role of Mercosur puts in question Brazil’s commitment to power sharing and trade liberalisation at the regional level and impedes the process of “region-building” in an open-regionalist framework.

## **5. Mercosur’s current external agenda: the EU-Mercosur negotiations and the FTAA**

The previous paragraphs showed that Mercosur has a difficult but crucial internal agenda to deal with in the years to come. But the external agenda of this regional bloc seems to be as challenging and complex as its internal one.

Mercosur has been very active in negotiating agreements with third countries. These agreements could roughly be divided in three different categories: agreements with other Latin American countries, agreements with Asian and African states, and the north-south agreements (FTAA and EU-Mercosur-negotiations).

Inside the South American continent it is relevant to mention that both Chile and Bolivia are associate-members of Mercosur since the signature of the Treaty of Assuncion. Moreover, in 2004 Mercosur concluded an asymmetrical free trade agreement with the Andean Community (CAN), which resulted in the attribution

of the status of “associate member” to Ecuador and Colombia<sup>7</sup>. Besides that, the Mercosur states, and especially Brazil, were at the origin of the launching of the “South American Community of Nations” in 2004 in the Peruvian city of Cuzco, which is in practice more a political enlargement of the Mercosur-CAN agreement. Mercosur will also start negotiations of a free trade agreement with Mexico, CAFTA and the CARICOM.

But Mercosur’s external agenda is not limited to the Latin American region; it also includes other south-south agreements, such as the free trade agreement with India (finalized in 2003), the negotiations with the Southern African Community of Nations, and the conclusion of agreements with a few other African countries belonging to the Community of Portuguese Language Countries.

For the purpose of this article, however, it is important to focus on the third category of agreements: the north-south agreements, and more specifically, the FTAA-negotiations and the EU-Mercosur negotiations. The importance of these trade agreements can be derived from the fact that both negotiation processes form acid tests for the Mercosur being an effective negotiation platform for achieving a better insertion into the world economy. This way, these negotiations form an actual test on the success of the “open-regionalist” character of the regional integration framework of Mercosur.

Due to the limited scope of this article, it is impossible to describe and analyse both negotiation processes in detail<sup>8</sup>. However, in the following lines we will try to draw a more general comparison between both parallel negotiation processes focussing on their political aspects, the course of the negotiations, the most important stumbling blocks and the positioning of Brazil (and Mercosur) inside both negotiations.

### **5.1. Political Aspects**

Both negotiation processes have in common the fact of being part of a more general political agenda aimed at strengthening the relations between the two regions and this not only from a commercial perspective<sup>9</sup>. This more political agenda is a direct consequence of a mixture of commercial and strategic/political motivations behind the launching of the negotiations.

The FTAA was officially launched at the 1994 Miami Summit and included a wide range of areas of cooperation: preserving democracy, economic integration and

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<sup>7</sup> Venezuela and Peru were already associate members through previous bilateral agreements

<sup>8</sup> For a more complete analysis of both negotiation processes see for the FTAA: Hills, C., Scott, J., Zabludovsky J., Jank M., Arashiro, 2004 and for the EU-Mercosur Agreement: Valladão, A., e.a., 2004.

<sup>9</sup> According to R. Devlin, there is an important difference between both processes in the way the two different agendas are implemented. In the EU-Mercosur negotiations, they form an integrated three pillar structure, whereas in the FTAA process they form a collection of agreements with different implementation mechanisms and legal values. (Devlin R., 2001)



free trade, eradicating poverty and sustainable development (cf. Plan of Action, Summit of the Americas, 1994), which reflects the US desire to combine the strengthening of economic relations in the western hemisphere (based on the Washington Consensus) with a clear political leadership in the region. As N. Phillips formulates:

“The hemispheric project thus constitutes not only an attempt further to reinforce the framework of a neo-liberal (and democratic) political economy in the Americas, but also an entrenchment of both the global and the regional hegemony of the US itself” (Phillips N., 2003, p.330)

The negotiations between the EU and Mercosur are also permeated by explicit and implicit strategic/political objectives. Many scholars have insisted on the importance of “international bargaining” considerations for the launching of these interregional negotiations (Valladão A., 2000; Faust J., 2004; Santander S., 2003 ; Kalthenhaler K., Mora F.O.,2002). The EU on the one hand, would use this interregional agreement as a tool to increase its presence and influence in South America in order to counter the US hegemony in the region. Mercosur, on the other hand, has often tried to play the trump card of the potential agreement with the European Union inside the FTAA process.

Moreover, negotiators from both sides have insisted on the “common cultural heritage” and the strong political ties between both regions. The clear result of this emphasis has been the three-pillar structure of the negotiations comprising economic cooperation, trade and political dialogue.

## **5.2. Course and Principles of Negotiations**

During the first six years after the Miami Summit in 1994 no real negotiations took place (Zabludovsky, 2002) simply because the target date for the conclusion of the talks (2005) was still so far away, but also because most important actors of the negotiations had other priorities. Trade liberalisation had become very sensitive in the US after the conclusion of the Uruguay round and the approval of the NAFTA agreement the US was especially reluctant to implement the trade liberalisation agreed upon at the Miami Summit.

Moreover at the beginning of the 1990s the creation of Mercosur itself was the most important aspect of Brazil and Argentina’s foreign policy agenda. Other actors, such as Mexico, Chile and Canada used the vacuum of US leadership to sign free trade agreements with other states in the region.

Not surprisingly a year after the Miami Summit, the European Union and Mercosur, (since 1995 officially converted from a free trade area to a customs union) signed the EU Mercosur Interregional Framework for Cooperation

Agreement. The purpose of this agreement was mainly setting out the institutional framework for negotiating an Interregional Association, including liberalization of all trade in goods and services, investment rules, intellectual property rights, government procurement, economic cooperation and political dialogue. Indeed, the agenda of EU-Mercosur negotiations was clearly an agenda of “deep integration” (TORRENT, R., MOLINUEVO, M., 2004). After some years of interchange of trade studies, in 1998 the European Commission finally presented a proposal for negotiating mandate to the Council, a mandate which was adopted in 1999. According to J. Faust, the final mandate contained major deviations from the original proposal which are to be interpreted as signs of major conflicts among EU members about the course of the negotiations (Faust J., 2002, p. 5).

Simultaneously at the FTAA negotiations, during the San José Ministerial in 1998 the 34 countries agreed on the single undertaking principle and the consensus rule, two decisions that would put some serious obstacles to the negotiations in the following years as in practice this meant that the scope and the pace of the negotiations was going to be dictated by the least ambitious participant to the negotiations. Because of frustrations related to the limited outcome of the negotiations after the San José Ministerial and after the success in obtaining “fast-track authority” from Congress, the Bush Administration from 2001 onwards, started to combine a clear commitment towards the FTAA agenda with a strategy of “competitive bilateral negotiations” with Chile, CAFTA and later in 2003 with Colombia, Ecuador, Bolivia and Peru. At the FTAA level, however, no major accomplishments in terms of trade liberalisation were achieved.

In 2003, at the Miami summit, two months after the failure of the Cancun meeting, the FTAA initiative was kept alive by relaxing the principles of single undertaking and consensus. The result of this was the launching of an “FTAA à la carte”, where countries could adopt different levels of commitment with one “common set of rights and obligations shared by all countries” (Miami declaration, 2003). Meanwhile the 2005 deadline already passed with no agreement upon this common set of rules.

In the EU-Mercosur negotiations, on the other hand, official negotiations had started in 1999. While until 2001 negotiations were restricted to the area of non tariff barriers, the set up of specific technical groups, and the interchange of data on trade and investment, in the fifth round of the negotiations in July 2001, the European Commission formally offered a clear negotiation proposal on the reduction of trade barriers regarding sectors of different sensitivity. Despite the fact that this proposal included more than 90% of all products and had several interesting aspects related to the enlargement of quotas in the agricultural sector, it was not acceptable for Mercosur because it did not include a substantial removal of

trade barriers in the agro-industrial sector. Mercosur's counter-proposal of October 2001 included only 40% of all traded goods, this being unacceptable for the EU. Despite of these problems both regional blocs were able to improve the offers and by the end of 2002, Mercosur's offer covered 83,5% of interregional trade (R.Guerra, 2003). At that moment, it seemed as if an agreement was not too far away, but some crucial sensitive issues remained to be problematic in the negotiation rounds of 2003 and 2004. Firstly, the Mercosur countries did not succeed in presenting a for the European Union acceptable offer in the fields of investment, services (especially telecommunications and financial services) and government procurement. And as before, Mercosur remains insisting on increased market access for its agricultural sector.

When the new commission took over power, a new political drive was given from both sides of the negotiating table as foreign ministers recently agreed on a framework to relaunch the stalled negotiations.

### **5.3. Stumbling blocs of negotiations<sup>10</sup> and position of Brazil and Mercosur**

Without underestimating the complexity of the FTAA negotiations itself and the challenges posed by the participation of such a variety of states in terms of economic development and political situation, the vastly differing priorities of the US and Mercosur (and especially Brazil) were soon seen as the major stumbling block in the negotiations. These differences in priorities do not only concern offensive and defensive interests in terms of negotiating areas, but also a different strategic, political view on the future of hemispheric integration.

Concerning the differences in interests in the negotiating areas, it is important to highlight that the US has offensive interests in eight of nine negotiating areas and defensive interests only in two: anti-dumping and agriculture (Zabludovsky J., 2004). More specifically inside agriculture, the US has defensive interests in domestic subsidies and market access for a group of specific protected products, which they prefer to deal with in the Doha negotiations, where better trade-offs are available for their concessions. These highly sensitive issues are precisely the main offensive interests of Mercosur. But Mercosur's defensive agenda, comprising market access in industrial goods, investment, services, intellectual property and government procurement, also clashes with the US' offensive agenda, as the US aims at dismantling Mercosur's high level of industrial protection (a clear remaining of the years of ISI strategy) and the same time it seeks at the adoption

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<sup>10</sup>We aim to concentrate here briefly on the main, specific problems of the bi-regional and regional negotiations while artificially omitting the multilateral context. The course of the Doha-round negotiations does have an important impact on the bi-regional and regional negotiations, but it would lead us too far to analyse this impact in detail.

by all South American states of some clear disciplines regarding intellectual property, investment, services and government procurement.

Apart from a clear difference in interests, the Mercosur countries and especially Brazil, have always shared a strategic and political approach to the FTAA process very different from the US. From the beginning - and this approach has never been completely abandoned - the FTAA was seen by the US as a natural and gradual extension of NAFTA, whereas the Mercosur countries preferred a FTAA in which different regional blocs (Mercosur, CAN, CAFTA) would remain playing an outspoken role. In this scenario, Mercosur would be the centre of a broader initiative in South America that would balance the North American bloc. According to this perspective, the eventual establishment of a FTAA in accordance with the dominant US-model, puts of course in question the "raison-d'être" of Mercosur itself and its enlargement and endangers its future.

Moreover, the FTAA is generally perceived by many members of Brazil's "external relations community" as being "dangerous" from a political point of view as it will affect in many ways Brazil's national sovereignty (de Sousa A., 2001). In fact, in general terms, the US strategy towards South America is perceived to be one of "dividing and conquering" and thereby isolating Brazil and reducing its influence in the region<sup>11</sup>.

This approach towards FTAA has gained strength since the PT came in power, but it would be wrong to say that it is an exclusively left-wing approach. In fact, it is an approach shared by many important actors in Brazil's foreign policy formulation process independent of the party they belong to.

In many occasions, interest groups, representing especially the large agricultural exporters in Brazil, have criticized the main FTAA negotiators for the lack of pragmatism in the offers they present at the negotiating table. In their eyes, these offers rather reflect a "political project" for Brazil than a strong will to increase market access to the important US market. Indeed, this political perception of the FTAA process have resulted in a dominant negotiation strategy in which Brazil has continuously tried to slow down the pace of the negotiations, insisted on the single undertaking principle until it was no longer possible and tried to influence the other Mercosur and South American partners in order to group their preferences inside the FTAA negotiations under one umbrella. Even though this last part of the strategy was not completely successful, the "slow down"-strategy clearly was.

The problems inside the EU-Mercosur negotiations are more of a technical, economic kind. First of all, some institutional problems exist, related to the decision-making process both inside Mercosur and inside the European Union.

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<sup>11</sup> The US conclusion of several bilateral agreements with other South American states, which resulted in G20 defection by many of those South American partners in a way confirmed this interpretation.

Where decisions are taken by consensus inside Mercosur, the European Commission negotiates the agreement with an important control of the member states in the Council and this is of course a source of constraints and delay. Secondly, Mercosur continues to be an imperfect customs union, causing many technical problems<sup>12</sup>. The largest and main problems of the negotiations, however, reside in a few specific fields of the negotiations, where both partners have considerable difficulties in improving their offers. Inside the European Union, this is the agricultural sector, and more specifically the sectors of wheat, sugar, bovine meat and milk. Inside Mercosur, these fields are mainly services and government procurement (S. Drogué, M. P. Ramos, 2005).

As said before, the problems in the EU-Mercosur negotiations do not have the same political character as the ones in the FTAA negotiations. Since the European Union has continuously supported the creation and the further institutionalization of Mercosur since the very beginning, it is not perceived by Brazil and Mercosur as being a threat to the regional bloc. On the contrary, the EU-Mercosur negotiations function as an additional motivation for the regional bloc to consolidate itself as they force the Mercosur countries to present common proposals on the negotiating table.

## **Conclusion**

The insertion of Brazil in the international economic system and its position in different initiatives of regional integration is not only determined by economic rationalities, but also by political imperatives. In that sense, Brazil's foreign policy formulation between the end of the Second World War and the end of the military regimes (1985) was always a result of the interaction between the objectives of internal economic policy (the import substitution model) and the main foreign policy objectives from that period, which could be summarized in the continuous search for (economic) autonomy from the hegemonic powers of the Cold War period. In order to reduce the dependency from hegemonic powers as the United States and the uniting Europe and in order to create conditions for a successful import substitution policy, Brazil was engaged in a continuous search for new trade and investment partners. Even regional integration was seen as a tool for autonomous economic development, as shown by the LAFTA and LAIA-examples. But the search for autonomous development itself was a consequence of a successful import substituting development model, as only an industrialized,

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<sup>12</sup> As Mercosur is an imperfect customs union the interregional agreement could also be negotiated under the Special and Differential Treatment rules of the GATT. In this situation, the condition of "substantially all trade", as determined by art. 14 of the GATT would no longer have to be fulfilled, so that the agreement would not have to cover 90% of all inter-regional trade. Mercosur has always refused this option.

emerging power was perceived to be able to consolidate its place in the international system.

The ideas or (the ideology) that shaped this external and internal economic policy in that period were carefully prepared by a group of economists and sociologists in the Economic Commission for Latin America, first inside the so called "Structuralist School" and later on in the Dependencia-movement. Therefore it was not surprising that several governments in Brazil and Latin America used their theories to legitimize this "national-developmentalism" model of foreign policy.

However, this model of "national-developmentalism" did not survive the profound changes in the international system at the end of the Cold War. The important changes in the international system in that period and at the same time the exhaustion of the ISI-model had forced Brazilian policy makers to look for a different strategy of economic development, in which the effective insertion in the international economic system became more important than the search for autonomy. The model of "open-regionalism", made concrete in the regional project of Mercosur and confirmed with the start of the EU-Mercosur, and FTAA negotiations, became a new tool Brazil's economic development and foreign policy strategy.

The current crisis inside Mercosur and the difficult progress of the negotiations of these north-south agreements show however that this model has not been completely successful in providing Brazil with a roadmap for insertion in the international economic system. There seems to be a consensus in Brazilian society that there is a need for market opening but some divergences persist related to the adequate degree of this opening. Two dominant approaches can be distinguished: one that favours the continuation of this opening process and another approach that sees the enlargement of the internal market (among others by negotiating other south-south agreements) as the best strategy for international insertion. These divergences are reflected in Brazil's foreign policy and especially in its relations with industrialized and powerful partners like the United States and the European Union.

But this relationship between external economic policy and pure foreign policy has to be understood as an interaction. The reluctance of Brazil to actively promote a deepening and a stronger institutionalization of Mercosur and the fear for US imperialism so often noticed inside the FTAA negotiations, clearly show that Brazil's positioning inside different regional integration initiatives in a way reflects a political project of the search for autonomy in the international system and the preservation of its political power and leadership in the South American region.

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