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**The Strength of Soft Power:  
The EU and MERCOSUR in a Hegemonic World System**

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# CONTENTS

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<i>Abbreviations</i>	2
<b>1 Introduction</b>	<b>3</b>
<b>2 Theoretical Framework</b>	<b>6</b>
<b>3 Triangular Tensions in Historical Perspective</b>	<b>29</b>
<b>4 A Case Study of MERCOSUR-EU-US Relations</b>	<b>47</b>
<b>4.1 The Formative Period (1991-1994)</b>	<b>47</b>
<b>4.2 Wooing MERCOSUR (1995-1998)</b>	<b>54</b>
<b>4.3 The MERCOSUR crisis (1999-2002)</b>	<b>64</b>
<b>4.4 The Rocky Road to an EU-MERCOSUR         Free Trade Area (2003-2006)</b>	<b>74</b>
<b>5 Discussion and Conclusion</b>	<b>84</b>
<i>Appendices</i>	<b>94</b>
<i>References</i>	<b>101</b>

## Abbreviations

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AFTA	Andean Free Trade Area (with the US)
ALADI/LAIA	Asociación Latinoamericana de Integración (Latin American Integration Association)
ASEAN	Association of Southeast Asian Nations
BNC	Bi-regional Negotiations Committee
CAFTA-DR	Central American Free Trade Area and Dominican Republic
CAN	Comunidad Andina (Andean Community)
CAP	Common Agriculture Policy
CSN/SCN	Comunidad Sudamericana de Naciones (South American Community of Nations)
CUSFTA	Canada-US Free Trade Agreement
EAI	Enterprise for the Americas Initiative
EC	European Commission
EESC	European Economic and Social Committee
EIB	European Investment Bank
EU	European Union
FCES	Foro Consultivo Económico-Social
FDI	Foreign direct Investment
FTA	Free Trade Area
FTAA	Free Trade Area of the Americas
IDB	Inter-American Development Bank
IGO	Intergovernmental Organization
IMF	International Monetary Fund
ISI	Import Substitution Industrialization
LAFTA	Latin America Free Trade Association
MERCOSUR	Mercado Común del Sur (the Common Market of the Southern Cone)
MoU	Memorandum of Understanding
NAFTA	North American Free Trade Area
OAS	Organization of American States
PTA	Preferential Trade Area
RIP	Regional Indicative Program
RSP	Regional Strategy Paper
RTA	Regional Trade Agreement
SAFTA	South American Free Trade Area
SELA/LAES	Systema Económico Latinamericana (Latin American Economic System)
WHFTA	West Hemisphere Free Trade Area
WTO	World Trade Organization

# 1

## Introduction

Most of the international relations' literature on the unipolar system tries to explain why counterbalancing against the American super power has not yet set in. There are two shortcomings in this literature, which I address in this research: First, there is an under-conceptualization of the notion of balancing<sup>1</sup>. Given the changing nature of power in the 21<sup>st</sup> century, there is a need to consider non-military forms of balancing. Disregarding the alternatives to military power is unfortunate because it fails to notice a possible strategy of restraining the hegemonic power. Soft balancing against the hegemon may be much more effective, since it is less provocative or precarious. This is especially true if the coalition utilizes the relative advantage of the secondary and tertiary powers in the international system. Second, existing literature tends to focus only on the relations between the hegemon and the other great powers in the system (i.e. European major actors, Japan, China, or Russia). Thus it fails to notice possible dynamics of coalition building across different power levels.

This research attempts to remedy the above-mentioned shortcomings by examining the triangular relationship between three levels of power: the hegemon, secondary powers, and tertiary powers. The focus of the study is the development of the relationship between secondary and tertiary powers with the aim of improving their bargaining position in an asymmetric world system.

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<sup>1</sup> With the exception of Josef Joffe and Robert Pape.

My main argument is that the nature of the relationship between secondary and tertiary powers is affected by the relationship between the hegemon and each one of the lower-level powers. Moreover, I argue that economic and political ties between secondary and tertiary powers can affect the balance of the international system and restrain the hegemonic power, especially when there is a mutual interest and a politico-economic coalition between the two lower-level parties.

In this context I will further argue that it is important to bring into the picture also the third power level states. On their own, these states do not have a major impact on the future of the unipolar system. However, they are important for understanding international dynamics and particularly as potential participants in new coalitions.

The proposed research then addresses the triangular relationship among unequal powers. It offers a twofold contribution of a theoretical framework and an empirical analysis of the triangular relations between the United States (US) hegemony, the European Union (EU) secondary power, and the South American regional power – The Common Market of the Southern Cone or Mercado Común del Sur (MERCOSUR), since the creation of the latter. The research will focus on two sets of ties: the US-MERCOSUR relationship, and the relationship between the EU and MERCOSUR in the shadow of the American hegemony. I will claim that the EU-MERCOSUR relationship is affected and influenced by the characteristic of the relations and ties of the US and MERCOSUR. Although the third side of the triangle is not the focus of this study, these two interactions shed light on the nature of the US-EU competitive relationship.

The thesis is comprised of five chapters. The following chapter outlines the theoretical framework of this study. It reviews the theories that serve as a basis for the theoretical

position that I develop and provides the conceptual framework for the case study. The third chapter describes the historical and contemporary relations between Latin America, the US, and Europe. The early starting point – the beginning of the 19<sup>th</sup> century – provides the historical context for the study; and the late ending point – 2006 – allows a broader overview of current events and trends throughout the post Cold War period as a whole. In the fourth chapter I closely examine the US-MERCOSUR relations versus the EU-MERCOSUR relations in four subsequent periods since the creation of MERCOSUR: The formative period (1991-1994); the stabilization period of MERCOSUR and the wooing of the great powers – the US and the EU (1995-1998); MERCOSUR's economic crisis (1999-2002); and MERCOSUR's attempts to reach Free Trade Agreements (2003-2006). It combines a detailed description of the relevant events along with their analysis. In the last chapter I provide an integrated discussion of the multifaceted case study in light of the proposed theory. The chapter concludes with an evaluation of the thesis regarding the role of inter-level relations in the establishment of soft power.

## 2

### **Theoretical Framework**

#### **Bias of power: The balance of power theory bias**

The balance of power theory is one of the oldest and most fundamental concepts in the study of international relations. Since the unprecedented rise of the American hegemony the conundrum that concerns most of the balance of power theorists and hegemonic theorists is the absence of balancing against the US in the post-Cold War era. Some scholars (such as Walt 2002 and Brawley 2004) argue that the American hegemony poses no direct threat to the other major powers, and therefore no counterbalancing will occur in the near future. Others claim that it is only a matter of time until we witness the decline of the American power and the rising of alternative powers (Krauthammer 1990; Waltz 2002; Kupchan 2002). Wohlforth (2002) and Ikenberry (2002) claim that balancing the American hegemony is inefficient due to huge power asymmetries, and therefore such balancing does not exist today.

Levy (2004) protests against the essence of this quandary. He claims that characterizing the absence of balancing against the US as a puzzle constitutes an erroneous interpretation of balance of power. Levy stands against the scope conditions of the theory and firstly objects the great powers' bias in balance of power theory. He claims that the theory must be universal, applicable to any international system, and thus, cannot consist of the great powers only. Though he does not make this point clear, he implies that small and medium states should be taken into consideration when examining the world's balance of power.

Secondly, Levy argues that the balance of power theory is Eurocentricly biased, and as such, it emphasizes European military power in the form of large armies. Therefore, he offers the power transition theory and the hegemonic stability theory as alternative theories that can explain the long lasting stability and reinforce his claim of the “erroneous interpretation of balance of power” (Levy 2004). The power transition theory states that as long as the dominant power of the system remains notably stronger than the dissatisfied powers, war is unlikely to occur and the system is expected to remain stable (Lemke 2004). The hegemonic stability theory focuses on financial and commercial strength of the leading power, and on its provision of public goods to the rest of the world, through its institutions (Kupchan 1998; Joffe 1997).

In this context this study intends to cope with Levy’s criticism and will include tertiary powers in the balancing debate and examine the balance of power theory from non-traditional aspects, i.e. the politico-economic and ideological dimension – soft balancing.

Many scholars argue that balancing against the American hegemon is not occurring and will not occur in the near future. By most accounts, they refer to the traditional hard balancing. A recent approach, however, argues that balancing against the US is actually taking place (See Joffe 2002; Paul 2004; and Pape 2005). Nye, Joffe and Paul underscore the shortcomings of the realist theory in that it focuses almost exclusively on hard power. They claim that the realist theory does not take into consideration different kinds of challenges. The underlying assumptions of the liberal paradigm differ from the assumptions of the realist view in their treatment of the concept of power. The former approach argues that today, power should not be measured only by ‘hard’ criteria like military and strategic components. Economic and political resources have become



important and significant parameters of society, which should be considered when assessing national power, and the balance of power in the world system. Furthermore, they assert that there has been an imbalanced theoretical discourse regarding the traditional conception of balance of power; and suggest broadening the concept and including “low politics” mechanisms of balancing (Nye 2004; Joffe 2002; and Paul 2004). Liberals also stress soft power as the means for soft balancing and uneven distribution of power across different issues areas.

This perception will be developed extensively in this paper, after presenting the hard power/soft power debate and different types of balancing. Once we adopt a more elaborate notion of power, we can also develop a more elaborate notion of the balance of power.

### **Hard power versus soft power**

Joseph Nye was one of the first who distinguished between different types of power: hard power – the traditional military-strategic power; economic power; and soft power – cultural, ideological and political power. Nye claims that when you analyze the world’s balance of power, not only the visible power among nations should be observed, but also the element of influence should be taken into account, since power is *the ability to get others to do what they otherwise would not* (Nye 1990, 154). A nation can make another nation do what it wants it to do without the use of traditional power (i.e. weapon and force). This includes making other nations adopt certain philosophies, political construction, economic mechanisms etc. Moreover, Nye stresses the possible negative outcomes of use of hard power, and the rising benefits of soft power, such as shaping the preference of others



resources have become less crucial. Meanwhile, technology, education, economic growth and political institutions have become more salient (Nye 1990, 154). In addition, the costs of ignoring soft power in the age of globalization are apparent in increased challenges in coalition building, maintaining allies, and declines in corporate revenues. (Nye 2004, 128-129).

Nye's distinction between types of powers is fundamental and progressive in two ways. First, it broadens the perception of power and brings to the fore "low politics", which was considered by the mainstream as irrelevant in the debate of power. Second, it is the basis of the further illustrated differentiation concerning types of balancing, made by Paul and Joffe. Although slightly different, Paul and Joffe determine three types of balancing which, respectively, resembles Nye's three types of power.

### **Balancing the hegemon: hard, soft and asymmetric balancing**

T.V. Paul tries to deal with the contemporary relevance of balance of power theory. His basic assumption, like Nye's, is that traditional conceptions of balance of power may not be able to fully explain the security behavior of states. Furthermore various means, besides military strength and arming, which states adopt in order to reduce or match the power of other state actors, should be part of the analysis. Only by expanding the definition of balance of power, balancing strategies can be better understood today. Paul indicates as well that traditional balancing, as opposed to soft balancing, is very costly for weaker actors to achieve; hence they seek alternative ways of balancing (Paul 2004).

Paul defines three types of balancing: hard, soft and asymmetric. **Hard balancing** is the traditional realist and neorealist conception of balancing. It relates to military capabilities, open arms buildup and forming alliances in order to reduce or match the capabilities of their rival or of a rising power (Paul 2004).

Whereas Nye defines soft power by the institutions, values and culture of a state, Paul identifies **soft balancing** as a soft or low version of hard power. Soft balancing, according to Paul, is often based on a limited arms buildup, ad hoc cooperative exercises, or collaboration in regional or international institutions; these policies may be converted to open, hard-balancing strategies if and when security competition becomes intense and the powerful states become threatening (Paul 2004, 3).

**Asymmetric balancing**, according to Paul, refers to the efforts by non-state actors, such as terrorist groups, to challenge and weaken states using asymmetric means such as terrorism. Reciprocally, it refers also to the attempts by nation-states to balance and restrain non-state actors by traditional and non-traditional means (Paul 2004). I find that this type of balancing is a sub-type of the hard balancing, since it refers mostly to the use of arms, military and coercive means of power.

Whilst Nye's types of power are on a scale that range between hard and soft power, and include an intermediate type – the economic power; Paul's types of balancing in essence only stretch the hard power perception. Despite Paul's criticism to the dichotomous arguments of realists, that *states either balance or they do not* (Paul 2004, 13), he offers a balancing scale that is basically one of hard power: harder, softer and asymmetric hard power. That is to say, that in Paul's scale, states balance either by open arms buildup and/or formal alliances (hard balancing), by limited arms buildup, security understandings

within or outside of international institutions (soft balancing) or by a mixture of traditional and nontraditional strategies when faced by asymmetric threats (asymmetric balancing).

Josef Joffe, like Paul, suggests a framework that distinguishes between three different types of balancing, although in concept are rather close to Nye's scale of power: from hard balancing to soft balancing. Joffe's types are military-strategic, politico-diplomatic, and psycho-cultural balancing. That serves to enable a more complex analysis of the relations between nations. Joffe does not define in fact the three different types of balancing; he mainly demonstrates how they interact with the US' policy and strategy, as follows (Joffe 2001; Joffe 2002).

**Military-strategic balancing** is the traditional balancing of power. Joffe has no doubts regarding the American supremacy, and asserts that there exists low military-strategic balancing against the US, *because it is not necessary* (Joffe 2001; Joffe 2002).

**Politico-diplomatic balancing** as its name indicates, is balancing through political-diplomatic mechanisms. Although it does not appear in the title, Joffe includes economic instruments in this type of balancing. The power of the currency, the engagement in political dialogues and in peace-keeping operations – are few examples of how nations or groups of nations can gain popularity and sympathy and thus, gain power and increase their influence in the international system. Joffe states that there is medium politico-diplomatic balancing against the American hegemony (Joffe 2001; Joffe 2002).

At the other end of the scale is the **psycho-cultural balancing**, which implies using soft power currencies of a state in order to counterbalance the other. Soft power, according to Nye, depends on the willingness and acceptance of the receiver. Joffe implies to a battle or competition over the receiver's acceptance of his values and/or culture: art, music, food,

high education, etc. Imitating or implying components of one's culture, thus, means that the nation (or group of nations) is more successful, sought, and popular. This does not mean that the state won the battle military wise, but it does mean, according to Joffe, that it has a high position and influence worldwide. He claims that high psycho-cultural balancing against the American hegemony exists nowadays (Joffe 2001; Joffe 2002).

Joffe, rather than defining each one of the three types of balancing, analyzes the unipolar international system nowadays according to these types. Robert Pape (2005) in his latest article takes Joffe's thesis one step forward. Pape not only agrees with Joffe by claiming that major powers are soft-balancing the US and intend, in this way, to undermine aggressive unilateral measures of the hegemon. In addition he views the soft-balancing as a practical tactic that can restrain the American hegemon. Pape claims that use of soft-balancing by major powers will increase if the US continues its aggressive unilateral policy; and in the long run, it will raise the cost of using (US) hard power and reduce the number of states that will be willing to cooperate with the hegemon in the future and *possibly shift the balance of economic power against the United States* (Pape 2005, 10).

### **The role of tertiary powers and regionalism**

As illustrated above, most theorists (with Levy being the exception) refer to secondary powers and their interaction with the hegemonic power. The existing literature does not take into consideration the position or the role of the tertiary powers, when dealing with the balance of power. These states occupy an intermediate position, being on the one hand considerably weaker than the principal members of the international system, but on the other hand much stronger than the small nations, and thus influential and a significant

actor at the regional subsystem level (Holbraad in Handel 1981, 29). Tertiary powers were studied perhaps in the very specific context of the Cold War dynamics and the competition to win over smaller allies between the two superpowers, however not enough attention is given to them in the post-Cold War study. According to Handel (1981), the international power hierarchy is as illustrated in the next figure.

<b>WEAKNESS</b>				<b>STRENGTH</b>
<b>Mini states</b>	<b>Weak states</b>	<b>Middle powers</b>	<b>Great powers</b>	<b>Super powers</b>

The hegemon is the super power – the only power with superior might. The great powers, then, are very powerful and influential though a significant gap of power exists between them and the super power. The EU<sup>2</sup>, Russia, China and Japan are perceived as the nowadays great powers. Tertiary or Middle powers resemble weak states in many of their characteristics and are somewhat *the upper crust of the non-great*. They are important actors in the international system, however they are not as powerful as the great powers of the system. Vellut (1967) used quantitative instruments – population and GNP – in order to define middle powers. Keohane defined a middle power as *a state whose leaders consider that it cannot act effectively by itself, but may have a systemic impact in a small group or through an international institution* (Keohane 1969, 296). They are also considered to be regional powers since they are a leading factor in their region. Among the tertiary powers Brazil, Egypt, India, Indonesia, South Africa can be mentioned. The interesting thing is that some of these regional powers have formed regional trade areas, such as MERCOSUR and the

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<sup>2</sup> Germany, Great Britain and France are the great powers of the EU.

Association of Southeast Asian Nations (ASEAN)<sup>3</sup>. In some aspects they are regarded as one integrated body. These formations are one of the main new characters of the post-Cold War international order and play a significant role in the new system.

The political salience of regionalism, point Fawcett and Hurrell (1995), rose significantly as a result of developments within Europe, namely the Treaty of Maastricht. Following integrations such as the North American Free Trade Area (NAFTA) and ASEAN drew more attention to the economic and political issues associated with them and others. Drawing the line between economic and political regionalism is harder than ever before. Even if the outward form of regionalism is economic in nature, often they may carry with it important geopolitical or security consequences. Furthermore, they stress that regional projects have to be seen within a global perspective.

Francesco Duina devoted his recent publication to Regional Trade Agreements (RTAs) and more specifically, to the EU, NAFTA and MERCOSUR regional blocs. According to Duina, RTAs offer an alternative to the multilateral World Trade Organization (WTO) negotiations. Impressive progress in the EU showed the viability of a different kind of market building: regional, rather than global, and more aggressive and deeper in terms of what would be subject to liberalization. The vision of a world with a single economic system was being replaced by a world with multiple, parallel systems of trade (Duina 2006, 26-27).

The RTA precedent has several explanations: The first and most common explanation points to the growing ineffectiveness of the WTO. Talks became increasingly complex

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<sup>3</sup> ASEAN member states are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.



due to the arrival of new members, mainly from developing regions. Meanwhile, neighboring subsets of countries typically shared problems, which could be more efficiently addressed by the creation of regional entities. The second explanation reveals a widespread conviction that RTAs could generate unprecedented wealth for all countries involved, through increased competition and specialization. The third is a geopolitical explanation and refers to its stability mechanism: RTAs help stabilize countries that had just emerged from dictatorial or communist regimes, such as MERCOSUR and the EU (mostly viewed since its latest enlargement measures). Moreover, RTAs offers institutional mechanisms for dealing with intra-regional issues, such as environment, higher education, and common threats (Duina 2006, 30-33).

The growing importance of regional strategies in the post-Cold War era, suggests Press-Barnathan (2003), is an established fact and can be viewed as well in the context of the American foreign policy. While the Clinton administration adopted a more positive approach towards East Asia's regional forums, such as ASEAN, today it is viewed as a key element in America's Asia Pacific strategy. This approach is also valid to the US-EU relations, which are embedded in political, security and economic institutions, today more than ever. In the American continent, the US has promoted a regional identity with its own leadership.

Charles Kupchan (1998) has claimed in "After Pax Americana" that the American strategy in the post-Cold War should be to encourage the growth and development of the world's three hubs – North America, Europe, and East Asia. This regional approach acknowledges the predominance and importance of local powers in ensuring stability in the aftermath of the American hegemony, as Kupchan predicts.

The US appears to have adopted a regional strategy, albeit a limited one. This strategy is subordinated to the broader strategy of maintaining its world supremacy and the hierarchical character of the world system. This means that actions at regional levels are evaluated and dealt with from a perspective of world hegemony. For the non-hegemonic powers, the regionalist strategy is a means of gaining more power and striving to balance the hegemon. In this context, the growth of the EU serves the American regional approach, but concomitantly can pose a threat to the balance of power and the longstanding status quo.

Many international relations scholars have dealt with the transatlantic alliance since the end of the 1990's. Walt in 1998 tried to explain "Why Europe and America are Drifting Apart?" (Walt 1998/99). Kagan in 2002 wrote about the "Power and Weakness" and how American and European perspectives are diverging. A year later Joffe proclaimed a "Continental Divide"<sup>4</sup> (Joffe 2003). This study intends to focus attention on the dyadic relations between the two regional blocs – the EU and MERCOSUR – in the unipolar system and how they use each other in order to elevate their regional role as well as the global one. In this context, the US-EU relationship which has been the subject of numerous analyses will serve primarily as background, and implications concerning this relationship will be derived indirectly from the relationship of each with MERCOSUR.

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<sup>4</sup> Joffe claims that the division began to occur since the end of the Cold War *when the alliance lost its central purpose*.

## **Elaborating the concept of balance of power**

To summarize the theoretical background, most theorists agree that traditional (hard) counterbalancing against the hegemon is not occurring at the moment, and will not take place in the near future. The great powers do not have incentives to gang up against the hegemon, for two main reasons: (1) Lack of ability – by all means, the US is the strongest power today and no other power has the ability of matching it in all its capabilities; and (2) Lack of motivation – the American power has no aggressive nor expansionist aspirations in the classical meaning. As such, there is no immediate or existential threat to the other powers and it is not worthwhile to invest in internal balancing or an arms race (Brawley 2004, 81).

While the secondary and tertiary powers enjoy many aspects of a hegemonic system, such as the hegemon's role in maintaining world order, the international status quo, and economic stability and strength, the hegemon's institutions and the fruits of the hegemon's technological development – the secondary and tertiary powers are also affected by the unipolar system's drawbacks. First and foremost, they are subordinated to the hierarchical structure of the hegemonic system. Their weaker political position in the international system leads to a fragile bargaining position with the hegemon. In this case, secondary powers, and to a less extent tertiary powers, have little influence on global politics, which means that worldwide issues can be shaped according to the liking of the hegemon, without regard to the smaller powers. The invasion of Iraq in 2003 is a good example of the marginalization of smaller powers. Secondary and tertiary powers also have a weaker position with regards to economic and trade issues due to the hierarchical structure of the

hegemonic system and the great gap in economic power between different levels of power.

Both secondary and tertiary powers strive to elevate their international position. However, whereas secondary powers have a more global interest, tertiary powers aspire to grow stronger in their region. While secondary powers compete with other equivalent powers on their global position and challenge the super-power, tertiary powers tend to focus on their regional position, although they might challenge stronger powers perceived as posing a threat to their development.

Due to the hierarchical structure of the unipolar system and the weak influence that secondary and tertiary powers have, they are motivated to creatively formulate means to bargain more effectively and to stay relevant in the international arena. In other words, the gap of power grows and secondary and tertiary powers seek subtle instruments to restrain the hegemon in order to strengthen their position accordingly. One of their means is collaborating using soft power mechanisms, in order to raise the price of the hegemon's unilateral actions. I thus join the dissenting voices that claim that balancing is indeed taking place – its mechanism is soft power and its purpose is to restrain the hegemon's behavior.

This research is based on Nye's expansion of the definition of power and the importance he gives to "low politics" and soft power, on Levy's claim to include tertiary powers in the balancing debate and by examining the politico-economic aspect of balance of power, and on Joffe's differentiation of types of balancing.

I argue that military balancing in a unipolar system is extremely costly and not desirable for secondary and tertiary powers nowadays<sup>5</sup>. However, as an alternative, they hamper areas of great importance to the hegemon, such as economic, political and regional matters and thus soft-balance the hegemon. Their aim is to have greater influence in the international and regional arenas, correspondingly.

This thesis, as mentioned above, aims to show that soft-balancing against the hegemon exists, however it adds two new aspects to the analysis, which cannot be disregarded. One is the utilization of tertiary powers by secondary powers as “bargaining chips” vis-à-vis the hegemon. In this context, the aim of secondary powers is to restrain the hegemon, by making it more difficult for the latter to easily control and influence behavior of tertiary states. Beyond active policies and direct soft-balancing mechanisms, secondary powers also use the tightening of relations with tertiary powers to balance the hegemon. This strategy has a dual purpose – (1) Diverting the dependency and reliance of the tertiary powers to the secondary powers at the expense of the hegemon. Secondary powers will try to influence tertiary powers in areas wherein they have a relative advantage, and in arenas that are sought by tertiary powers, such as political, economic, cultural and ideological arenas and thus gain the tertiary powers’ support. This is most effective when tertiary powers are concerned by the hegemon. (2) Improving the status of tertiary powers in the regional system. Strengthening their regional position, namely bettering their bargaining leverage underscores, although indirectly, the secondary powers’ abilities. This serves as an evidence of secondary powers’ capabilities and ability to influence events. Both

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<sup>5</sup> Rogue states such as Iran and North Korea can be viewed as exceptions. Nevertheless, their ability and even their desire to balance the hegemon are low. Most likely they are trying to restrain the hegemon.

contribute to the improving status of the secondary powers in the international system, and as a consequence to their global power and prestige.

The second aspect accentuates the role of tertiary powers in a unipolar system and their coping mechanisms and policies regarding the hegemon. I argue that tertiary powers that perceive the hegemon as a threat (strategic, political, or economic) will utilize and strengthen their relations with secondary powers, which are perceived to be less of a threat, or their allies. This argument is based on Walt's Balance-of-threat theory in which he asserts that states form alliances to balance against threats (as opposed to definite power). Threats, in turn, are a function of power, proximity, offensive capabilities, and aggressive intentions (Walt 2002, 133). Hence, proximity to the hegemon, like in this case study, can increase the threat perception of its neighboring tertiary powers. Those powers that regard the hegemon as a threat will intensify their relations with secondary powers, in order to reduce their dependency on the hegemon and elevate their status in the international system. In a stable hegemonic system, the more common perceived threats from the hegemon are soft power threats that can harm their politico-economic independence. The American dominance in the WTO negotiations show the economic leverage of the hegemon, hence can be perceived as an economic threat to the other players. The American unilateral decision to invade Iraq in March 2003 reflects on the one hand the American political (and military) supremacy, and on the other hand the weakness of the other players and their lack of influence.

In summary, in a unipolar system, once there is no observable existential threat, the great powers tend to soft-balance the hegemon. One of the means used by secondary and tertiary powers is tightening their relations and thus elevating their international and

regional leverage accordingly. The secondary power's ability to influence and attract a tertiary power, on the one hand, and the tertiary power's reducing its dependence on the hegemon and strengthening itself, on the other hand, elevates simultaneously their international and regional position and influence.

This thesis examines the case of the EU, a secondary power and MERCOSUR, a tertiary power, in the hegemonic system led by the US. I will claim that the EU has attempted to soft-balance the US by using its interest in MERCOSUR. The latter, accordingly, has used the EU's interest and support in elevating its regional position. By mutually strengthening economic and political relations between the EU and MERCOSUR, both powers strive to improve their own bargaining position vis-à-vis the US.

My central proposition is that the form and dynamics of the relations between secondary and tertiary powers are affected by the latter's relationship with the hegemon. In a unipolar system secondary powers have an interest in expanding their relations with tertiary powers, in order to gain better leverage in the international arena. The secondary power will use conflictual relations between the hegemon and the tertiary power to its benefit, and will view this as an opportunity to influence the latter. It will compete with the hegemon for "the heart" of the tertiary power, when relations have a cooperative characteristic between the hegemon and the tertiary power. In other words, in a unipolar world the options of weaker powers are limited, hence the EU will endeavor to strengthen its relationship with MERCOSUR according to the nature of its relations with the US. From this general proposition I derive three sub-hypotheses:

(1) *Actions of the hegemon may serve as a trigger for secondary and tertiary powers to cooperate.* The EU's overtures to MERCOSUR are spurred, to some extent, by the

US's policy and actions towards MERCOSUR. During periods when the US-MERCOSUR relations have a cooperative characteristic, the EU will compete with the US and give MERCOSUR more support and more attractive offers. In times when relations between the US and MERCOSUR are more conflictual, the EU will act as a "rescuer" to MERCOSUR, and take advantage of this stage in order to better its position and role in the region, and thus worldwide.

- (2) *Secondary powers in a unipolar system will utilize their relations with tertiary powers to soft-balance the hegemonic power, restrain its power, and gain influence.* In this study I attempt to show that the EU challenges the Monroe doctrine (1823) – the set of guidelines which encapsulates the position of the US in Latin America, and tries to counter the US' interests by building power leverage against it in various fields and regions such as MERCOSUR.
- (3) *Tertiary powers in a unipolar world will strengthen their relations with secondary powers, in order to better their regional position.* In the case I examine here, I expect that MERCOSUR would rather intensify relations with the EU than with the US, since the former projects less power or threat than the latter. This study intends to resuscitate the attention on tertiary or middle powers, and stress their importance to the great powers in the unipolar system, mainly in the politico-economic sphere.



## **Methodology**

**Independent variable:** The characteristic of relations between the US and MERCOSUR between 1991 and 2006. In this period their relations fluctuate between cooperative and conflictual, concerning politico-economic issues.

The operational definition of the independent variable will consist of three aspects of the US-MERCOSUR relations: first are the US-MERCOSUR engagements in various agreements, whether they are bilateral (include only the US and MERCOSUR) or multilateral (include also other actors). The second is American support (or lack of support) of MERCOSUR reflected by its statements and economic aid regarding the emerging southern bloc. The third aspect is economic figures, including trade figures of the US and MERCOSUR, as well as American Foreign Direct Investment (FDI) in the MERCOSUR member countries.

**Dependent variable:** The nature of ties between the EU and MERCOSUR between 1991 and 2006. The nature of ties will be measured by the intensity of the relationship, the extent of accord or diversity, and the extent to which the relations between the two parties were formalized.

The operational definition of the dependent variable will consist of three aspects of the EU-MERCOSUR relations: first, the different types of EU-MERCOSUR forums of engagement: summits, negotiation committees, interregional institutions and treaties. The second aspect is expressions of support and affiliation. This includes the EU's support of MERCOSUR via declarations and economic and technical assistance. It also comprises of the EU's involvement in MERCOSUR's institutions – in training its officials, in juridical

matters, and in connecting between European institutions and MERCOSUR's parallel. MERCOSUR expressions and responses towards EU's initiatives and offers will be examined as well. The third aspect includes economic figures, mainly EU-MERCOSUR trade figures and the EU's FDIs in MERCOSUR member countries.

The core of this research is an examination of the strategies and motivations that drive the EU and MERCOSUR to tighten their relationship. I expect to see intensified politico-economic-cultural interaction between the EU and MERCOSUR corresponding to American overtures towards MERCOSUR nations. The empirical analysis will permit the evaluation of an alternative explanation. The explanation I will propose is that the growing interregional politico-economic cooperation develops in accordance with the complex relationship between the US and MERCOSUR. This cooperation has political-strategic components as well as economic interests. Consequently, the EU-MERCOSUR relationship has the effect of soft-balancing the hegemon. An alternative explanation of the EU-MERCOSUR relations is that they are dominated by narrow economic interests. This explanation ignores political motives for the EU-MERCOSUR relations.

### **Method of research**

As presented earlier, this study aims to examine the triangular relationship between three levels of power: the hegemon, secondary and tertiary powers, i.e. the US, the EU, and MERCOSUR. In this context, I will study the US-MERCOSUR and the EU-MERCOSUR cooperation policies by examining protocols and summaries of joint forums, speeches of heads of states, agreements, and by examining the economic and political ties. Moreover, I have interviewed experts and officials who are related to the EU and MERCOSUR blocs.

I will try to prove that the European objective in strengthening ties with MERCOSUR, besides conquering new markets, is also to export its model of regional integration and governance and to create new alliances in order to shape a less asymmetric world. The Europeans want to avoid the emergence of a pan-American bloc led by the US, which could shape the rules of a worldwide economy. The US views MERCOSUR as a threat to continental regionalism and tries in various ways to destabilize the bloc. I will also describe how MERCOSUR tries to benefit from its relations with the EU and gain regional leverage.

The MERCOSUR bloc, led by Brazil, was chosen as a tertiary power since it is traditionally an area of great interest to the US. Increased activities and interventions in the American region by secondary powers will be regarded as a challenge to the Monroe Doctrine. Moreover, MERCOSUR is a Customs Union with political aspirations and shares similar interests and values as the EU. This increases the EU's interest in MERCOSUR, partially since it sees in it a challenge and an opportunity to export its politico-economic model. Therefore, the relations between the EU and MERCOSUR are a unique case of cooperation between two political-economic blocs and require a thorough examination.

This study is a qualitative case study. As such it can provide a broad view of the development of the EU-MERCOSUR politico-economic relationship over time, and examine in depth the possible correlation between the US-MERCOSUR relationship and the EU-MERCOSUR relationship. Furthermore, a qualitative case study can establish better causation between the US negotiations with MERCOSUR and the evolving EU-MERCOSUR relations.

In order to examine the proposition that the EU-MERCOSUR relations were influenced by the relationship between the US and MERCOSUR, I divided the sixteen-year time frame (1991-2006) into four sub-periods which represent different stages in the US-MERCOSUR relationship. This will demonstrate variations in the independent variable and examine their impact. This strategy accords with Stephen van Evera's approach to the exploration of the chain of events or the decision making process by which initial case conditions are translated into case outcomes. "Process tracing" used in these four sub-periods will permit the cause-effect link that connects the independent variable and the dependent variable, will add a comparative dimension to this research and thus provide this study with greater theoretical leverage (Van Evera 1997, 43-55).

The first period will deal with the American and the European response to the new southern bloc since MERCOSUR's creation in 1991 until 1994. The second period will examine the close competition or wooing that followed MERCOSUR's creation and stabilization, starting from the American initiative of creating a Free Trade Area of the Americas (FTAA) in 1995, versus the European proposal of initiating a bi-regional Free Trade Area (1995-1998). The third period explores the MERCOSUR crisis between 1999 and 2002, and the deterioration of relations and economic activities between the US and MERCOSUR, and between the EU and the latter, due to its crisis stage. The last period investigates the resuscitation of MERCOSUR, the stagnated FTAA scheme versus the EU-MERCOSUR Free Trade Area agreement between 2003 and 2006. A comprehensive analysis will be conducted in the last chapter of this study, and an integrated point of view between theory and study will be then presented.

Before the study is presented and its four periods of research, a preliminary chapter “Triangular Tensions in Historical Perspective” will provide the historical context for the study and will also draw attention to political tension that seem to parallel the competition and counterbalancing of present day. It aims to show the evolvement of the complex relationship between the US, Europe and the MERCOSUR countries in a broad time period – from the early 19<sup>th</sup> century until nowadays. The chapter will conclude with a short summary of the triangular relations in the post-Cold War era and will present as well economic figures and trends throughout the whole period under study. This will allow a better overview of the dynamic economic and trade relations, before the analytical chapters four and five (See Appendix A for a chronology of Latin America main events from the Monroe Doctrine in 1823 until 1990).

### 3

## Triangular Tensions in Historical Perspective

*The prosperity of America is not a matter of indifference to Europe, for it is that country which feeds our manufactories and gives an impulse to our commerce. We have an interest in the republic of the United States being powerful and prosperous but not that she should take possession of the whole of the Gulf of Mexico, thence command the Antilles as well as South America, and be the only dispenser of products of the New World (Napoleon III, 1862)*

The triangular relationship among Latin America, Europe and the US, and its complexity, began at the dawn of the 19<sup>th</sup> century. Three hundred years of European colonialism came to an end when Latin America turned to revolution; and by 1825 most Latin American countries achieved their independence from their colonizers. The recognition by the US confirmed Latin Americans' status as genuinely independent countries, separated from their former European colonists, although the latter remained their most important trading partner as well as their major providers of capital, investment and technology (Bessa-Rodrigues 1999, 82; Wiarda 1990).

### Monroe and Bolívar

One of the most famous expressions of the US' concern about Latin America's independence was President Monroe's annual message to Congress, at the period that the Holy Alliance of Russia, Prussia and Austria, as well as France, announced their intention of restoring the former colonies to Spain (Smith 2005, 15): *It is impossible that the allied powers should extend their political system to any portion of either continent without endangering our peace and happiness... It is equally impossible, therefore, that we should behold such interposition in*

*any form with indifference... It is still the true policy of the United States to leave the parties to themselves, in hope that other powers will pursue the same course (Monroe Doctrine 1823).*

The Monroe Doctrine gave form to the disengagement of the Western Hemisphere republics from the Europe-centered international system. Some Latin American political leaders welcomed Monroe's Doctrine and viewed it as a spirit of solidarity with the recently independent republics of Latin America. Most of these nations viewed the US as an ally they could count on in case of any threat to its independence from the European powers. Moreover, they recognized their political affinity with the former by basing their new constitutions, in many instances, on the North American model – which expressed how much soft power America had in the region at the time (Smith 2005, 17-18).

Smith views the doctrine, although directed to the European heads of state, as a strong message to the Latin American countries, with an imperial hint. It presumed an American leadership role that claimed to speak on their behalf. The new countries were simply declared to be under the protection of the US, a presumption that implied unilateral action and American superiority in an asymmetrical relationship between unequal (Smith 2005, 15-17).

According to Bushnell (1986), Simón Bolívar – South America's revolutionary leader and liberator – acknowledged the imperial meaning of Monroe's message, and did not feel that a formal alliance with the US would be to Latin America's advantage. When Bolívar laid plans for the Panama Congress – the first international conference of American republics, held in Panama in 1826 under his political sponsorship – he did not even wish the US to be present, though eventually was invited. It is often stated that Bolívar proposed to organize a system of American states without the US because his aim was to create a

league of American republics with a common military, a mutual defense pact (in opposition to the US), and a supranational parliamentary assembly. Including the US in Bolívar's vision was perceived as a threat to the unity and strengthening of the Latin continent. Furthermore, Bolívar saw the potential advantage of using Britain in case of need to counterbalance that *very rich and powerful nation, extremely war-like and capable of anything, [which] is at the head of this continent* (Bolívar 1822).

The congress of Panama had a symbolic value of an attempt for hemispheric unity, and it reflected the distance between the US and the countries of Latin America. The former was clearly unwilling to join Pan-American schemes and attached little importance to the concept even when advocated by a prominent figure such as Bolívar. (Smith 2005, 18-20). Perhaps as the US became more powerful, it gave a new interpretation, rather paternal, to the Monroe Doctrine. It has continuously intervened in Latin America's internal affairs, and especially so during the Cold War (Rachum 2003, 156-175).

Leading up to the 20<sup>th</sup> century, in spite of the fact that some European countries still had a major foreign presence in most Latin American countries, and maybe because of this fact, the US went a step further in its involvement in the continent and expressed its ambitions to unite the entire Western Hemisphere under one inter-governmental body. Hence, more than 60 years after the Bolívar inaugural congress, a second American convention took place, this time in Washington D.C under the patronage of the US. The Pan-American Congress<sup>6</sup>, which was held in 1890, aimed to improve economic and political relations by discussing monetary issues, exchange controls, uniform customs and commercial

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<sup>6</sup> When created, was called the International Conference of American States. At the Fourth Conference in 1910, the name of the organization was changed to the "Union of American Republics" and the Bureau became the "Pan American Union". In 1948 it became the Organization of American States – OAS (OAS, History at a Glance).



regulations. Perhaps the most important outcome of the congress was the draft convention for the settlement of financial claims<sup>7</sup> (Dunkerley 1999, 16).

Economic ties between Latin America and Europe still flourished during the end of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup>, due to direct investments in mines, orchards, commercial companies and financial organizations and due to massive imports of the region's raw materials to the developed industries in Europe. European supremacy in this period was another factor that enabled a substantial presence in the continent (Rachum 2003, 32).

### **World Wars I and II: Shifting alliances**

Only during the beginning of the 20<sup>th</sup> century could the US actually back up the Monroe Doctrine in military and economic aspects. The US gradually began to supplant the European powers as the dominant influence in the continent. By the end of World War I, European trade and investment in Latin America have diminished massively, and the US had captured almost half of the hemispheric trade. American manufactures flooded the region, multinational companies produced petroleum and other raw materials there, and American bankers became Latin America's principal creditors. The US' growing power in the world and in the Latin continent in particular changed the balance of power and made the European powers feel unwelcome in their former colonies and sphere of influence (Dunkerley 1999, 21; Wiarda 1990).

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<sup>7</sup> The failure to repay debts had led to the threat or use of force by eight European countries against five Latin American states. In 1902 Argentina initiated the Drago Doctrine, designed to prohibit the use of European force to collect debts (Dunkerley 1999, 16-17).

This process took longer in the South American countries, where French, British and German interests lingered on. Their presence and influence persisted throughout World War II, and were often more important than those of the US. The end of the war fundamentally altered these alignments. Whilst the European nations were exhausted and defeated, the US – victorious and supreme – became increasingly engaged in rebuilding Europe. The US initiated the Marshall Plan, which funded European reconstruction. A new global economic structure restored the monetary and financial strength of the industrial powers, but ignored Latin America, which was perceived by the US merely as a supplier of raw materials and tropical foodstuffs. Trade between Latin America and Western Europe decreased massively. In addition, investments and loans in Latin America were cut off drastically. Not only was this period difficult for the Latin countries, but the postwar policy did not change as was hoped; and disappointment grew. Feeling abandoned by the great powers and allies, the largest of the Latin countries undertook to restrict imports and to subsidize domestic industries, known as the Import Substitution Industrialization (ISI) policy (Wiarda 1990).

### **Cold War; cold relations**

During the second half of the 1940s, the US was introduced as a new superpower, a status that forced itself to abandon its traditional policy of isolationism, and expand its military alliances. The outbreak of conflict with the Soviet Union had divided the international arena into two camps. The pre-eminence of the US in the Western Hemisphere, which naturally belonged to the West, was more secure than ever before, since the European powers were no threat either militarily or economically. This led to the adoption by the US

of a policy of indifference towards the Latin region whose diplomatic support was generally taken for granted (Smith 2005, 111-112).

Although Latin America had hoped for an intensification of relations with Europe after War World II, it soon became clear that events would not move in this direction (Bessa-Rodrigues 1999, 82). Most European countries felt that Latin America was a US' strategic sphere of influence in which they did not need to get engaged, and that any efforts on their part to do so would antagonize the "big brother", divide the Western Alliance and damage their own security position (Bulmer-Thomas and Dunkerley 1999, 311-312; Wiarda 1990, 157). Although the US strived continuously to expand the Western Bloc, its policy concerning its allies resembled a "divide and rule" policy, in which unilateral steps were taken and bilateral relationships were favored. The US welcomed European aid and investment to Latin America, but wanted minimal political activities. Therefore, a meaningful European involvement in Latin America was not appreciated. In the new constellation of the bipolar world system, Europe, which was dependent on the US and had to rely on it for most international security issues and for economic support, had much to lose from provoking it. This left Europe quite cautious in its policies towards Latin America (Casella and Marques 1997).

However, since the late 1960s there has been a gradual renewal of European interest in Latin America. According to Wiarda (1990), the main reasons for this revitalization are European recovery, increasing prosperity, affinity between Europe and Latin America, and Europe's desire to play a greater international role. The renewed European presence was concentrated on the largest markets of the Latin continent – Venezuela, Argentina, Brazil and Chile – where there was less chance of "running into" the US. Wishing neither to

offend the US nor to enter a market that was virtually a US monopoly, the Europeans stayed away from Central America and the Caribbean.

The US interest in Latin America grew during the Cold War period, as tension with the Soviet Union grew. The US put much effort into preventing its “backyard” from “falling” into Communists’ hands. One of the main expressions of this policy was the numerous military interventions of the US in the continent, mainly in Central America (Rachum 2003, 156-175).

Another expression of the US relationship with Latin America is through cross-continent Inter-Governmental Organizations (IGO). Forming IGOs was a political-diplomatic means of tying Latin America to the US. In contrast to these organizations led by the US, Latin organizations were created aiming to establish their own dependent agenda. I refer to these two types of organizations as a “Monroe type” and a “Bolívar type”. This differentiation was made by Hurrell in 1995, and he referred to them as “Hemispheric Regionalism” and “Latin American Regionalism”, accordingly. The two types illustrate two schools of thoughts which have existed among Latin America nations and leaders. Moreover, it reflects the dilemmas of the tertiary states facing a powerful neighbor: convergence versus divergence; dependence versus independence (Hurrell (a) 1995). Forming alliances with the EU is one of MERCOSUR’s means of reinforcing itself and balancing the Monroe type organizations and thus its most dominant player. Distinguishing between the two types of organizations helps categorize the IGOs which appeared after World War II.

## **Monroe type versus Bolívar type organizations**

The **Monroe type** organizations are inter-American or hemispheric IGOs, which include most Northern, Central and Southern nations. They are dominated at all times by the continent and world's hegemon, the US. The main intra-hemispheric IGO is the Organization of American States (OAS), created in 1948 – an American oriented political organization, consisting today of thirty five member nations. The goal of the OAS charter was *to achieve an order of peace and justice, to promote their solidarity, to strengthen their collaboration, and to defend their sovereignty, their territorial integrity, and their independence* (Article 1 of the OAS Charter). Another post-WWII institution is the Inter-American Treaty of Reciprocal Assistance (commonly known as the Rio Treaty). This hemispheric defense doctrine between American countries contained as its principle idea that aggression against one American country was tantamount to an attack on them all. It was signed in 1945 and entered into force in 1948 (Office of International Law, OAS).

The Inter-American Development Bank (IDB) was established more than a decade later, in 1959. It initiated programs for economic and social development projects, and has proved so effective that soon it became the model on which all other regional and sub-regional multilateral development banks were created. This clearly represents the American soft power. Today, the IDB is the oldest and largest regional development bank, and the main source of multilateral financing for economic, social and institutional development projects as well as trade and regional integration programs (Inter-American Development Bank). The FTAA, initiated in 1995, is the latest and biggest economic trade bloc scheme, which aims to create a hemispheric trade area. It will be discussed in detail in the following chapter.

The **Bolívar type** organizations which I will review are the main South American regional IGOs. The Latin IGOs are viewed as a mean to reach enhanced unity and a common policy. Their main goal is to strengthen their regional position by defining their unique and separate identity in the American continent, as opposed to the hegemonic view of one big united continent, in its leadership. The Latin America Free Trade Association (LAFTA) was among the first Bolívar type organizations created after World War II. Formed in 1960, LAFTA's aim was to develop a common market in Latin America. Since little progress was made it was restructured, and Latin American Integration Association (LAIA or better known as ALADI in its Spanish acronym) was established in 1980 with a more flexible and more limited role (Organization of American States: Glossary). In 1975 the Latin American Economic System (LAES or SELA) was created and included 26 countries. Its purpose is to enhance economic relations between Latin and Caribbean countries and to analyze global economic trends and their consequences on Latin America (SELA: What is SELA). The Rio Group arose more than ten years later, in 1986, as an alternative body to the OAS that was dominated by the US (Hurrell (b) 1995, 37). The Andean Community of Nations (ACN or CAN in its Spanish acronym) and MERCOSUR are the two main trade organizations of South America. Although CAN was established 22 years before MERCOSUR, the latter became in short time the dominant regional IGO and trade bloc<sup>8</sup>.

Most of these organizations have an economic character however they all had political aspirations as well of strengthening their regional role in the international arena. This can also be seen in the SELA's Permanent Secretary, Ambassador Otto Boye Soto declaration

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<sup>8</sup> MERCOSUR's creation will be discussed in detail towards the end of this chapter.

regarding the SELA organization: *[its] creation derived from an ever persisting need: the need to have our own forum, certainly of an economic nature, but always bearing a political dimension, where the region could think itself, coordinate itself and step by step build its undisputable identity* (SELA Caracas, November 24, 2003).

The end of the Cold War led to closer ties between Latin America and Europe. Freres does not base this fact only on historical and cultural ties and on economic interests. However, he links it to a broader international interest that the EU tried to advance during the Cold War (in the 1970s and 1980s) and to a larger extent, in the post Cold War era. The EU wants to be considered a global player and a “civilian power” or a “nonmilitary superpower”, and this, according to Freres, is a main factor to European involvement in Latin America. The formation of the unipolar system and the fact that Europe relies less on the US than on the bipolar structure, allows the former to seek a greater role worldwide. In addition, Freres relates the strengthening relations to the inclusion of the Iberian Peninsula to the EU in 1986. Spain and Portugal insisted that the Community add a Joint Declaration to their treaty accession, recognizing the Iberian Countries’ “special links” with the Latin American region and recommending that efforts be made to strengthen European relations with the Western Hemisphere (Freres 2000).

Bessa-Rodrigues views the renewed interest of Europe in Latin America in the light of the shift from a bipolar to a unipolar world system. She claims that the relative decline of dominance of the US in the Latin region, combined with global processes of internationalization and increased interdependence among economies, encouraged and enabled the European Community to expand and strengthen its links with other regions. The already existing historical and cultural links between Europe and the Latin American

countries and the latter's return to democracy provided a stronger reason for rebuilding the links (Bessa-Rodrigues 1999, 82-83).

Hence, the post Cold War era and the new world order enhanced the subtle competition between the EU and the US over South America, and in particular over MERCOSUR. While the US seeks to maintain its leadership role in the region by enhancing trade offers and schemes, the EU suggests more attractive offers in order to obtain the leadership role. Closer relationship with the tertiary power is viewed by the EU as a means to leverage its position in the region and internationally. MERCOSUR utilizes the interest of the US and the EU to strengthen its position in the region and to better its leverage worldwide (for instance in the WTO). The stronger the ability to influence MERCOSUR the greater the soft power. Winning the competition would mean for the US a better regional position, which influences its international status. For the EU it would mean a triumph for its soft power ability and strategy and in soft-balancing the US.

### **Post-Cold War: Re-shifting alliances**

The end of the Cold War reshuffled the powers and order in the new world system. The bipolar system has dissolved and zero-sum maneuvers turned into a wider and multilateral set of interactions. One of the two main outcomes in the international level is that the US became in no-time the leading world power. The second is that regional movements gained power and recognition, and became more significant than in the previous 40 years, when every country "belonged" to one of the two ideological camps. Hurrell views this tendency for sub-regional groupings as a means of improving the balance of power vis-à-vis a locally dominant or threatening state. Furthermore, he states that regionalism can



emerge as an attempt to restrict the free exercise of hegemonic power through the creation of regional institutions (Hurrell (b) 1995). Hence, MERCOSUR, as a sub-regional organization, cannot be understood except against the background of the regional and global dominant power and its policies. Nevertheless, its creation and formation was closely linked to the evolvement of the EU, which on the one hand is viewed by MERCOSUR as a role model of economic and political integration, and on the other hand has been an active supporter to MERCOSUR in every aspect.

The shift to regionalism can be also viewed in the vastly growing numbers of RTAs during the 1990's. Between 1990 and 2000 approximately half of the existing RTAs were notified to the GATT/WTO. By the end of 2005, the total number of RTAs should well have approached 300 (World Trade Organization: Regional Trade Agreements).

The first notified RTA was the European Community, in 1958. The MERCOSUR was amongst the first 30s and NAFTA was the 42<sup>nd</sup> notified RTA. Today, MERCOSUR is the fourth biggest RTA, in regard of trade, whereas the first is the EU, the second is NAFTA and the third is ASEAN (see Table 1).

**Table 1**

	No. of Countries	Area (sq km)*	Population (100 million)	Nominal GDP (Billion US\$)	Trade Value: Export & Import (Billion US\$)
EU	25	3,977,487	455	12,691	7,322
NAFTA	3	21,588,638	429	13,324	3,279
ASEAN	10	4,400,000	544	799	1,079
MERCOSUR	4 <sup>9</sup>	11,861,825	226	777	230

Sources: ASEAN. Ministry of Foreign Affairs, Japan

\*CIA: The World Fact Book

<sup>9</sup> The data was retrieved before the joining of Venezuela to MERCOSUR, in July 2006.

The EU has not only been the first RTA, but also an inspiration for those to come. For MERCOSUR it became an economic-political role model as well. Starting with the way it was created – MERCOSUR was created subsequent to bilateral agreements signed between the two old rivals and regional powers – Argentina and Brazil – in 1986 and in 1988<sup>10</sup>. Like Germany and France in 1951<sup>11</sup>, Argentina and Brazil changed their traditional strategy which underlined the importance of territory, military balance of power, the power of the state and autonomy as the ultimate goal of foreign policy and national security, to a soft-balancing strategy. Engaging in an economic integration with political aspirations allowed them to reinforce their Latin American identity, put into practice their soft power, seek for new allies, and thus soft-counterbalance the US. The implementation of this vision was followed by the Asunción Treaty which announced the creation of MERCOSUR and established the idea of the Common Market; the Treaty of Ouro Preto (December 1994) establishing the structure of MERCOSUR; the creation of institutions similar to those of the EU, and to end with – the consolidating of an unprecedented bi-regional Free Trade Area between the EU and MERCOSUR on December 1995.

Mera (2005, 115-116) has interpreted the emergence of the MERCOSUR idea in the mid-1980s, and its reinvigoration in the early 1990s, as a response to a series of international trends which triggered fears of marginalization and vulnerability among the governments in the Southern Cone. The growing power of the regional hegemon in the post-Cold War era put into play defensive incentives to act as a bloc, perhaps over concerns regarding

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<sup>10</sup> In 1986 Argentina and Brazil signed a bilateral agreement and in 1988 they signed a Treaty for integration.

<sup>11</sup> Referring to the European Coal and Steel Community treaty, which was signed between the two World War II rivalries – Germany and France, Italy and the Benelux countries, in Paris on 18 April 1951.

competitiveness. Such a bloc might increase the market and bargaining power of its constituent members, improving the balance of power vis-à-vis larger actors and thus increasing influence in multilateral or inter-bloc negotiations.

Bulmer-Thomas and Page (1999) view MERCOSUR's formation as a reaction to NAFTA and its motivation to strengthen and expand, to the American initiative of the FTAA. Since the institutional integration of MERCOSUR has gone well beyond the minimum necessary to gain trade liberalization advantages and includes, according to the authors, political and security motives, they emphasize the political motives for the creation of the bloc, stating that negotiations were led mostly by the presidents and the foreign ministers, not by economic interests. Van Dijk corroborates this view and stresses that Argentina and Brazil had only very limited economic interaction prior to the creation of MERCOSUR. Hence, its creation was more than a framework to facilitate economic relations that already existed (Van Dijk 2002, 3).

Wiesebron links the creation of MERCOSUR to the Falklands War<sup>12</sup> between Argentina and Britain in 1982. Although divided between two allies, the US did not stay neutral and assisted its special NATO ally with intelligence information. Argentina, which relied on the American support and its implementation of the Monroe Doctrine, was let down. According to Wiesebron, the feeling that the North cannot be counted on, brought Argentina and Brazil closer (Wiesebron, November 1, 2006).

The formal creation of MERCOSUR took place on 26 of March 1991 and initiated a new era for the Southern Cone countries – more unification, economic integration and political

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<sup>12</sup> The Falklands War was fought in 1982 between Argentina and Britain over the Falkland Islands, the South Sandwich Islands and South Georgia, shortly after Argentina occupied the latter. The initial invasion was considered by Argentina as reoccupation of its own territory, and by Britain as a violation of its sovereignty.

aspirations. Argentina, Brazil, Paraguay and Uruguay have signed the Treaty of Asunción and agreed on the creation of a Free Trade Area and a Common Market by December 1994. Bolivia and Chile joined in 1996 as associated members (Secretaría MERCOSUR).

The 1994 Treaty of Ouro Preto established the administrative structure of the MERCOSUR, which main intergovernmental bodies are as follows: the Council of Common Market (CMC) composed of the Foreign and Finance Ministers of the member states, the Common Market Group (GMC) with the executive power, and the MERCOSUR Trade Commission (MTC) (Foreign Trade Economic System – SICE). Although MERCOSUR's structure draws largely on the European model, the South American bloc did not create a supranational institution equivalent to the European Commission (EC), working for the interest of MERCOSUR, even after the period of transition (Dias 2002, 71-72).

In the mid-1990's, European aid grew, and in 1994-1995 the Commission provided more than \$400 million for the 20 Latin American states. This quantitative jump had the underlying aim of positioning the EU as a major player in Latin America (Freres 2000, 69). Between 1991 and 2000, Europe accounted for \$26.5 billion in foreign aid to Latin America, which are 45% of the region foreign aid inflows. The US and Japan accounted for only 34% of the inflows during the same period (Arenas 2002).

In terms of FDI as well, the EU became more influential since the mid 1990s. This is important, since it is the area that has witnessed the fiercest competition between the US and the EU for strong positions in a number of Latin American countries. The EU's share of the FDI (mainly in Argentina, Brazil and Mexico) rose from less than 30% of the

regional total in 1991 to over 40% in 1996, while the US share dropped from over 60% to about 50% in the same period (Freres 2000, 70; Bessa-Rodrigues 1999, 90).

Table 2 illustrates the changing policy of the US and the EU with regard to FDI in MERCOSUR, in the years 1992-2001. In the first half of the 1990s, the US' FDI in MERCOSUR's economy was more significant than investment emanating the EU. However, this too has changed significantly in the last decade (a more detailed table can be found in Appendix B).

**Table 2: EU versus US FDI flows and stocks in MERCOSUR**

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>EU flows in MERCOSUR</b> <sup>13</sup>	2011	933	1817	-	5579	9360	19221	34874	27899	12965
<b>US flows in MERCOSUR</b>	2128	2037	3202	-	4197	7565	6203	11871	6592	4479
<b>EU stocks in MERCOSUR</b>	21065	-	-	24167	28821	37388	54787	-	81966	-
<b>US stocks in MERCOSUR</b>	17943	-	-	21420	25271	32297	39451	-	45781	-

Source: UNCTAD (in millions of \$US)

Whereas the EU's FDIs in MERCOSUR, in most years, are substantially higher than those of the US', the difference between their trade figures with MERCOSUR is less prominent. Nevertheless, the EU is still MERCOSUR's largest trading partner (Bessa-Rodrigues 1999, 90). Chart 1 exhibits the growing import and export activity of MERCOSUR with the EU and the US.

Chart 2 shows total trade statistics for the period under study. While the axis on the right represents dollar figures of total trade with the US and the EU, the left axis represents the ratio of the EU over the US. In general, the trade is in a growing trend for all parties.

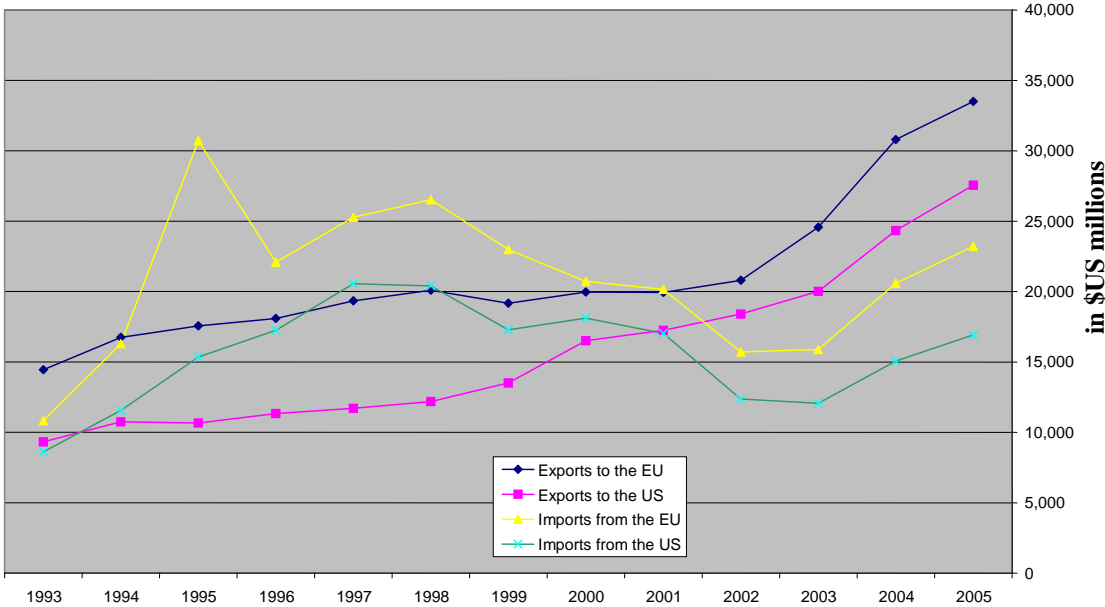
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<sup>13</sup> The total does not include Uruguay.

During the 1990s the EU's trade activities are significantly higher than those of the US. In 1995 the ratio was over 1.8. However, since 1999, the EU's trade activities with MERCOSUR are only 1.1-1.3 higher than those of the US (full details are brought in Appendix C).

**Chart 1**

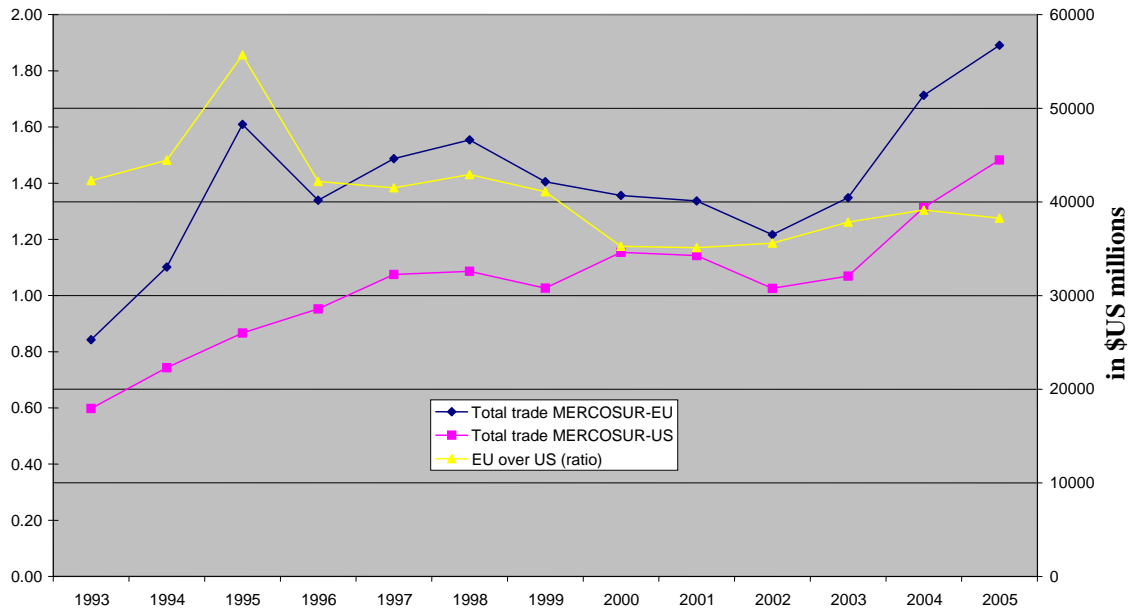
**Export and Import figures between MERCOSUR and the EU and the US 1993-2005**



Source: CEI (Centro de Economía Internacional), Ministry of Foreign Affairs of Argentina

**Chart 2**

**Total Trade between MERCOSUR-EU versus MERCOSUR-US 1993-2005**



Source: CEI (Centro de Economía Internacional), Ministry of Foreign Affairs of Argentina

In the short period of MERCOSUR's existence some very interesting developments occurred in the intra-regional and the international levels. Brazil, as the dominant power of the integration, and Argentina to a certain extent, have gained power and have gained leverage in the region as well as in the international arena. The US which has always viewed the Latin region as its sphere of influence, experienced a declining impact on the region since the end of the Cold War, mainly within the Southern Cone. The economic figures presented above serve as partial evidence. The US led various trade initiatives in this period at the hemispheric and bilateral levels, in order to restore its influence on the southern region. In the following chapter I will argue that this has motivated the EU and is closely linked to its new presence in the southern part of the continent. The subsequent chapter traces this correlation and intends to reveal the motive behind the EU's strategy, by discussing the triangular relations in four separate time periods.

## 4

# A Case Study of MERCOSUR-EU-US Relations<sup>14</sup>

### 4.1 The Formative Period (1991-1994)

*The EC has had one common response to MERCOSUR since 1991:  
We support the MERCOSUR integration process  
(EC, Regional Strategy Paper 2002-2006)*

#### **The American reaction to MERCOSUR's creation and formation**

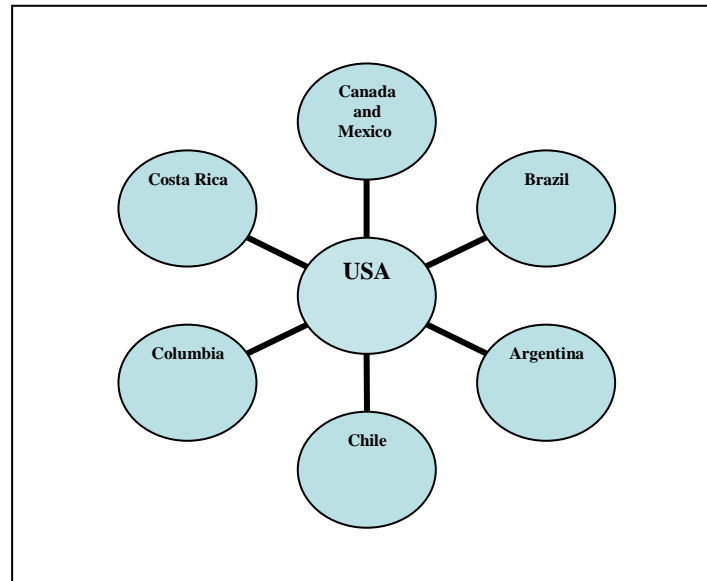
MERCOSUR's creation has invited greater involvement of the US and the EU in the southern cone of the continent. Less than a year before the formal signature of MERCOSUR, in June 1990, the US initiated the Western Hemisphere Free Trade Area (WHFTA), known also as the Enterprise for the Americas Initiative (EAI). At the time, Argentina and Chile in particular wished to be part of such an agreement that was based on three pillars: trade, investment and debt. The fact that many of the Latin American elites were educated in the US contributed to the pro-American approach at the time. The envisaged strategy of the WHFTA was of bilateral negotiations between the US and Latin countries in a Hub and Spoke model, whereby integration resembles a bicycle wheel, in which the US would be at the center, and the Latin American countries would be the spokes (see Figure 1) (Van Dijck 2002, 14). According to Smith, whereas the WHFTA was well received in Latin America as an expression of Bush's intention to focus on hemispheric economic issues, within the US it provoked great criticism (Smith 2005, 162-164).

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<sup>14</sup> Appendix D summarizes the triangular relations' events. A detailed table displays chronologically MERCOSUR's main developments and events versus those of the US-MERCOSUR and the EU-MERCOSUR relations.



**Figure 1: Hub and Spoke model –  
The American hemispheric trade strategy**



Nothing concrete came out of the WHFTA project and no negotiations with a view to setting up a hemispheric trade zone were opened at the time (Brunelle 2004, 28). Nevertheless, wasting no time, the US initiated the "Rose Garden Agreement", also known as "Four Plus One" a year after the WHFTA initiative and only three months after the Treaty of Asunción was signed. The agreement was signed at the White House Rose Garden on 19 June 1991. It was not a free trade accord but was supposed to provide a multilateral framework for consulting on trade and investment matters with a view to reducing barriers between countries. This agreement has been credited with improving the MERCOSUR countries' relationship with the international financial community (Chapman 1994). Interestingly, the name of the agreement – Four Plus One – insinuates to the American view of MERCOSUR at that time – as four countries and not as a unified body. This characterizes the American perception of MERCOSUR throughout the 1990s and the following decade, and expresses the American wish to weaken the evolving southern bloc and to maintain its leadership in the whole continent.

Argentina, however, was rather pleased with the American woo after the MERCOSUR countries. It aligned its foreign and economic policy with the US in the late 1980s and the 1990s, by adopting the “Washington Consensus”<sup>15</sup> structural reform policies and consequently opening up the economy to international competition. Brazil was more reluctant to the American initiatives, since it viewed MERCOSUR as a means for promoting and consolidating economic and political independence to the region. Thus, it sought a more robust integration and viewed Argentina’s affiliation with the US as a threat to the southern bloc (Cammack 2002, 87).

The Four Plus One agreement, like the WHFTA, did not evolve. However a more successful initiative was developed parallel to it, in the northern continent and was signed on December 1992 – NAFTA. This is an extended agreement to the Canada-US Free Trade Area, the CUSFTA, signed five years earlier. NAFTA negotiations gave rise to a big dispute in the US. Those supporting it argued that the expanded CUSFTA would be a boon to the American economy, and will improve its ability to compete with the global economic challenge of the EU and Japan. And on the other hand the opponents, mostly labor unions, argued that the NAFTA agreement will result in the inevitable relocation of American jobs and factories to Mexico (Smith 2005, 162-164).

The NAFTA agreement came into effect at the beginning of 1994. Latin American governments regarded NAFTA as the first step towards a hemispheric agreement, and were looking forward to its future expansion. However, due to a vast internal opposition

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<sup>15</sup> The phrase was coined in 1990 to refer to the lowest common denominator of policy advice being addressed by the Washington-based institutions (the IMF, WB and the US Treasury Bank) to Latin American countries as of during the 1990s. It included ten macroeconomic policies, among them fiscal discipline, trade liberalization and privatization (Global Trade Negotiations Home Page, Center for International Development at Harvard University).

and increasing American interest in the Asia-Pacific economy, the Latin region was not given priority. Smith claims that by default and as protection from the increasing globalization of the world economy, the Latin Americans consolidated their own sub-regional agreements, of which the most notable is MERCOSUR (Smith 2005, 162-164). A better interpretation might be that MERCOSUR, and perhaps other regions as well, could not rely on American initiatives since the US strategy was not clear and even ambiguous at the time. Although it expressed several times its intentions to merge the whole continent into one big Free Trade Area, its attempts remained in the realm of ideas until the more serious initiative of the FTAA in December 1994.

### **The European reaction to MERCOSUR's creation and formation**

While the US has tried to engage MERCOSUR countries in various common economic frameworks in an attempt to maintain its influence and retain their dependence on the US, it was not perceived among MERCOSUR nations, mainly Brazil, as genuine attempts for incorporation. The EU, on the contrary, was perceived as a possible partner for cooperation with MERCOSUR members, one that is very supportive to the newborn integration. The EU's policy towards MERCOSUR *has always favoured a strengthening of the process of regional integration in MERCOSUR and therefore supported the MERCOSUR initiative from its very conception in 1991* (European Commission, 2005). In political terms, according to Bessa-Rodrigues, the EU provided for the first time in the 20<sup>th</sup> century an opportunity to search for institutional alternatives to the US model. Thus, all MERCOSUR leaders have visited the EU institutions on a number of occasions and confirmed their desire to

intensify relations between the two regions, both in the economic and the political sphere (Bessa-Rodrigues 1999, 84-90).

The EU, from the very beginning, viewed the southern bloc as an important economic phenomenon that has managed to solve many of their major problems regarding international commercial relations (Casella and Marques 1997, 460). Its aspiration to become a real common market was perceived positively. Hence it has supported the MERCOSUR from its very beginning as well as strengthened the bi-regional relations.

This perception was shaped by two factors: The first is the historical and cultural link with the Latin continent, mainly with its southern part. Not only did Europe have a long historical relationship with the continent, but it also appreciates MERCOSUR's current norms and values – norms of peace and security, commitment to political democracy, regional international law and institutions (See Kacowicz 2005) and seeks to fortify them. The second is related to the EU's desire to have a more dominant role in the post-Cold War era, especially since the signing of the Maastricht Treaty in 1993. According to Bessa-Rodrigues the interest of the EU in Latin America in the first half of the 1990s came at a time when the EU became increasingly disappointed with its foreign relations, i.e. its unsuccessful interventions in the Middle East, its minor role in the intervention in Yugoslavia and Iraq and the growing competition with the US. In this sense, the creation of MERCOSUR provided a “window of opportunity” for the EU to form and implement a more coherent foreign external relations' policy (Bessa-Rodrigues 1999, 84-85).

A year after MERCOSUR's creation, on May 1992, the European Commission signed an Inter-institutional Agreement with MERCOSUR. This agreement included various studies and analyses, training personnel, technical assistance and institutional support, in order to

assist “the fledging structures of MERCOSUR” in reaching the objectives of integration between its members. Moreover, it contained an agreement to form an EU-MERCOSUR Joint Consultant Committee, which was to meet twice a year, in order to encourage an intensified inter-institutional dialogue and promote activities of cooperation on the basis of this agreement (The EU: Acuerdo de Cooperación Interinstitucional entre las Comunidades Europeas y el MERCOSUR, 1992).

Since 1992 the EU has allocated massive financial support to MERCOSUR’s administrative secretariat as well as technical assistance. It is stated in the “Evaluation of the EC support to MERCOSUR” report that between 1992 and 2002 the EU’s financial aid came to a total of €49,316 millions in four areas of intervention: (1) Trade; (2) Economic integration and intra-regional cooperation; (3) institutional issues and (4) other actions for development (see Appendix E for the EC intervention model for the support of MERCOSUR’s sub-regional funds). Supporting the trade integration process within MERCOSUR countries was the main area of support by the EU, some 43% of total allocation, almost €21 million. This included increasing the weight of MERCOSUR in international trade, and in particular to boost trade with the EU; support for customs harmonization, and technical standards. The EU’s promotion of the economic integration process among MERCOSUR members and greater interaction and integration between the sub-region and the EU accounts for 39% of the allocation. The transfer of the EU’s experience on regional cooperation and institution building has been instrumental in providing MERCOSUR with the basis of an administrative, technical and legal infrastructure (European Community: Evaluation of the EC support to MERCOSUR 2004).

Of all the European Institutions, the European Parliament has been the one most concerned for the economic and political development and a major actor for approving funds for Latin America. Through its resolutions, the European Parliament has tried to indicate to European governments and institutions a general approach to relations with Latin America based on the principles of consolidating democracy and supporting all forms of economic and financial cooperation. Interest continued to exist from the European side, and during the European Council in Corfu, Greece in June 1994, the desire to create stronger political and economic relations with MERCOSUR was expressed. The same year, the European Council Summit in Germany urged the EU Council of Ministers and the Commission for an early opening of negotiations with MERCOSUR on an inter-regional agreement (Bessa-Rodrigues 1999, 87-88).

Political dialogue and dialogue on trade and cooperation, especially in the field of technical assistance and the operation of the administration and institutions, made a positive contribution to consolidating MERCOSUR and boosting the credibility of the bloc (EC: Commission staff working paper concerning the establishment of an inter-regional association between the EU and MERCOSUR). Hence, not surprisingly, MERCOSUR had viewed the EU as their economic model and in the following years, as a political model as well. The Treaty of Asunción expressed their ambition to become a Common market by 1995. Whereas NAFTA adopted a minimalist approach to integration, the EU, and MERCOSUR which was influenced by it, have adopted a more proactive approach. Not only are they more than a Free Trade Area, but they also have political and social aspirations. Duina underscores MERCOSUR's and the EU's laws, which have an impact on economic, social and political life (Duina 2006, 63-74).

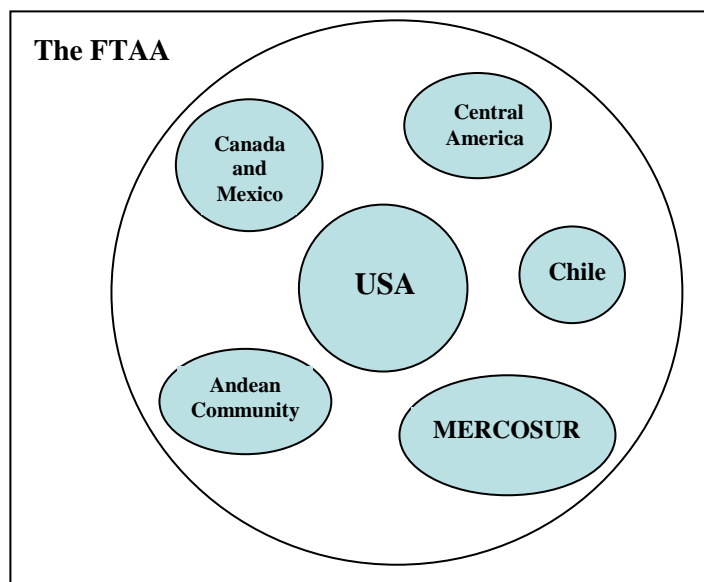
## 4.2 Wooing MERCOSUR (1995-1998)

*MERCOSUR and the European Union solemnly reaffirm their commitment to progressing towards the establishment of an interregional association and to establishing greater political dialogue for that purpose*  
(Joint Declaration on political dialogue between the EU and MERCOSUR, 19/03/1996)

### The FTAA initiative

The second period commenced with the American initiative to form a Free Trade Area for all countries of the continent (excluding Cuba) – the FTAA. The idea was conceived in the December 1994 OAS meeting, and was launched in June 1995. In contrast to the WHFTA, the new scheme was based on multilateralism (see Figure 2). The new approach would deny the US the potential advantages of the hub-and-spoke model, but was meant to multilaterally reach a hemispheric Free Trade Area Agreement by 2005, through the OAS (Van Dijck 2002, 17).

**Figure 2: The multilateral strategy**



Although the new scheme was based on multilateral principles, the US is the strongest member of all nations in the hemisphere, and it is also the leading state in terms of economic, military and political power, areas in which there is a huge gap between the US and the rest of the possible members. Therefore, MERCOSUR was not eager to join the FTAA, on the one hand but on the other hand, understood at that point, that it was not clever to refuse to be part of the FTAA (Lorenzo and Osimani 2003).

Bulmer-Thomas and Page, when dealing with the American post-Cold War policy in this context, try to explain the impelling of a hemispheric integration agenda. Due to the fact that the US had economic dominance in Latin America, throughout most of the 20<sup>th</sup> century, regional integration was not essential. The US did not need PTAs to conquer the Latin American markets. The 1990s have brought a new international agenda, and the American hemispheric initiative can be viewed as a response to the new world order, in which the US supremacy has to be justified and attained with effort. Given the fact that the US encounters resistance in the WTO framework from the EU, which has explored the possibility of using the WTO rule against the extra-territoriality of the Helms-Burton act<sup>16</sup>, as well as from small countries which have secured rulings in their favor against the US; the FTAA is seen as an easier route to promote the new American agenda. Furthermore, the FTAA can be seen from the US perspective as a pioneer in US efforts to shape the next generation of WTO agreements as well as a 21<sup>st</sup> century version of the Monroe Doctrine. Hence, it is a sophisticated and mutually beneficial US instrument for restricting European and even Asian influence (Bulmer-Thomas and Page 1999).

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<sup>16</sup> A US federal law which strengthens and continues the US embargo against Cuba.



Grugel views the American initiative of the FTAA as mostly ideological. Regionalism is seen in Washington as a vehicle with which to create a stable mode of liberal economic governance across an area that has suffered dramatic policy swings between openness and protectionism. Hence, the promotion of political stability and liberal democracy lies at the center of this mode of governance (Grugel 2004, 608). It is important to stress the difference between the ways the US and Brazil (as the dominant power of South America) view regionalism. Whereas the US perceives regionalism as hemispheric incorporation and the unification of the whole continent, for Brazil, regionalism means sub-regionalism or Latin integration. Van Klaveren (1997) emphasizes this statement by describing MERCOSUR as an exceptional example of a sub-regional strategy. Historically, he adds, Latin American integrations tended to be regional, however in recent years, and more salient in the 1990s, sub-regional groups became more popular in the Latin continent, partly due to their homogenous and stable character.

In saying this, Casella and Marques view the American initiative of FTAA as an opportunity to reorganize the share of trade in the Americas around the US, *pushing MERCOSUR aside and pulling its members apart*. In fact, MERCOSUR's credibility and internal cohesion was attacked by the US from its creation, and was subsequently depicted as a threat to hemispheric regionalism (Casella and Marques 1997, 463).

To support this statement, the American Institute for Agriculture and Trade Policy document states the following: *Without fast-track<sup>17</sup> negotiating authority from Congress, the U.S. Clinton administration is handicapped in pursuing FTAA negotiations and virtually blocked from negotiating any other trade agreements with Latin American trade blocs or individual countries. That*

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<sup>17</sup> Fast-track is the traditional trade negotiating authority granted by Congress that allows the President to negotiate international trade agreements.

*leaves MERCOSUR, dominated and led by Brazil, in a position to influence free trade negotiations in the Americas* (Institute for Agriculture and Trade Policy, the US 1996).

According to Vizentini, MECOSUR's negotiations with different states within the region and out of the region, including negotiations with the EU and East Asia, worry the US<sup>18</sup>. Hence, since the mid-1990's, Washington has been criticizing Brazilian and MERCOSUR trade practices and their rapprochement with other integration blocs. The White House's further response has been to renew NAFTA's attractiveness and the promise of obtaining fast-track authority, especially in relation to Chile (Vizentini 2002, 58). This is also reflected in Clinton's speech to the senate in 1997: *We need to act, to expand our exports to Latin America and Asia since these two regions are growing fast or we will be left behind as these economies strengthen their ties with other countries* (quoted by Vizentini 2002, 58 from Martins 1997, 66). And from the former US trade representative, Charlene Barchefsky in her statement before a senate commission: *The growing attention that MERCOSUR is getting not only in South America and in the Caribbean, but also in Europe, Japan and China is viewed [by us] as a threat to US trade interests and also to our own leadership in the hemisphere* (quoted by Vizentini 2002, 59 from Martins 1997, 57).

The competition with the US over the future of hemispheric integration is one of the key political dynamics underlying regional integration. The creation of NAFTA helped to spur the deepening and broadening of MERCOSUR; this, in turn, led the US to work for a hemispheric integration rather than a North-American one, via a series of bilateral ties.

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<sup>18</sup> See also Eduardo Gudynas (2003) in <http://americas.irc-online.org/columns/gudynas/2003/0311mercosur.html>, claiming that the growth of MERCOSUR worries the US.

The Brazilian-US tug-of-war over Chile<sup>19</sup> demonstrates this dynamic at work (Johnson 2001).

The delicate relations between the MERCOSUR members also played a role in trying to weaken the intra-regional ties. The US tried to take advantage of Argentina's delicate position – being caught between two powerful actors – the American superpower on the one hand, and Brazil, the regional power on the other hand. Argentina had applied for membership in NATO and had hoped to be able to negotiate entry to NAFTA, but without losing its status within MERCOSUR (Malamud 2005). In February 1998, the US granted Argentina a special status of ally outside NATO and military partner. This is the first time that this status has been accorded to a country in the Western Hemisphere (Domínguez 1999). In response, Brazil reacted negatively to this alliance and perceived it as an attempt by the US to weaken the Southern Cone integration (Santander 2002, 495). Brazil viewed MERCOSUR primarily as an instrument to secure its regional primacy and to counter the burgeoning US influence in the subcontinent. (Muller-Brandeck-Bocquet 2000, 575-6).

### **The EU-MERCOSUR Interregional Framework Agreement**

Interestingly, the same month that the FTAA was conceived, the European Council held a summit in Essen, Germany, where it proposed to negotiate an interregional Framework Agreement with MERCOSUR and initiate a process of dialogue with Mexico and Chile in order to sign new agreements of cooperation. This led to a Joint Declaration signed by the EU and MERCOSUR, in which they compromise to negotiate a new and wider agreement

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<sup>19</sup> The US and Chile negotiated a Free Trade Area agreement for more than a decade against Brazil's will and perception of counterbalancing the US hegemony (the agreement went into force in January 2004).

of cooperation (Müller-Brandeck-Bocquet 2000, 568; the European Commission's Delegation: EU and Latin America Chronology).

The first FTAA meeting which took place on June 1995, kept Latin American matters on the EU's agenda. Hence, the European Commission presented to the Council and the European Parliament at the end of the same month a communication about the economic and political situation of Cuba and its relations with the EU. Redefining the aspects of cooperation was proposed. Later that year the Commission proposed new directives of cooperation with Latin America and perspectives of strengthening the association (the European Commission's Delegation: EU and Latin America Chronology). As mentioned earlier, Cuba was the only nation that was not invited to the FTAA negotiations. The dates as well as the topics of European concern regarding MERCOSUR and the Latin continent in general reflect the European competitiveness vis-à-vis the hegemon on the influence in the latter's backyard. These evolving agreements can be perceived as a message to the hegemon and to the Latin American states that the EU is the latter's alternative politico-economic partner.

In the eyes of the EU, a better offer than the FTAA was proposed to MERCOSUR and was eventually signed on December 1995 between the EU and MERCOSUR – the Interregional Framework Cooperation Agreement, preferring an integration agreement to a cooperation agreement. This is a precedent agreement, being the first negotiated between two economic blocs. At the preliminary stage, the agreement functioned as a framework for improving cooperation between both parties and had mostly a political value (Causella and Marques 1997, 462).

The main objectives of the Framework agreement were to strengthening cooperation in all fields, promote closer relations between the EU and MERCOSUR's respective institutions, consolidate closer political relations, liberalize of trade in goods and services, aim at consolidating a free trade area in conformity with WTO rules, as well as an enhanced form of cooperation and a strengthened political dialogue. This agreement was the foundation of the June 1999 Interregional Association Agreement, which launched the Free Trade Area negotiations (EC: Interregional Framework Cooperation Agreement between the European Community and its Member States, of the one part, and the Southern Common Market and its Party States, of the other part).

As opposed to the American intentions to include the MERCOSUR states into a wider Free Trade Area through bilateral negotiations, and its wish to weaken the integration via the FTAA, the EU in its inter-regional offer to MERCOSUR wished to strengthen the latter's foundations and mechanism. At the time of the signature of the Interregional Framework Cooperation Agreement, the EU had called on the MERCOSUR countries to adopt an international legal personality, so that they would sign the bilateral agreement as a bloc. Santander explains that the Treaty of Ouro Preto was signed on December 1994 however its coming into affect depended on its ratification by the national parliaments. The EU conditioned the bi-regional meeting and signature on the Framework agreement on MERCOSUR nations' ratification of the Treaty of Ouro Preto, which established MERCOSUR's mechanism and defined it as a Customs Union. This treaty gave MERCOSUR its international legal status and the position to negotiate agreements with third countries or blocks of countries (Santander 22.11.06). Consequently, the Ouro Preto Protocol came into affect on 15 December 1995, the same day MERCOSUR signed the Framework agreement with the EU.

According to Santander, the EU authorities do not believe the FTAA will be beneficial for MERCOSUR members' economies and have frequently advised those members against signing such an agreement (Santander 2002, 496-7). This corresponds with the EU's perception of MERCOSUR's involvement in the FTAA scheme, presented by Manet, Desk MERCOSUR, European Commission. He stresses that since the FTAA is an agreement of 34 nations it aims to the lowest common denominator. On the contrary, the EU-MERCOSUR Framework agreement and its future Association agreement are negotiated in only two voices – the EU's and MERCOSUR's. The common denominator is higher, and this makes the agreement more attractive (Manet 22.11.06).

The EU was also worried about the possible trade diversion effect of the FTAA on the EU countries' economies. European leaders were also aware that if the US project becomes a reality, it would create a series of new standards and rules dominated by the US. In order not to be excluded from the shaping of these new rules, the EU wished to maintain and increase its presence in Latin America and especially in MERCOSUR, where its economic interests are most significant. However, the EU views the consolidation of MERCOSUR and its relations with the EU not only as an economic beneficiary, but rather as a “strategic partnership” (Santander 2002, 496-7).

Manet clarifies the meaning of “strategic partnership” by giving a couple of examples. In the first, he highlighted the meetings of the two parties before important international summits, where representatives from both the EU and MERCOSUR agree upon a common stand regarding key issues. The second example underscores MERCOSUR as a key to a better understanding of events that occur in the Latin region, such as crises in

neighboring countries. MERCOSUR can provide “inside information” and thus enhance European insights concerning various matters (Manet 22.11.06).

In the late 1990s, the European Committee on External Economic Relations of the European Parliament saw an urgent need to begin the final phase of bilateral negotiations in 1998: *If the EU wishes to maintain its leading role in the trade policies of this region, and to prevent the entire South American continent from falling into the political and economic spheres of influence of the US, then the necessity of establishing a middle-term strategy towards the MERCOSUR is undeniable* (The European Committee on External Economic Relations of the European Parliament, 1995, “Report on a communication from the Commission to the council and the European Parliament concerning the development of policy of the EU towards the MERCOSUR” in Muller-Brandeck-Bocquet 2000, 569).

The EU’s interest in, and support of, MERCOSUR in the second half of the 1990s can also be seen in the vast growth of its FDIs to the region (as presented in Table 2 and in full detail in Appendix B). The European Investment Bank (EIB) has a major role in investment promotion initiative in MERCOSUR, and all member states have signed framework agreements with it. The EU estimates that some 140 projects were carried out in the framework of the European Community Investment Partners, and it has also supported the establishment of approximately 30 regional joint ventures and has sponsored sectoral meetings involving about 2,000 Latin America enterprises. All of these initiatives demonstrate the importance of ensuring EU access to growing markets like MERCOSUR (Bessa-Rodrigues 1999, 95-96).

Although there has been a race around the clock between the FTAA talks and the EU-MERCOSUR negotiations, the latter have been slowed down towards the end of the

decade due to disagreements concerning agriculture and the EU's Common Agriculture Policy (CAP). Some experts in Europe thought it would be better if the EU would hold off negotiations with MERCOSUR until the next Doha round, due to the fact that concessions that will be made in a regional agreement will be implemented later in global negotiations (Habel 2002, 50-51).

Dias indicates that the pace of the bi-regional negotiations reveals some of the problems the parties confront in converting rhetoric into action, since the structure of the methodology for the negotiations was defined only in June 1999 (Dias 2002, 67).

From the MERCOSUR perspective the integration process with the EU has a two folded advantage. The first is the direct benefit from such an association – spurring economic ties, enjoying political ties with a big, though not so intimidating power, receiving massive economic and technical support to enforce its structure and mechanism. The second is the indirect benefit – shaping its foreign strategy. An interregional association with the EU would substantially help MERCOSUR to limit the risks of bilateral confrontation with the US and to redress the balance between North and South America. (Habel 2002, 52). An example to MERCOSUR's foreign policy concerning the FTAA, and which was influenced by the EU, is suggested by Santander – in 1998 the US agreed to MERCOSUR's request to allow economic integrations, such as MERCOSUR and CAN, to negotiate in the FTAA as one entity (Santander 22.11.06). This could be perceived as a small victory to the EU's soft power – its ability to influence the FTAA internal rules, without actually intervening, but using a third party. The empowered MERCOSUR eventually weakened the FTAA scheme.



### 4.3 The MERCOSUR crisis (1999-2002)

*A new partnership for a new century*  
(C. Patten, Nov. 2000)

The 1997 Asian financial crisis affected MERCOSUR negatively, a situation that was worsened by the collapse of the stock market in Asia and Russia in 1998. Brazil lost 50% of its exchange reserves, which led to a strong devaluation of the Brazilian Real. This hit Argentina badly, as well as the whole southern economic bloc. Unilateral protectionist steps were taken by the two major members during this internal MERCOSUR conflict, in which the smaller partners, Uruguay and Paraguay were simply overrun (Vizentini 2002, 59; Muller-Brandeck-Bocquet 2000, 574-5).

As MERCOSUR members' internal economic situations deteriorated and instances of commercial and diplomatic conflict between Argentina and Brazil became more frequent, the sustainability of the regional project began to be seriously questioned. The extent of the crisis in the Argentina–Brazil relations between 1999 and 2002 led many to predict MERCOSUR's demise (Mera 2005).

Indeed, these years were crucial and maybe even constitutive of the Common Market of the South. The worsening economic situation in Argentina led its Minister of Economic Affairs, Domingo Cavallo, to demand compensation for sectors adversely hit by the devaluation of the Real (Mera 2005, 120). The Brazilian government refused to pay off the economic damages it caused, or to accept Argentina's economic safeguards and exceptions to the bloc's agreements. This led the latter to violate the quasi Common

Market rules on several occasions and to call for the downgrading of MERCOSUR to a mere Free Trade Area (Santander 2002, 495-6; Mera 2005, 121).

Argentina, which felt abandoned by its Brazilian neighbor and MERCOSUR partner, sought alternative partners and turned almost in desperation to its affiliate – the US – in an attempt to regain its privileged status. Among these attempts are the striving to become a NATO member as mentioned above, offering military support should the US intervene in the quasi-civil war in Columbia, and Argentine territory bordering Brazil for US troops' military use (Muller-Brandeck-Bocquet 2000, 575-6). Moreover, Argentina entered into an accelerated 'dollarisation' process and aligned its foreign policy with that of Washington. Argentina even debated if it should leave MERCOSUR and negotiate individually with the FTAA – this was a warning sign for Brazil (Santander 2002, 496).

Brazil was keen to maintain the MERCOSUR bloc in its advanced format, and more importantly, to present a joint position in the coming FTAA and WTO negotiations. Therefore it had no option but to grant Argentina, to some extent, the flexibility it demanded (Mera 2005, 122).

The US and the EU responded very differently to the Southern Cone crisis.

### **The American response**

The US had a mixed message approach toward Argentina during the crisis years, which caused some friction in the bilateral relationship. Although stressing its concern to its “ally and friend”, the US has stated that Argentina will only receive US assistance through international financial organizations, and only when it has a solid economic program that

includes privatization, deregulation, and fiscal discipline. In a meeting of the OAS in Washington DC, President Bush said *Argentina and nations throughout our hemisphere need to strengthen their commitment to market-based reform, not weaken it.* (Bush 16.1.2002). Similarly, in a speech in Chile, the First Deputy Director Anne Krueger of the International Monetary Fund (IMF) said that IMF support for Argentina is contingent upon the economic plan the Duhalde administration develops. She noted that it would be very unlikely for the IMF to provide a solution to Argentina's economic crisis in the near future (Trinkunas and Boureston. 2002).

In this approach the Bush administration tried to influence Argentina to continue its liberalization process, implemented throughout the 1990s, in accordance with the Washington Consensus policies. At the same time, it saw the Argentine crisis as an opportunity to weaken MERCOSUR and promote the FTAA. A weak Argentina could have tied each one of the MERCOSUR members to the US in a bilateral trade agreement and in this way it could have consolidated the FTAA scheme, improve the US commercial and political position in the Western Hemisphere and strengthen economic dominance to the region.

Putting into practice the US strategy the Bush administration proposed Argentina in 2001 to sign a bilateral trade agreement, however was reluctant at that point to support large aid packages. As the Argentine crisis worsened and began to affect its neighboring countries, Washington postponed its offer until Argentina's economic situation stabilizes. The US was very much concerned that sliding into a major crisis would jeopardize the entire integration process of the Americas. Hence it began supporting IMF economic aid to Brazil and Uruguay. The US also used this support and economic concern, in specific, to

further convince Uruguay to favor the FTAA rather than MERCOSUR and to prove that the crisis could not be solved without the help of the IMF or the US support (Santander 2002, 494-5, 504).

At the sixth FTAA meeting on April 2001 the first draft of the FTAA agreement was presented, and it was agreed to make this text publicly available. The seventh FTAA meeting on November 2002 produced a second draft. The US and Brazil were to be the co-chairs of the FTAA until negotiations were concluded in 2005.

### **The European response**

Even though 1999-2002 were hard years for Argentina and Brazil, as well as for the Southern Cone in economic and political terms, it appeared that the EU went ahead with its bi-regional intentions, to even a larger extent than before. Two important events occurred in this period, starting June 1999, both initiated in Rio de Janeiro: (1) a formal decision to launch negotiations between the EU and MERCOSUR on a future Interregional Association agreement; and (2) the first EU-Latin America summit.

In an EU document summarizing European activity within MERCOSUR and Chile between 1996 and 1999, the main conclusions for future engagement were that the EU *must favor European interests in the face of the clear objective of a free trade area in the context of the FTAA negotiations, and also the multilateral negotiations. The efforts to achieve liberalization in the framework of the FTAA... will obviously entail major risks for the EU's agribusiness, manufacturing and services.* Another important conclusion was that the EU should adopt a more aggressive attitude in seeking progress on every front to shore up its position as the main customer of

MERCOSUR (EC: The EU's Relations with MERCOSUR, European interests in MERCOSUR and Chile).

Hence, on November 1999, the heads of State and Government from MERCOSUR and Chile and from the EU re-launched negotiations, based on the 1995 Interregional Framework Agreement. The new Interregional Association Agreement included three main pillars of political dialogue, trade liberalization and economic issues, and cooperation. The trade element of the agreement aims to create free trade in goods and services in line with WTO rules. (EC: The EU's Relations with MERCOSUR, Meeting of Heads of State and Government from MERCOSUR and Chile and from the EU).

Three principles were in the basis of this agreement: (1) region-to region approach, which constitutes the basis of discussions on all regulatory areas; (2) The agreement should be comprehensive and balanced, extending beyond the respective obligations in WTO. No sector should be excluded, whilst taking account of product sensitivities; and (3) the agreement should constitute a single undertaking, implemented by the parties as an indivisible whole (EC: Trade Issues).

During the same year, the EU presented a historic negotiating offer to MERCOSUR in Montevideo, covering 90% of agricultural trade and 100% of industrial trade, in line with WTO rules in regards free trade areas. Moreover, in 2000, the EU and MERCOSUR signed a Memorandum of Understanding (MoU) that provides the framework for the use of the financial resources available for cooperation with the region (EC: Evaluation of the EC support to MERCOSUR 2004). The MoU re-emphasized the EU aid for MERCOSUR in which it will focus on: strengthening MERCOSUR institutions; assisting MERCOSUR in consolidating its economic and trading structures; and providing support for

MERCOSUR's civil societies. The central purpose of the aid is to strengthen MERCOSUR's institutions and help them prepare for free trade with Europe. Bi-regional aid was expected to reach €250 million during 2002-2006 (Arenas 2002).

Although the MERCOSUR members experienced a deteriorating economic situation, the EU kept supporting the bloc. Over the years 1998-2000 alone it directed close to \$82 billion for investment in the region, while the US FDI in MERCOSUR countries at this period amounted to less than \$25 billion (Dias 2002, 69). This can also be viewed as an EU incentive for MERCOSUR to keep the bloc working, due to the Argentine threats to leave the Common Market. The EU leaders who want to preserve their strategy of regional dialogues have made it clear that if this regional scheme breaks down, the EU will not sign a trade agreement in individual form, the complete opposite of the American policy (Santander 2002, 496).

This is supported by the EU External Relations Commissioner at the time, Christopher Patten, in his statement to the Plenary Session of the European Parliament on September 2002, where he reaffirms the EU's commitment to MERCOSUR even during a height of the economic crisis: *MERCOSUR's financial decline has intensified during summer. The EU and the Commission are concerned at the financial turbulence which is affecting the entire MERCOSUR region... The commission is convinced that one of the answers to the financial and economic turbulence should be deeper and faster regional integration. The European message of support for further integration as one of the responses to the present crisis is confirmed by our strong commitment to intensify and accelerate negotiations for an Association Agreement between the EU and the MERCOSUR*(EC: Statement by C. Patten 25.9.2002).

In the EU-MERCOSUR fifth round of negotiations in July 2001, three months after the FTAA first draft was conceived, the EU unilaterally presented to MERCOSUR the tariff offer and negotiation texts for goods, services and government procurement. Manet underscores that presenting an agreement offer unilaterally is exceptional, and rarely done in negotiations' processes, since both parties want to hold on to their "bargaining chips" until the last moment. Nevertheless, the EU was concerned with the FTAA progress, and wanted to equip MERCOSUR with a just and demanding offer for their next FTAA negotiations. MERCOSUR appreciated very much this political gesture by the EU in a delicate moment of the regional integration process, and considered it a strong support of the EU to the MERCOSUR bloc. MERCOSUR did use this offer as a platform for demands within the FTAA (Manet 22.11.06; EC: The EU's Relations with MERCOSUR: EU-MERCOSUR BNC – account of the first 13 rounds). This proves the EU's enthusiasm to reach an agreement with MERCOSUR before the US. Moreover, it demonstrates the EU's soft power – its ability to influence the occurrence within the FTAA, and shape MERCOSUR's involvement in the hemispheric scheme.

Although the EU made clear its wishes and prospects for closer partnership with Latin America in 1995 for the following years 1996-2000, the first EU-Latin America summit was held only in June 1999. Forty eight Heads of State and Government of the EU, Latin America and the Caribbean have participated in the Rio de Janeiro summit in Brazil. The summit was described as *the first family get-together in 500 years* since it brought together the heads of state and government of both European and Latin regions. In Müller-Brandeck-Bocquet's view it gives new form to a region-to-region dialogue, advancing a multipolar world order agenda (Müller-Brandeck-Bocquet 2000, 571).

On November 2000 Patten visited Chile and expressed the importance of the EU-Latin America relations. A part of his speech was dedicated to the special and strategic EU-MERCOSUR ties. Patten expressed the EU's support for MERCOSUR and Latin America, and its willingness to assist MERCOSUR technically and economically in order to realize the Customs Union's stage. Patten offers *many lessons which Latin America can learn from our successes and mistakes in Europe. But Latin America will only be able to draw on our experience if we offer enough political backing and technical expertise to the different regional groups... Let me make a special reference here to the strengthening of MERCOSUR. This is a priority for us. We will continue to support MERCOSUR's integration efforts. Notably in areas such as services and procurement. We have valid experience to share in such areas as the creation of neutral bodies for the resolution of disputes. We will also continue encouraging MERCOSUR's enlargement. The possibilities of success of MERCOSUR reach well beyond the economic realm: MERCOSUR has the capacity to become a pillar of political stability within the whole Latin American region. In that context, I would like to emphasize the EU's and my own support for the integration of Chile within MERCOSUR<sup>20</sup>. He concluded: *The negotiations for Associations agreements with MERCOSUR and Chile are at the core of this new partnership between the EU and Latin America. These negotiations are one of the most important priorities for us. We in the EU- are determined to reach a prompt and successful conclusion for these negotiations* (EC: Speech by C. Patten 10.11.2000).*

Freres stresses that an EU-Latin American partnership will establish solid credentials for the EU's role as a global civilian power. This has strategic importance for Latin America too, for it also seeks a multilateral order built on principles of diplomacy, economic cooperation and nonintervention. The EU offers the Latin continent a possible alternative for leadership, over the medium term (Freres 2000, 79).

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<sup>20</sup> The underlines were kept from the original text.



Although the summit was criticized for its vague objectives of the proposed strategic partnership, it succeeded in “reinforcing their own position in the international system” and regain influence by the EU on the entire region (Muller-Brandeck-Bocquet 2000, 572). The fact that the EU initiated a bi-continent summit in the midst of a crisis period in South America, the fact that it excluded its ally, the US, but included the latter’s foe Cuba, and the fact that this initiative was carried out in the peak of the FTAA negotiations, raises questions regarding the European interest standing behind this initiative. It can be a signal to the Latin American nations that they have an alternative to their “backyard keeper”.

The economic rationale of the EU attempts and the practicality of its support to MERCOSUR cannot sufficiently explain the formers interest in the latter. MERCOSUR was in a state of crisis, and trade activities between the EU-MERCOSUR have deteriorated (see Chart 1 in Chapter 3 or Appendix C for full details). Why then should an economic crisis zone be of interest to the EU? My explanation is that the EU did not want to “lose” MERCOSUR to the FTAA, for economic reasons, but mostly for political ones. The relation between the EU and MERCOSUR is somewhat like that of teacher and protégée. Naturally, the EU is interested in MERCOSUR’s success, since it would indicate on the quality of the teacher. The comprehensive bilateral agreements reflect the fact that the EU would like to influence as many aspects (political, economic, technological) of MERCOSUR as possible, and cares for its success. During the economic crisis, the EU repeatedly stressed the importance of a solid MERCOSUR and promoted a two bloc association. This is reflected in the speeches during the crisis: *...During the 1980s Europe continued investing in the region, while other partners decided to pull back, We were a ‘bad weather friend’ then. We continued giving our full support to MERCOSUR during the phase of*

*democratic and economic restructuring of the 1990s. And of course most recently during the first ever EU-MERCOSUR Heads of State and Government meeting in Rio de Janeiro in June 1999 (EC: Speech by C. Patten 7.11.2000).*

To conclude this period, the political and economic crisis in Argentina had negative repercussions on the US relations with the region. The fact that the Bush administration signaled often during the crisis that Argentina has to survive on its own, according to American and international bodies' implications, calls into question the reliability of the US as an ally. This reaction drew Argentina to forge closer ties with MERCOSUR member countries and the EU, both parties which gave Argentina moral, political and economic support. This situation, then, has given a political boost to the importance of MERCOSUR (Santander 2002, 501).

Brazil saw the strengthening of MERCOSUR as a crucial first step towards further South American integration, and thus had strong incentives not only to avoid re-igniting historical bilateral rivalries but also to overcome the recurrent commercial and diplomatic disputes during the 1999–2002 phase (Mera 2005, 131-132). It therefore accepted the Argentine repeating requests for more flexibility.

The political economic crisis can be perceived as a constitutive event for both countries, Argentina and Brazil, recognizing MERCOSUR as an essential instrument for increasing bargaining power in multilateral, hemispheric and inter-regional negotiations. Mera claims that it was eventually in both countries' strategic interest to keep the project of integration alive. As the commercial relevance of the bloc weakened in importance, negotiating access to developed countries' (and particularly European) markets became essential (Mera 2005, 138).

#### 4.4 The Rocky Road to an EU-MERCOSUR Free Trade Area (2003-2006)

*MERCOSUR is the best possible example of the European regional integration model, taken to an international level as the most adequate instrument for the promotion of growth, prosperity, social cohesion and multilateralism<sup>21</sup>*  
(L. Rachid, May 2005)

The fourth and last period of this study is characterized by the stalled negotiations in the FTAA framework. The eighth FTAA ministerial meeting held on November 2003 revealed profound disagreements between the US on the one side, and Argentina, Brazil and Venezuela on the other side. The EU-MERCOSUR bi-regional negotiations have not gone far in this period, as well. The slowdown in both negotiations is partially related to the Doha round, which completion date was set for January 2005. The designated dates of the end of the Doha round and completion of the FTAA (both by 2005), according to Lee, reflect the American trade strategy, designed to advance the Doha agenda, as many developing countries will fear that Latin America will gain preferred access to the US market at their expense (Lee 2004, 43). The Doha trade negotiations revealed not only the ongoing North-South divide or the confidence of the developing countries in their rejection of a deal that they viewed as unfavorable, but also the tensions and hostility which arose between the US and the EU.

On Monday 24 July 2006, WTO chief Pascal Lamy formally suspended the Doha Development Round, bringing five years of negotiations to a dead-end. The hostility and antagonism between the EU and the US reached its peak following this suspension. Each blamed the other for the failure to conclude a deal on global trade liberalization. The EU

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<sup>21</sup> Translated from the speech of the Ambassador Leila Rachid de Cowles, Minister of Foreign Relations of the Republic of Paraguay in MERCOSUR.

Trade Commissioner Peter Mandelson said that *other negotiators, to a greater or lesser extent, also showed flexibility on areas where they had acute defensive concerns, be it in agriculture or industrial tariffs... But the United States, I regret to say, showed no flexibility at all in the end on the issue of domestic subsidies in agriculture.* Susan Schwab, the US Trade Representative, responded by saying that Mr. Mandelson's statement was an attempt *to divert blame for the stalemate and is false and misleading.* She reminded that the EU *has average agricultural tariffs twice those in the US and domestic supports three times greater than the US.* She said that the US had *"put forward the most bold agriculture proposal advanced to date* but that the EU had been *unable to endorse the US proposal given substantial opposition from France and a few other member states with strong farm interests* (EurActiv.com 20.9.2006).

Like the US, the EU links the progress of forming a Free Trade Area with MERCOSUR to the progress of the Doha round negotiations. Both negotiations were stalled since 2003. The deadline of the FTAA negotiations – January 2005 – was not met and is unlikely to be resurrected. The EU and MERCOSUR waited the Doha round to conclude in order to finalize the bilateral negotiations. In the former's vision, the WTO outcomes, which define multilateral concessions, would become the new baseline for the EU-MERCOSUR discussions – a prolonged version of what would be accomplished at the Doha round (Guerrieri, 2005). However, since the Doha negotiations did not conclude in the expected timeframe, the EU has shown signs of reviving its negotiations with MERCOSUR. The European Parliament voted on October 2006 for the promotion and the revitalization of the Interregional Association Agreement.

### **The fading FTAA or back to the Hub and Spoke model**

The eighth FTAA ministerial meetings revealed profound disagreements between the US and the two major members of MERCOSUR. Grugel explains that agriculture has been excluded from the negotiation agenda and the US has refused to review its commercial defense legislation. Hence, the US concessions in market access have been limited and have been presented as a reward for conscientious adherence to liberalization. At that point, the Latin American nations felt ambiguity as to whether the sub-regional associations are whole hearted in their endorsement of neo-liberal development, especially if it does not win them access to global, preferably US markets. MERCOSUR, in particular, represents a more mixed approach to development, based on a combination of tariff protection alongside strategic liberalization (Grugel 2004, 609-610).

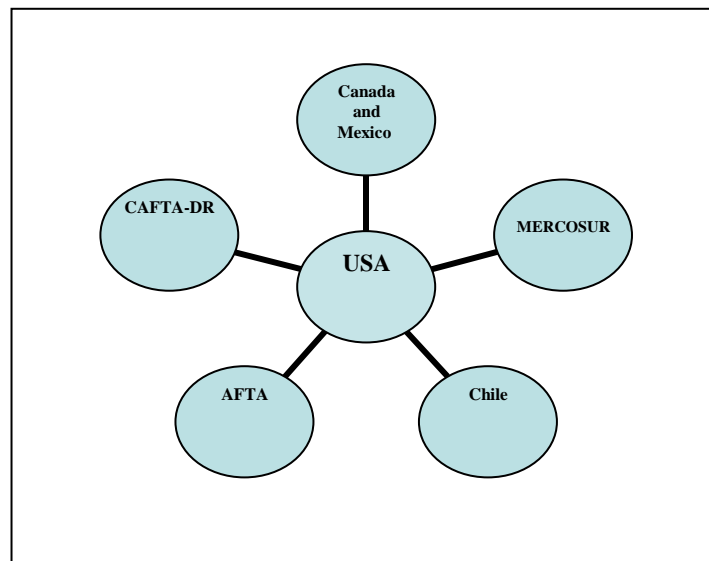
As a result, the pace of the FTAA negotiations has gradually slowed and almost came to a halt. Since the MERCOSUR members were the strongest opponents to the FTAA, it left the US no choice but return to the Hub and Spoke economic strategy, in which the Latin American countries would be the spokes again (see Figure 3). This is when the US launched negotiations bilaterally with Latin American trade blocs, such as with the Central American Free Trade Area and Dominican Republic, CAFTA-DR, on January 2003 and with members of CAN<sup>22</sup> – the US-Andean Free Trade Area (AFTA) on May that year (Santander 2002, 495). The US viewed these agreements as a strategy to gain access to markets before others do. This can be learned from a discussion paper presented by the Republican Policy Committee on June 2005, just before signing the CAFTA-DR agreement. One of the arguments that encouraged the expansion of free trade throughout

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<sup>22</sup> At this point, negotiations took place only with Ecuador, Peru and Colombia. Bolivia was to join in a later stage. Venezuela renounced its membership in CAN on April 2006.

the Americas stated that *in light of free trade talks by some South American countries (i.e., MERCOSUR) with the European Union and by Chile and Brazil with China, a failure to pass DR-CAFTA could place the United States at a competitive disadvantage in our own hemisphere* (Republican Policy Committee, 2005).

**Figure 3: Back to the Hub and Spoke model**



Vizentini stresses in his article the dissonance of MERCOSUR's joining the FTAA. On the one hand, merging MERCOSUR into the hemispheric integration, led by the first world power could cease its existence. Brazil, the principal member of the MERCOSUR, wants to lead the economic integration process and negotiate with the US after having consolidated a South American bloc. On the other hand, MERCOSUR cannot let this opportunity pass – some even claim that Brazil might find itself isolated. He goes on to say that only a strong and highly integrated MERCOSUR would be viable for such negotiations. In this context, Brazil's reaction to the advanced negotiations of the FTAA was to foster South American Free Trade Area integration (SAFTA), which was first

introduced in the Brasilia Summit, in December 2000. Although it surprised some analysts, Brazil's main motivation was the search for (southern) alternatives for the FTAA (Vizentini 2002, 60-61).

### **The demise and revival of the EU-MERCOSUR bilateral negotiations**

The launch of the 2002-2006 MERCOSUR Regional Strategy Paper (RSP), the stalled negotiations since the last Bi-regional Negotiations Committee (BNC), which took place on May 2004, and the recent call for reviving and finalizing the bi-regional agreement can outline the EU-MERCOSUR relations over this period as a U-shaped curve.

In 2002, the EU launched the 2002-2006 RSP, which provided the overall strategic framework for EU relations with MERCOSUR for those years. The RSP states as its overall objective supporting the creation of the MERCOSUR common market as a precondition for finalization of the bi-regional negotiations and for the sustainability of the inter-regional association. It also confirms the areas of intervention already laid out in the MoU, but alters the order of priorities, which for the period 2002-2006 are now: (a) completion of MERCOSUR's internal market; (b), enhancement of the institutionalization of MERCOSUR, and (c) the regional and international openness of MERCOSUR (EC: Evaluation of the EC support to MERCOSUR 2004).

The RSP includes a chapter dealing with the Regional Indicative Program (RIP) for MERCOSUR in those years. This program, aimed to invest €48 million in completing the MERCOSUR internal market, in building the block's institution and in the civil society. Patten commenting on the decision said: *The region at this very moment faces serious economic*

*and political challenges. In this situation it is important that we continue supporting our partners. This is our response to the MERCOSUR regional integration process, accompanying ongoing negotiations for the Association Agreement and responding to high expectations of civil society in both regions. The RIP follows a threefold strategy consisting of (1) support for the completion of the internal market of MERCOSUR, (2) strengthening MERCOSUR institutions and sectoral policies and (3) improving possibilities for civil society actors to actively contribute to further integration and to the EU-MERCOSUR relations (EC: EC Adopts Regional Program in Support of Further MERCOSUR integration 2002).*

Santander reviews the EU's support to MERCOSUR: First, the EU financially supports internship programs of MERCOSUR civil servants in the various EU institutions. Moreover, it supports the presidency of MERCOSUR and its agenda as well as promotes institutional relations between European bodies and their counterparts in MERCOSUR – the two commissions, the European Economic and Social Committee (EESC) and MERCOSUR's equivalent, Foro Consultivo Económico-Social (FCES) which was created in the inspiration and assistance of the EU (Santander 22.11.06).

Substantial progress in the trade chapter and the hope that the Doha round will be concluded in short time allowed both parties to realistically envisage a conclusion of negotiations by the end of October 2004. However, on 20 October 2004, at the occasion of an EU-MERCOSUR trade negotiators meeting on a ministerial level in Lisbon, Ministers concurred that the offers on the table did not reach the level that both parties expect from this agreement and decided to give negotiations more time. Despite attempts to re-engage the process, negotiations were stalled. Only discussions at the technical level persisted (EC: Trade Issues).



According to Gabriel Martinez, the Deputy to the Argentine Ambassador to the EU in Brussels, the EU links the EU-MERCOSUR negotiations to the Doha rounds. Since the EU views the bi-regional agreement as “Doha plus”, and the Doha rounds are stalled, it is difficult to define the “plus”. MERCOSUR on the other hand, does not tie the bilateral negotiations to the WTO talks. Martinez explains that MERCOSUR succeeds today to export beef, for example, four times above the EU’s quotas. Hence, it expects from the EU to open the quotas at least four times more than agreed today, whatever happens at the Doha round (Martinez 22.11.06).

Martinez has another explanation to the stalled negotiations between the EU and MERCOSUR. In his view, once MERCOSUR renounced its participation in the FTAA negotiations, the EU was relieved and wooing MERCOSUR became less urgent. Moreover, MERCOSUR is more resistant to the FTAA offer than to the European one – another reason for the EU to slow down (Martinez 22.11.06). In other words, the EU felt, at this point, that it had a double success – drawing MERCOSUR closer to the EU and strengthening the bi-regional partnership, as well as intervening in a roundabout way in the American scheme via MERCOSUR to the benefit of the EU.

Nevertheless, towards the end of 2006 the European Parliament suggested to revive the EU-MERCOSUR negotiations, and voted to speed trade treaty with MERCOSUR. An overwhelming majority in the Parliament approved a report, written by Daniel Varela, member of the European Parliament, calling on the EU to reach a Free Trade Area with MERCOSUR. In this report Varela highlights the future access to *a market of 230 million people*, which will make it *the world’s largest market with 700 million people* (Mercopress October 12, 2006). His report defines the agreement as the priority “strategic aim” of all

the EU external trade issues in the medium term as will establish the largest interregional Free Trade Area in the world, increasing the economic growth and the competitiveness of both regions. Moreover, Varela calls for *a stronger commitment and political impulse from the highest level, as well as the establishment of a timetable leading to the conclusion of the negotiations as soon as possible* (Varela 2006).

### **The Expanding MERCOSUR**

The change in Argentina's foreign policy in the post-crisis period pleased Brazil, but worried the US, which perceived Argentina as a strategic partner and a balance to Brazil. The MERCOSUR integration strengthens the Southern Cone, whereas the Argentine-US alliance weakens it and enables a stronger US in the region. This led to an even more ambitious idea – creating the SAFTA, which intends to integrate MERCOSUR and CAN. In the second summit of MERCOSUR and CAN, protectionist policies of the US and the EU were criticized, however the MERCOSUR countries made it clear they wanted the EU to be more involved in Latin America (Santander 2002, 502).

Thus, discussions concerning an extended MERCOSUR or the combining of MERCOSUR and CAN led to the creation of the South American Community of Nations or the Comunidad Sudamericana de Naciones (CSN) on December 2004. The CSN aims to eliminate tariffs for non-sensitive products by 2014 and for sensitive products by 2019. Moreover, the decision was meant to develop a South American integration in the political, social, economic and infrastructure realms, to create a community that strengthens the identity of South America, and to provide magnitude influence in the international sphere. The Leaders announced their intention to model the new community

after the EU, including a common currency, parliament, and passport (Comunidad Andina).

According to Grugel, MERCOSUR is now aiming to deepen and widen economic intercourse within South America, in order to offer its neighboring nations an alternative to the FTAA. As such, it is becoming an attractive partner on other region-to-region alliances that aim to rival or contest the US dominance of the South America realm (Grugel 2004, 611). A support to this claim can be found in a speech given by the secretary of the committee of representatives of MERCOSUR, Carlos Alvarez. He stated that *the countries of MERCOSUR can have trade agreements with third parties, but what they cannot have is a Free Trade Area with the US, orthodox agreements, like those signed by Peru and Colombia*<sup>23</sup> (La Gaceta, 2006).

At a later stage, Argentina invited Venezuela to join MERCOSUR, after it joined the bloc as an associate member in July 2004. Wiesebron states three reasons for this invitation: (1) Argentina wanted another big member in MERCOSUR, so together they could counter-balance Brazil; (2) Venezuela paid a large part of Argentina's debt to the IMF, stating that this will help Argentina to end its dependence on the IMF<sup>24</sup>. Hence, in a way, it's a gratitude gesture of Argentina to Venezuela; and (3) it can also be perceived as a way to keep Venezuela democratic. By appending her to the democratic group of nations, it is easier to influence and to moderate her (Wiesebron 1.11.06)<sup>25</sup>. Following the Argentine

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<sup>23</sup> Translated from the speech of the secretary of the committee of representatives of MERCOSUR, Carlos Alvarez (2006).

<sup>24</sup> For more details see Baribeau's article from 21.12.2005 in Venezuelanalysis.com.

<sup>25</sup> See also Pedro Isern Munné in "El Ingreso de Venezuela al MERCOSUR", 13.12.2005, [http://www.cadal.org/articulos/nota.asp?id\\_notas=1065](http://www.cadal.org/articulos/nota.asp?id_notas=1065).

invitation and discussions in the MERCOSUR level, Venezuela was accepted by consensus as a full member in July 2006.

The post-crisis period of MERCOSUR and its following revitalization reinforces the fact that the crisis period was in a way a formative event. Since overcoming the crisis, MERCOSUR has become a stronger version of the old integration bloc. Five main events can explain it: (1) The withdrawal from the FTAA scheme and the fact that its finalization was halted due to MERCOSUR members' rejection of it; (2) The changing Brazil and its acknowledgement that in order to create a larger and stronger MERCOSUR it must take a softer stand toward its partners; (3) The joining of Venezuela, the world's fifth largest oil producer and the continent's third largest market, as a full member to MERCOSUR; (4) MERCOSUR's aspirations to unite itself with CAN via a single currency, and together to turn into *a single free trade association with formidable power in the world* in the words of Gargano, Uruguay's Foreign Minister (Wilpert 16.10.2005) and (5) The revival of the EU-MERCOSUR negotiations towards a bi-regional Free Trade Area.

A stronger and bigger MERCOSUR pleases the EU and is of a threat to the American soft power. The EU views MERCOSUR as a reflection of its own model, thus a successful MERCOSUR is a supporting proof of EU's integration model. According to Santander (2002, 495), the European objective is to conquer new markets, but also to export the EU's model of regional integration and governance. The European strategy aims to develop a vigorous dialogue between regional groups and to strengthen regional schemes in order to shape a less asymmetric world.

## 5

### Discussion and Conclusion

The post-Cold War international system is characterized, among other things, by a change in the balance of power. Many studies deal with the hegemon's relations with secondary powers, however very few take into consideration the relation of the hegemon with tertiary powers, and fewer yet address the more complex relationships in which several power levels are involved. In this context, the possibility of balancing the hegemon and in particular the role of soft power in attempting such balance is of great interest.

In this study I argue that it is fruitful to move beyond the separate examination of dyadic relations of the hegemon and secondary (or tertiary) powers and to conceptualize the power relations in a triadic framework. In this framework the actions of any actor are likely to have implications for the relationship between the other actors in the system. Three sub-hypotheses are derived from this general proposition. The first is that actions of the hegemon may serve as a trigger for secondary and tertiary powers to cooperate. The second hypothesis is that secondary powers challenge the hegemon, utilizing their relations with tertiary powers, in order to play a more significant role worldwide. The third hypothesis is that tertiary powers strengthen their relations with secondary powers in order to improve their regional position vis-à-vis the hegemon.

Before discussing the conclusions and the implications of this study, it will be helpful to present a short summary of the case study and its central findings. The triangular relations between the US, the EU and MERCOSUR were at the focus of this study. The timeframe was defined from MERCOSUR's creation until 2006. The study was divided into four

periods and the most important occurrences of the triangular relationship were presented and discussed. Evolvement of negotiations, speeches and common institutions and agreements were among those being examined.

I found that cooperation with the EU is perceived by MERCOSUR as a means for improving its bargaining position, vis-à-vis the US. At the same time the cooperation with MERCOSUR is perceived by the EU as a way of challenging the hegemon. Moreover, the actions taken by the EU to strengthen its relations with MERCOSUR were very much in accordance with the US level of involvement in South America (in particular with MERCOSUR). The greater the US involvement and attempts to influence economic and political structures in the region, the more the secondary and tertiary powers – the EU and MERCOSUR – cooperate in order to strengthen their global and regional position and weaken the hegemonic endeavor. The following pages discuss the findings of the case study in light of the theoretical and the hypotheses listed at the outset.

### **(1) Hegemon-tertiary relations as a trigger for secondary-tertiary relations**

With regard to the first hypothesis which assumes that relations between secondary and tertiary powers are triggered by the hegemon-tertiary power relationship, I found that the EU's actions towards MERCOSUR are influenced by the type of US-MERCOSUR interactions. When relations between the hegemon and MERCOSUR have a cooperative characteristic, as in the first and second periods, the EU is strongly motivated to promote the bi-regional relations. When relations between the hegemon and MERCOSUR are more conflictual as in the third period, and even to a larger extent during the fourth period, the EU initiatives seem to slow down as well. This becomes apparent in the fourth period

when the EU-MERCOSUR trade negotiations were stalled after MERCOSUR withdrew from the FTAA negotiations. At this point the EU appears to be less anxious than before to reach an agreement with MERCOSUR due to the fact that the FTAA is currently adjourned. Nevertheless, the EU remains supportive of the bloc and uses the conflictual relationship between the US and MERCOSUR to its benefit. The EU still signals MERCOSUR that it is an alternative partner to the US.

Although it may seem that during a conflictual period between the US and MERCOSUR, the EU can use this opportunity in order to expand its influence in South America, in action, it does not take advantage of the situation in order to finalize the inter-regional agreement. Going beyond the EU's *most ambitious offer ever made in a bilateral negotiation*<sup>26</sup> is too costly at this stage, when the EU lacks a real threat of the US negotiating with MERCOSUR and has already triumphed in the "political battle" since the halt of the FTAA negotiations. In these circumstances, the EU focuses on strengthening MERCOSUR's political organs and deepening its integration. The signing in December 2007 of a new Regional Indicative Program for 2007-2013 reinforces the eagerness of the EU to renew its commitment to MERCOSUR by supporting its institutions, its social dimension as well as in the fields of environment, agriculture, sanitary and phytosanitary measures and technical standards (MERCOSUR-EU Joint Communiqué, Dec. 2007).

Table 3 summarizes these dynamic of relations.

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<sup>26</sup> Cited from the European Parliament resolution on economic and trade relations between the EU and MERCOSUR with a view to the conclusion of an Interregional Association Agreement (2006/2035(INI), <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P6-TA-2006-0419+0+DOC+PDF+V0//EN>).

**Table 3: Summary of the US-MERCOSUR relations versus EU-MERCOSUR relations during the four periods under study**

	<b>US-MERCOSUR</b>	<b>EU-MERCOSUR</b>
<b>First Period</b> <b>1991-1994</b>	Various US offers to MERCOSUR – WHFTA, Four Plus One – on the bilateral level (country-country as opposed to country-bloc) NAFTA is the model  <i>Cooperative characteristic</i>	The EU provides economic technical institutional support to MERCOSUR The EU is the model  <i>EU-US Competitive characteristic</i>
<b>Second Period</b> <b>1995-1998</b>	Initiation of the FTAA negotiations – hemispheric negotiations of 34 countries. The US anticipates MERCOSUR’s involvement, however as four single nations – a strategy to weaken MERCOSUR  <i>Cooperative characteristic</i>	The EU aims to strengthen MERCOSUR by conditioning the bi-regional meeting and framework agreement on the MERCOSUR nations’ ratification of the Treaty of Ouro Preto  <i>EU-US Competitive characteristic</i>
<b>Third Period</b> <b>1999-2002</b>	The US takes a tough stand towards Argentina during the economic crisis; It tries to benefit from the delicate situation by tying the MERCOSUR countries closer to it via different offers (Argentina is offered a membership in NATO as an observer, Uruguay was sought to favor the FTAA rather than MERCOSUR); FTAA negotiations continue  <i>Between Cooperative and Conflictive characteristic</i>	The EU takes a softer stand towards MERCOSUR during the economic crisis; Still supports the bloc and conditions a future bi-regional free trade agreement on the continuation of MERCOSUR as a bloc, a Customs Union; The EU presents unilaterally an offer to MERCOSUR  <i>EU-US Competitive characteristic</i>
<b>Fourth Period</b> <b>2003-2006</b>	MERCOSUR members disapproved the FTAA The US is back to the hub and spoke model, and negotiates on a bilateral base  <i>Conflictive characteristic</i>	EU-MERCOSUR trade negotiations stalled. It is renewed only towards the end of 2006 The EU still supports MERCOSUR’s institution, in this period in the framework of the RSP 2002-2006  <i>EU-MERCOSUR Negotiations slow down</i>

**(2) How does the EU utilize MERCOSUR to soft-balance the hegemon?**

The second hypothesis that was derived from the general hypothesis is that secondary powers soft-balances the hegemon in order to play a more significant role world-wide. In relation to this hypothesis, I found that the EU indeed uses Latin America, and to a larger extent MERCOSUR, in order to elevate its international status.



Going back to Nye's definition of soft power – *the ability to get what you want through attraction rather than coercion or payments* – the EU certainly encouraged MERCOSUR to follow its lead. This is not to say that their interests did not coalesce. Yet, the outcome is as follows: MERCOSUR is a Customs Union and not a Free Trade Area, hence, it preferred the European model over the NAFTA model. MERCOSUR curbed the FTAA plan. This is a very important point, since it is the only bloc in Latin America that does not have a free trade agreement with the US<sup>27</sup>. MERCOSUR did not disintegrate in the period of crisis although it was a very close call. This is related, among other reasons, to the fact that the EU set the continuing existence of the bloc as a pre-condition for on-going negotiations with MERCOSUR. Eventually, MERCOSUR grew stronger and expanded: Venezuela joined it as a permanent member, and CAN and MERCOSUR agreed upon creating a Free Trade Area by 2014. These developments were in line with what the EU had stipulated and were achieved through its support.

Why should the EU-MERCOSUR relationship be considered a form of soft-balancing as opposed to mere economic competition? First, since this relationship is considered a “strategic partnership” and not only a Free Trade Area initiative. All EU-MERCOSUR agreements were political as well as economic. MERCOSUR was massively supported by the EU from its very beginning, and was encouraged to adopt the EU economic-political model. Furthermore, most of the EU-MERCOSUR agreements and developments were made in close proximity to US initiatives (usually shortly after). Second, the EU succeeded in influencing the events of the Western Hemisphere. Strengthening MERCOSUR led to the downfall of the American FTAA initiative and to smaller victories

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<sup>27</sup> Besides CARICOM (Caribbean Community) which is negotiating a Free Trade Area with the US.

on the way, such as bringing the US to agree that MERCOSUR nations would negotiate as a bloc. Had the FTAA succeeded, it could have influenced the WTO negotiations to the benefit of the US. Hence, the EU succeeded in restraining the US hegemony via its relations with MERCOSUR. At the same time it strengthened its own position in the American continent and in the international community as a powerful economic-political role model. The EU used political-diplomatic means and tertiary powers to soft-balance the hegemon, or what Joffe calls politico-diplomatic balancing. Third, the EU supports a strong MERCOSUR, knowing that the US prefers a weak MERCOSUR. A strong southern bloc is a threat to the implementation of the FTAA and to the US position in the continent. However for the EU it is a strategy used to balance the hegemon's power. Fourth, the EU initiated EU-Latin American summits in the midst of the OAS-FTAA summits. This can be viewed as a signal to all Latin American nations, including Cuba, that the EU can serve as their alternative partner.

The EU seeks to use its economic-political-cultural power to influence other regions, and to elevate its global role and leverage its negotiating power. Although the EU and the US share similar values and political ideologies, they have drifted apart during the last decade. They mainly differ in their political culture: multilateralism versus bilateralism (and unilateralism); civilian power versus military power; dialogue and negotiations versus the threat of use of force (or the use of force). The EU's ambition is to be perceived internationally as a "civilian power" or as a "non-military power", and is therefore keen to export its political culture and values along with its economic-political model. Persuading others to adopt its model and its set of values (as opposed to those of the US) indicates that the EU's soft power is effective. Some suggest that this is part of the EU-US race to

see who can sign the most advantageous Free Trade Agreements with developing countries<sup>28</sup>.

The triangular relationship between MERCOSUR, the EU and the US permits us to examine the different orientations of Europe and of the US in the context of soft power. By means of soft power, the EU draws MERCOSUR to its realm at the expense of the latter's relation with the US. Indeed, these developments are challenging the Monroe Doctrine and hegemonic aspirations of the US today in the Latin American continent.

### **(3) MERCOSUR – improving its regional position**

The third hypothesis I examined in my study was that in a unipolar world tertiary powers will strengthen their relations with secondary powers in order to better their regional position. Regarding this hypothesis, I found that MERCOSUR, mainly Brazil (and in a later period Argentina), was keen to tighten relations with the EU, and saw it not only as a role model for the evolvement of MERCOSUR, but also as a very important alternative to the US partnership.

The US hegemony in the continent is perceived as an economic and political threat by MERCOSUR members, especially by Brazil. Had the US initiatives (the WHFTA, Four Plus One, and the FTAA) in the Western Hemisphere succeeded, they would have weakened the Southern bloc. This would have led MERCOSUR members back to the “old days” of dependency on their “big neighbor”. The EU, by contrast, is perceived as less intimidating than the US, since it is located on a different continent and since it strongly

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<sup>28</sup> See for example Kagan 2002 and Torrelli 2003.

supports MERCOSUR. Even Argentina, who has been historically affiliated with the US, and has been Brazil's rival, has realized during its economic crisis and after several attempts during the 1990s to collaborate with the US, that the latter is not a partner on which it could rely. Like Brazil, it realized in the dawn of the 21<sup>st</sup> century that collaborating with the EU is more beneficial, and would advance its internal and regional position. In dealing with Brazil, Argentina found alternative means of coping such as inviting and supporting Venezuela's joining MERCOSUR.

To summarize this point, in strengthening its relations with the EU, MERCOSUR not only gained a better structured economic bloc, improved its infrastructure and institutions and achieved steadier relations in the bloc. It also gained a stronger position with regard to its negotiations with the US, in which it eventually did not concede to the FTAA scheme. European support of the MERCOSUR bloc added to its leverage in the continent.

### **Concluding remarks**

Including tertiary powers in the balance of power debate enables researchers to view the dynamics of power in a more comprehensive way. It provides a way of capturing the complexity and the range of maneuvering on the part of both tertiary and secondary powers in the unipolar system. A broader definition of balance of power intends to better explain the nature of relations of various levels of power, in a hegemonic system, in which the other powers do not face existential threat, but want to improve their international and regional leverage.

One might argue that the triangular relationship observed and discussed in this study represents narrow economic interests and the attempt of each of the actors to maximize trade related profits. Indeed, economic motives were clearly present and much of the negotiations addressed economic issues. Yet, one cannot ignore the political and strategic interests that were at play. The FTAA negotiations were viewed by the US as a component of its global strategy through its potential affect on the Doha round outcomes. Its importance went beyond trade relations with MERCOSUR and Latin American countries. For the EU as well, relations with MERCOSUR were part of its strategy to export the idea of civilian power and its political structure to other regions of the world.

The external validity of the conclusions derived from this case study cannot be established here. However, it is suggested that future research continue investigating the evolving relations between secondary and tertiary powers as a means to soft-balance the hegemon. One of the most interesting “triangular relationship” in this context is that of the US, MERCOSUR and China. During the last few years, China’s presence in the Latin continent grew, mainly in the MERCOSUR countries. Economic agreements have been signed between China and most South American countries; however its involvement in the continent can be seen in the political sphere as well<sup>29</sup>. Zerui claims that enhancing trade and investments in the Latin American region, could be China’s strategy to weaken the FTAA project, in which its “negative consequences will outweigh the positive effects” on China (Zerui 2004).

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<sup>29</sup> See for example the following internet sites which stress China’s growing relations with Latin America and MERCOSUR: <http://www.mercopress.com/Detalle.asp?NUM=8609> (accessed September 5, 2006), <http://www.mercopress.com/Detalle.asp?NUM=8906> (accessed October 15, 2006) and [http://www.chinadaily.com.cn/english/doc/2005-12/10/content\\_502314.htm](http://www.chinadaily.com.cn/english/doc/2005-12/10/content_502314.htm) (accessed November 5, 2006).

More broadly the approach outlined in this study can be a useful tool for incorporating tertiary actors in the analysis of the balance of power and can provide a more refined picture of complex relations that cut across various power levels. Applying this to different cases of triadic relationships can provide a useful comparative understanding of the conditions under which soft power is more or less affective.

## Appendices

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### Appendix A: Latin American Historical Events

1823	—	<b>Monroe Doctrine</b>
1826	—	<b>Congress of Panama</b> , the 1 <sup>st</sup> hemispheric conference; initiated by Simon Bolívar
1889	—	<b>Pan-American Union</b> created to promote international cooperation
1948	—	<b>The Organization of American States (OAS)</b> was created
1959	—	<b>The Inter-American Development Bank (IDB)</b> was established
1960	—	<b>Latin America Free Trade Association (LAFTA)</b> was formed
1969	—	<b>The Andean Community of Nations (ACN/CAN)</b> was created following the signing the Treaty of Cartagena
1975	—	<b>The Latin American Economic System (LAES/SELA)</b> was established
1986	—	<b>The Rio Group</b> arose
1988	—	<b>Treaty of Integration, Cooperation and Development</b> Argentina and Brazil signed an agreement that stated that they will become a FTA in ten years
1989	—	<b>NAFTA negotiations started</b>
1990	—	<b>WHFTA or EAI</b> initiation (June)

**Appendix B: EU versus US FDI flows and stocks in MERCOSUR<sup>30</sup> (detailed tables)**

FDI flows in the host economy, by geographical origin (Millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Argentina</b>													
EU	-	-	1603	509	1060	1192	2404	4475	4636	19890	8341	2375	-940
US	-	-	1105	1555	1714	2303	2190	3074	1352	3763	1142	22	-543
<b>Brazil</b>													
EU	164	325	375	409	734	-	3130	4848	14537	14962	19542	10583	9816
US	145	462	1009	473	1477	-	1975	4382	4693	8088	5399	4465	2615
<b>Paraguay</b>													
EU	47	22	33	15	23	30	45	37	48	22	16	7	-
US	3	13	14	9	11	25	32	109	158	20	51	-8	-
<b>Uruguay</b>													
EU	-	-	-	-	-	-	-	-	-	-	-	-	-
US	-9	91	81	12	-	-	39	77	86	135	9	-15	33
<b>EU in MERCOSUR</b>	-	-	2011	933	1817	-	5579	9360	19221	34874	27899	12965	-
<b>US in MERCOSUR</b>	-	-	2128	2037	3202	-	4197	7565	6203	11871	6592	4479	-

<sup>30</sup> UNCTAD. Country Fact Sheets. FDI.



FDI stocks in the host economy, by geographical origin (Millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Argentina</b>													
EU	-	-	6161	6634	8131	9182	11132	14836	17689	28634	33728	35291	17003
US	-	-	5762	6757	8253	10376	12226	14775	17109	20435	20825	20576	9627
<b>Brazil</b>													
EU	14874	15017	14904	-	-	14800	17466	22314	36851	-	47949	-	-
US	10488	10959	12181	-	-	10852	12828	17210	21902	-	24500	-	-
<b>Paraguay</b>													
EU	-	-	-	-	-	185	223	238	247	273	289	231	-
US	-	-	-	-	-	192	217	312	440	413	456	363	-
<b>Uruguay</b>													
EU	-	-	-	-	-	-	-	-	-	-	-	-	-
US	95	184	261	285	-	345	419	494	577	794	789	755	656
<b>EU in MERCOSUR</b>	-	-	21065	-	-	24167	28821	37388	54787	-	81966	-	-
<b>US in MERCOSUR</b>	-	-	17943	-	-	21420	25271	32297	39451	-	45781	-	-

**Appendix C: Trade in goods between the EU and MERCOSUR; EU and the US**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Exports of MERCOSUR to the United States	9,321	10,741	10,653	11,331	11,699	12,178	13,501	16,505	17,239	18,398	20,009	24,331	27,549
Imports of MERCOSUR from the United States	8,612	11,550	15,347	17,242	20,553	20,401	17,280	18,109	17,026	12,365	12,061	15,057	16,921
Total trade	17,933	22,292	26,001	28,574	32,252	32,579	30,782	34,614	34,265	30,763	32,070	39,388	44,470
Exports of MERCOSUR to the European Union	14,448	16,743	17,560	18,090	19,341	20,091	19,169	19,964	19,941	20,797	24,571	30,799	33,505
Imports of MERCOSUR from the European Union	10,824	16,291	30,712	22,081	25,276	26,524	22,982	20,715	20,157	15,702	15,878	20,580	23,214
Total trade	25,272	33,034	48,272	40,171	44,617	46,615	42,151	40,680	40,098	36,499	40,449	51,379	56,719

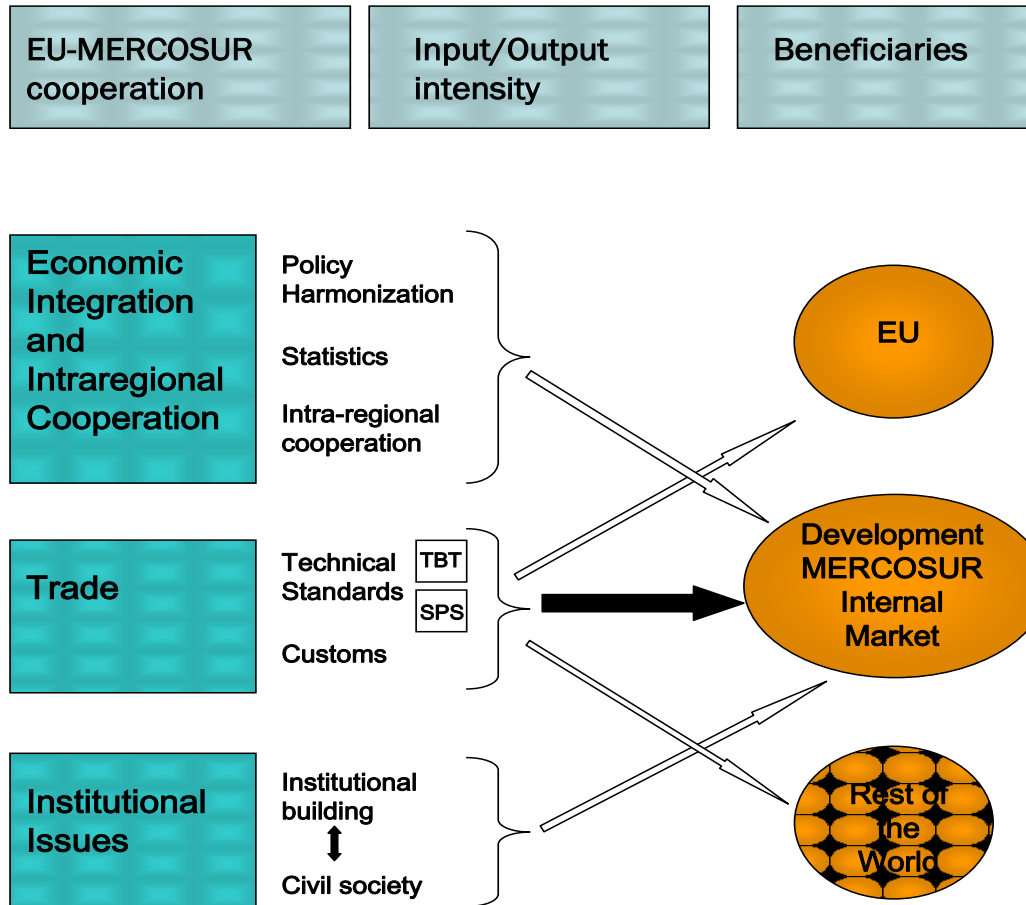
Source: CEI (in millions of \$US)

**Appendix D: MERCOSUR's main events versus those of the US-MERCOSUR and the EU-MERCOSUR relations**

	<b>MERCOSUR</b>	<b>US-MERCOSUR/LA</b>	<b>EU-MERCOSUR/LA</b>
<b>1991</b>	<b>Treaty of Asuncion</b> , formal creation of MERCOSUR (March)	<b>The Rose Garden Agreement or Four plus One</b> initiative (June)	
<b>1992</b>		<b>NAFTA agreement signed</b> (December)	<b>The Inter-institutional Agreement</b> between the EU and MERCOSUR (May)
<b>1993</b>			
<b>1994</b>	<b>Treaty of Ouro Preto</b> , establishment of MERCOSUR as Customs Union (December)	<b>NAFTA went into effect</b> (January) <b>FTAA was conceived</b> in the 1st OAS summit (December)	<b>EU-MERCOSUR Interregional Framework Agreement</b> was conceived (December)
<b>1995</b>	<b>MERCOSUR went into effect</b> (December)	<b>FTAA 1st Ministerial Meeting</b> deciding upon a Free Trade Area among 34 American countries by 2005 (June)	<b>Redefining the EU's cooperation with Cuba</b> The European Commission proposes to re-examine its relations with Cuba (June) <b>EU-MERCOSUR Interregional Framework Cooperation Agreement</b> (December)
<b>1996</b>	<b>Chile joins MERCOSUR</b> as associated partner (October)		
<b>1997</b>	<b>Bolivia joins MERCOSUR</b> as associated partner (January)		
<b>1998</b>	<b>Free Trade Area between CAN and MERCOSUR</b> A Framework Agreement is signed (April)	<b>Santiago Declaration</b> initiated the FTAA negotiations	
<b>1999</b>			<b>1<sup>st</sup> EU-Latin American Summit</b> in Brazil (June) <b>EU-MERCOSUR Interregional Association Agreement</b> (June)
<b>2000</b>	<b>Brasilia Summit</b> South American Free Trade Area was first introduced (December)		

MERCOSUR/LA	US-MECOSUR/LA	EU-MERCOSUR/LA
2001	1 <sup>st</sup> draft of the FTAA, decide upon January 2006 as date of entry into force (April)	5 <sup>th</sup> round of bi-regional negotiations, where the EU <u>unilaterally</u> presented to MERCOSUR the tariff offer and negotiation texts (July)
2002		The EU and Chile sign a Free Trade Agreement (May) The European Commission adopts the MERCOSUR Regional Strategy Paper which covers the support and assistance for the completion of MERCOSUR's internal market (September)
2003	Negotiations US-CAFTA initiated (January) Negotiations US-AFTA initiated (May) The US and Chile sign a Free Trade Agreement (June) The 8 <sup>th</sup> FTAA Ministerial Meeting, strong disagreement between the US vs. Argentina, Brazil and Venezuela (November)	
2004	Venezuela joins MERCOSUR as an associated member (July) MERCOSUR and CAN sign a Free Trade Agreement (October) Launch of the CSN during the 3 <sup>rd</sup> South American Summit in Peru (December)	
2005	FTAA did not enter into force as planned (January)	
2006	Venezuela renounces its membership in CAN (April) Venezuela becomes full member of MERCOSUR (July)	The CAFTA-DR Agreement enters into force Free Trade Area between the US and Central America and Dominican Republic (January)

**Appendix E: The European Commission's Intervention Logic Model  
for the Support to MERCOSUR Sub-regional Funds<sup>31</sup>**



<sup>31</sup> European Community. Evaluation of the EC support to MERCOSUR 2004, 22.

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