

Interregionalism's impact on regional integration in developing countries:

The case of Mercosur

Mahrukh Doctor

ABSTRACT: This article examines the impact of interregionalism on deepening regional integration processes in non-European Union (EU) regions, specifically the Southern Common Market (Mercosur). It considers whether 'capacity building' functions of interregionalism are present in EU-Mercosur relations. It argues that although negotiations for an association agreement might have helped Mercosur survive periods of severe crisis in the past, the terms of the agreement under negotiation were not sufficiently attractive to encourage deeper integration in Mercosur. Moreover, interregionalism cannot be expected to compensate for low institutionalisation nor substitute for weak political willingness to deepen integration. Ultimately, Mercosur alone can decide how far it wants to take its regional integration.

KEY WORDS: EU, interregionalism, Mercosur, regionalism

Recent research in international relations acknowledges the relevance of interregionalism as a distinct level of international interaction in the hierarchy of global governance. Interest in this phenomenon especially grew in the 1990s, when the European Union (EU) put promoting interregional dialogue at the forefront of its global actor strategy. Moreover, interregionalism's salience increased with escalating policy interest in using it as a base for building multilevel governance structures under globalisation, specifically at a time when the international system seemed to be moving beyond the Westphalian pattern of state-to-state interaction. Given its potential utility to global governance, it is worth understanding whether interregionalism could actually speed up the formation and consolidation of the structures on which it rests, i.e. closer integration within regional organisations. Theoretical analyses (Hänggi, Roloff and Rüländ 2006; Gilson 2002) accept that regional entities may interact to give rise to interregionalism. However, it is unclear whether the reverse sequence/logic can operate effectively. Hence, there is theoretical as well as empirical value in better understanding the impact of interregionalism on regional integration, specifically whether 'engaging in interregionalism creates a need for regions to consolidate' (Söderbaum, Stahlgren and Langenhove 2005:379). It also merits noting that theoretically the impact of interregionalism could occur both during negotiations for a formal interregional agreement and/or after implementation of such an agreement.

While much has been written about whether and how non-EU regions respond to ideas of regional integration *per se*, less has been published on whether these regions benefit from engaging in interregionalism. Few empirical studies are available on the potential impacts of interregionalism on regional integration from the point of view of non-EU regionalism projects, especially those in developing countries.¹ Given stagnation at the multilateral level, especially the Doha Round of the World Trade Organisation (WTO) and the limited spheres

of action of plurilateral groupings such as the G20, regionalism is again being seen as a means of easing the process of decision-making for global governance.

Given the above gaps in the literature and the renewed interest in these processes, this article examines the following main research question: Why and in what ways has engaging in interregionalism with the EU been relevant for regional integration in the Southern Common Market (Mercosur)? It also considers whether external incentives can counterbalance internal obstacles to deeper regional integration. More broadly, the article aims to contribute to understanding how interregionalism can act as an instrument to support and encourage regional integration in non-EU regions, and whether it can provide a counter-balance to the preference for inter-governmentalism. The research is based on the analysis of official documents and statements as well as interviews with key officials and advisors close to interregional negotiations. Interviews were mainly conducted in 2008 and 2010.²

Research provided three insights specific to EU-Mercosur interregionalism. First, whatever the outcome of the negotiations for an EU-Mercosur Association Agreement, the interregional negotiating process itself contributed to Mercosur members' interest in keeping the regional project alive even under very difficult conditions and possibly nudged them towards taking more practical steps to integration. Second, the rewards and opportunities on offer via interregionalism were too meagre for Mercosur governments to willingly sacrifice decision-making autonomy to regional institutions. Third, deepening Mercosur integration need not be a condition for moving forward with signing an interregional agreement with the EU, but rather Mercosur should be left to find its own path to regional integration.

The article develops these arguments in four sections: (i) theoretical framework examining the functions of inter-regionalism; (ii) the EU's role in promoting interregionalism; (iii)

interregionalism and Mercosur integration; and (iv) implications of the tensions between Mercosur's internal and external agendas (i.e. regionalism and interregionalism respectively).

FUNCTIONS OF INTERREGIONALISM

Interregionalism may be simply defined as the condition or process whereby two regions interact as regions (Söderbaum and Langenhove 2005:257). This does not imply that each region has the same level of integration, but some minimal threshold of regional integration must have been achieved in each region for these interactions to be coherent and meaningful in terms of decision-making and implementation of agreements.

Theoretically, the research starting point was the academic literature focused on the phenomenon of interregionalism. This literature attributes five main functions to interregionalism. These are balancing, rationalizing, agenda-setting, institution building, and collective identity formation (Doidge 2007; Hänggi 2003; Rüländ 2010). The first three functions are externally focused and refer to how interregionalism operates upwards to the multilateral level, what Doidge (2007) calls a 'globally active' type of interregionalism. The latter two functions of interregionalism are mainly internally focused (although they could also have an external dimension) and operate downwards to the regional level, what Doidge calls a 'capacity building' type of interregionalism. Implicitly, this suggests that the latter 'capacity building' type serves to create conditions for the former 'globally active' type to operate efficiently.

It can be argued that the growing frustration with the ineffectiveness and lack of progress in multilateral governance talks as well as a perceived leadership vacuum at the global level has reinforced the importance of geography. Regional organisations could be seen as a first step towards creating broader multi-state governance structures to address the many cross-border challenges facing the international system. In a second step, two strong regionalisms might

actively collaborate at the multilateral level to improve balancing, rationalising and agenda-setting (Rüland 2010). However, where there are substantial differences in the level of regional integration, the ‘capacity building’ type of interregionalism is likely to dominate (Doidge 2007). Moreover, these authors argue that if well integrated regions act more coherently on the global stage, then it is in the self-interest of advanced regions to encourage integration in other regions. Unsurprisingly, the EU often plays the role of the ‘external federator’, although receptivity to its coaxing depends on a number of factors. So, under what conditions can interregionalism reinforce a region’s implicit or explicit moves towards deeper integration? What are the instruments available to support and encourage this process? The article answers these questions with reference to the case of Mercosur.

Since the EU and Mercosur exhibit disparate levels of regional integration, the literature suggests that a ‘capacity building’ type of interregionalism focused on institution building is more likely to be the significant factor in their relations. The EU has numerous instruments to build institutional capacities for integration among its partners, mainly by engaging in an interregional dialogue that provides technical training, administrative knowhow, and financial assistance. They also might hold out enticements, such as a preferential trade agreement (PTA) or strategic partnership, to encourage the weaker regional group to embrace stronger regional commitments. The less cohesive region could respond by imitating the integrative behaviour and institutional structure of the more advanced regional grouping. It also might find itself forced to act collectively to get its voice heard above a more integrated ‘other’ (Doidge 2007:239).

In case of the collective identity formation function, interregional dialogue may encourage the development of a more emphatic regional identity among the actors involved in the process. This refers to both state actors and civil society/citizens. Needless to say, this could be a long drawn out process, heavily dependent on political developments, levels of trust as

well as the nature of societal interests, preferences and engagement. More practical benefits (and costs) are also likely to shape the incentives to collaborate.

A regional identity could form indirectly by requiring regions to establish a consensus on negotiating agendas (as a minimum) to allow for coherent group positions in the interregional talks. This process may also remind the relevant actors that they share common values, norms and characteristics in contrast to the 'other' (as a maximum). The gradual emergence of a stronger regional identity and recognition of shared interests and values in turn could lead to firmer rules for regional cooperation and integration. Thus, confronted with a cohesive EU, less integrated regions are encouraged to develop a more coherent regional identity (as evident in Asia's response to interaction with the EU). Ironically, the shared interests and values highlighted via this interaction might actually be inimical to EU preferences, especially trade liberalisation (as evident in Mercosur). Thus, the above two functions together address the role of institutions and actors respectively. Jointly, they could cultivate among less advanced regional groupings a greater support for their own regionalism projects.

A final point relates to the nature of regional organisation and decision-making, specifically the extent to which inter-governmentalism rather than supra-nationalism shapes policy-making in the regional integration process. Typically, only in more advanced regionalism projects, such as the EU, have member states shown an inclination to cede or share sovereignty in an expanding set of issue areas.³ Finally, it is not just the nature of regional institutions that matters. Rather, the capacity of regional actors and their willingness to actually implement agreements (especially in the absence of supra-national institutions) that really matters for successful integration. Before examining Mercosur regionalism, it is relevant to note some key points related to the EU's role in promoting regional integration.

THE EU'S ROLE PROMOTING INTERREGIONALISM

Academics working in the liberal-idealist tradition have espoused the notion of the EU as a 'normative' and 'civilian' power with a civilising mission in international politics (Manners 2002). It is often argued that the EU displays a distinctive approach to international relations which emphasises 'soft power' and uses diplomacy, persuasion and negotiation to influence outcomes. Nowhere is this more evident than in the considerable effort the EU makes towards encouraging regionalism, often via some form of 'reinforcement by support' (Jetschke and Lenz 2013).

The academic literature gives several explanations for the EU's active engagement in interregional processes (Söderbaum *et. al.* 2005; Hänggi 2003; Rüländ 2010). These studies note that interregionalism is expected to promote the EU's power and competitiveness, and also to build its identity as a global actor. Interregionalism is a means of enhancing material conditions as well as the EU's 'normative power'. There is much evidence that the European Commission (EC) as well as European Council of Ministers aimed to promote a liberal internationalist agenda supporting democracy and good governance, respect for human rights, social inclusiveness, socio-economic development, etc.⁴ Furthermore, EU institutions set out to encourage mimetic behaviour in other regional groupings and often provided support to those receptive to the 'EU model'.

The EU's interregionalism strategy led to the development of a hub and spoke pattern of interregional dialogues with Asia, Africa, and Latin America by the mid 1990s. Some authors credit the EC with developing the concept of interregionalism (Hardacre 2010; Hardacre and Smith 2011). Moreover, differentiated contexts and local circumstances ensured regionalism did not lead to identical patterns of integration nor identical regional organisations. Jetschke and Lenz (2013:6) discuss how mechanisms of diffusion (such as competition, learning and emulation), often emanating from the pioneering EU, impacted institutional development of regional organisations. The success of the EU as 'external federator' depended on numerous

factors in the less integrated region, such as political and social context, institutional characteristics and capabilities, and expected rewards from closer relations with the EU. (Hardacre and Smith 2011). For example, García (2012) shows how the EU's 'penchant for interregionalism' and its 'transformative power' had only a limited impact in Latin America. Significantly, the EU itself lacked a single coherent strategy. Some members, such as the United Kingdom, France and Spain, saw interregionalism as a means to maintain ties with their ex-colonies. Other members, such as those joining in the recent eastward expansion of the EU, often saw developing regions as rivals in trade and investment. One can also point to the difficulty of developing pan European strategies that meaningfully replace national ones in its interregional relations (Messner 2007). The differences between Commission and Council positions were also very obvious, and even the EC itself did not have a monolithic position. The different directorate-generals (DGs) had varying preferences and positions were often defined by the DG that took the lead in interregional negotiations (e.g. DG Trade, DG External Relations and DG Agriculture and Rural Development had divergent positions on Mercosur).

The EU's position on interregionalism also was impacted by internal institutional changes, mainly after the Lisbon Treaty came into force in 2009. The post-Lisbon inter-institutional arrangements and relations between the Commission, President of the European Council, the European High Representative and newly created European External Assistance Service as well as the new powers of the European Parliament introduced many changes in the possible outcomes of interregional negotiations. It is still unclear how these shifts will impact the balance between material gains and normative values in EU external relations. The big questions from the point of view of this study are: Does the EU's toning down of the normative aspects in its external relations and lessened focus on using interregionalism to

shape global governance mechanisms mean that regional integration elsewhere will lose momentum? Will its own internal crises put interregionalism on the policy back-burner?

Finally, one cannot ignore the completely changed scenario within which interregionalism negotiations feature. The long years of stagnation at the Doha Round in combination with the on-going economic crisis and high levels of unemployment in many EU countries has put huge pressure on EC negotiators. The normative content of interregionalism is not really a priority any longer; instead attention has turned to negotiating agreements with very large economies, such as the United States and Japan (Messerlin 2013). Another crucial shift has been the decision of the EU to emphasise hybrid interregional relationships, where it enters into a strategic partnership with a key member of a regional bloc (e.g. Brazil in Mercosur's case). This not only complicates interregional arrangements, but also has the potential to create distrust within the region (actually going counter to the EU's stated objectives for the region).

INTERREGIONAL NEGOTIATIONS AND MERCOSUR INTEGRATION

The theoretical framework outlined how a 'capacity building' type of interregionalism focused on enhancing the weaker region's integration internally often implied a focus on the institution building and/or collective identity formation functions of interregionalism. EU-Mercosur negotiations for an association agreement serve as an interesting test of both the theoretical argument and the practical implications of the EU's preferences and actions for Mercosur regionalism.

EU-Mercosur negotiations occurred in two phases, with a hiatus between them when negotiations were abandoned between 2004 and 2010. The first phase began when the two regions signed the EU-Mercosur Interregional Framework Cooperative Agreement in 1995. The intention was to negotiate a comprehensive and substantive interregional agreement

involving the three pillars of political dialogue, economic cooperation and a preferential trade agreement. After much dithering, the European Council of Ministers gave the EC go-ahead to begin trade negotiations in 1999, just as a four-year period of deep crisis and instability hit Mercosur economies.⁵ Unsurprisingly, the trade component of the talks caused the most trouble, mainly due to political sensitivities caused by strong opposition lobbying in both regions (defensive positions mainly originated in manufactured goods and services in Mercosur and in agriculture in the EU). By 2004, negotiations were abandoned.

This first phase saw an EU eager to establish its credentials as an international actor, especially as a ‘normative power’. It actively sought to export the EU ‘model’ with its regulatory norms, governance mechanisms, social inclusiveness, and ‘community values’ (Rüland 2010). Mercosur was considered an easy target for these efforts, since there was a strong (and over-simplified) assumption in Brussels that Mercosur elites shared the same cultural codes and political objectives as their European counterparts (Grugel 2007). Moreover, as Grugel (2007:59) argues, there was ‘a kind of mimetic agreement’ where negotiators were willing to endorse EU norms and values as part of a multifaceted package that included greater market access.

Mercosur was mainly interested in learning from the EU experience and benefitting from EU assistance on the technical and administrative aspects of creating a customs union and common market. An analysis of EU documents demonstrated the importance given to values, but also a desire to emphasise the benefits of win-win cooperation possible in interregional arrangements (e.g. see the Commission’s *Mercosur Regional Strategy Paper*, 2007). The EU was also concerned about losing out to growing US influence in Latin America. Although some elements of using interregionalism to ‘balance’ (against the US specifically) might have been present on both sides in this first phase, the discourse of key state actors explicitly and repeatedly referenced ‘capacity building’ aspects. This ranged from technical

assistance/knowledge transfer to mentioning normative aspects in the various documents and public statements of officials.

The second phase of negotiations was announced at the margins of the EU-Latin America Summit held in Madrid in May 2010. The political motivations of each region's *pro tempore* president (Spain and Argentina) were central to their revival. The mood and objectives were in stark contrast to those at the time of the initial launch in the 1990s. Stagnation at the multilateral level and abandonment of the Free Trade Area of the Americas (FTAA) altered negotiators' attitudes towards interregionalism. However, there was little material change in positions related to the trade aspects of the previous stalemate. If anything, protectionist tendencies were more entrenched. On the South American side, a more political (and politicised) concept of regional integration had embedded itself within organisations such as the Bolivarian Alliance for the Americas (ALBA), Community of Latin American and Caribbean States (CELAC) and Union of South American Nations (UNASUR). Riggiorozzi and Tussie (2012) aptly describe this as 'post-hegemonic regionalism', where trade and economic cooperation were not as central to regional integration as in the previous decade. On the European side, opposition to agricultural trade liberalisation was increasingly fierce. Members of the European Parliament from some ten countries responded to pressure from their farm lobbies to issue strong statements opposing any agreement that would substantially liberalise agricultural trade with Mercosur. They argued that Mercosur protectionism had also seen few improvements in recent years (e.g. see the EC's *Trade and Investment Barriers Report 2011*).⁶

The global financial crisis in 2008 considerably altered negotiators' calculations and strategies. Initially, Mercosur economies emerged from the crisis in reasonably good shape. A quickly rising Brazil made Mercosur an attractive market for EU businesses facing gloomy prospects in their home markets. However, Mercosur growth lost momentum after 2012.

Meanwhile, the euro-zone crisis focused EU policy-makers' attentions on monetary, fiscal and employment policies, leaving trade on the sidelines. The EC turned to the possibilities of signing 'mega PTAs' with 'very large, well regulated and well connected' economies (Messerlin 2013:2) – in other words, not Mercosur.

After examining statements made by political leaders and EC officials at the time of the re-launch and interviewing Mercosur trade negotiators in late 2010, I found no evidence that regional 'capacity building' arguments had in any way motivated a return to the negotiating table. Critics even dismissed the re-launch of talks as a political stunt and/or photo opportunity. I would argue that changed economic realities, such as the growing competitiveness threat from China, re-focused the attention of policy-makers on both sides. In many ways, the post 2008 conjuncture changed the game. While the rhetorical commitment to supporting regional integration and free trade remained, more practical actions indicated a preference for maintaining high non-tariff barriers to protect EU agriculture and considerable inflexibility in accommodating the less developed region's demands (Söderbaum *et. al.* 2005:375).

Face-to-face interviews and email exchanges with a number of interviewees in 2008 showed a high level of consensus on the issue of Mercosur deepening. They all agreed it was not (and should not be) a necessary condition for the EU to go forward with negotiations for an interregional association agreement. Some argued that Mercosur could learn from the EU's experience, but others believed it better for the EU to allow Mercosur to find its own path to integration. One interviewee noted that interregional negotiations were a distraction, and actually detracted from deepening integration. Moreover, both Mercosur and the EU faced various internal problems and inconsistencies, and it was better that they focused on these before engaging in interregional negotiations. For example, the EU's Common Agricultural

Policy was closely linked to the difficulties long evident in EU-Mercosur trade negotiations, while an incomplete customs union was a notable barrier on Mercosur's side.

Interestingly, from the point of view of this analysis, trade facilitation was one of the few institutional issues on which Mercosur made some progress, partly in response to pressure from the EU. In the wake of the re-launch of interregional negotiations in May 2010, the Mercosur San Juan Summit in August 2010 announced that it had agreed a common customs code and the end of double incidence of tariffs on goods crossing intra-regional borders. Significantly, in policy output terms, it is an excellent demonstration of interregionalism's potential for supporting institutional capacity building. Another case of deepening regional institutions is the shifting stance on legalising dispute resolution, where the EU was seen as a role model, at least for Mercosur's smaller states (Arnold and Rittberger 2013:122).

Interviewees were relatively pessimistic about the prospects of an association agreement boosting intra-regional integration. Negotiating with the EU had forced some very divisive issues (e.g. industrial policy) onto the Mercosur internal agenda. They raised tensions that could seriously damage regional integration.⁷ For example, in the early months of 2014, Brazil and Uruguay indicated their willingness to accept a Mercosur at 'two speeds', where they would sign a more ambitious trade agreement with the EU leaving Argentina (and possibly Paraguay) to catch up at a later date. Given the economic situation and policy attitudes on both sides, some interviewees thought that any agreement was likely to have symbolic value at best, and unlikely to make a meaningful difference to the evolution of Mercosur integration.

In 2010, interviews with top officials and business representatives in Argentina and Brazil evidenced a lack of conviction (and enthusiasm) for both regionalism and interregionalism. They noted that domestic political and economic conjunctures, especially in Argentina, were

not favourable to liberalisation commitments. Equally, mounting domestic woes and electoral consideration in European nations were inimical to softening positions on agricultural trade. Interestingly, by 2014, Brazilian economic elites were so frustrated with economic stagnation that even reluctant liberalisers began demanding the government sign PTAs with major trade partners.

Some authors (e.g. Robles 2008) argue that positive impacts cannot be expected in the context of asymmetrical interregional dialogue in an essentially realist inspired hegemonic project. Undeniably, EU negotiators have been rather parsimonious in their offers. Thus, my research found the benefits from interregionalism would depend on who took the lead on finalising an agreement especially on the European side. Söderbaum, Ståhlgren and Langenhove (2005:375), although with a theoretical position that differed from Robles, also argue that interregional relations are normally built on the interests of the stronger region. Finally, it is worth reiterating that the EU is not a single actor, and its organs often have divergent preferences. The final agreement would reflect the level of influence of each directorate in the EC. And this is before even considering the additional influence of the European Parliament, which now has the right to ratify (or veto) any such agreement. The use of its veto is no idle threat as evident from statements made by some members of the European Parliament in support of the farm lobby when negotiations were re-launched in 2010.

Thus, the theoretical opportunity for interregionalism to support building regional capacity and institutions is dependent on the flexibility of the more advanced region's stance in negotiating the agreement and on the nature of the actual agreement signed. Specifically, in this case, the EU could initially have focused on enhancing the elements of political dialogue and economic cooperation rather than getting bogged down in trade negotiations. It also could have considered offering trade preferences and/or evolutionary clauses that made an

early signing of the agreement more attractive to Mercosur. Europeans in favour of an agreement note that a substantive agreement with more elements of compromise on the agriculture question might serve as a carrot encouraging Mercosur negotiators to liberalise trade in manufactured goods. This could create a win-win situation, i.e. a better integrated Mercosur as trade and investment partner could benefit Europe overall in terms of supporting much needed EU jobs as well as boosting trade and growth.

Another path to building support for Mercosur regionalism and an interregional agreement could have focused on developing links in civil society. Interestingly, in recent years, civil society actors have been at the forefront of supporting deeper integration as well as signing an interregional agreement. For example, Brazilian business elites strongly criticised the economic paralysis of Mercosur and the Brazilian government's failure to sign PTAs, including with the EU. Grugel (2007) has made a similar argument with respect to democratic consolidation and social citizenship. Her research indicated better results when the EU supported civil society actors directly rather than via dialogue and knowledge transfer through state actors.

Finally, the global context has changed considerably with implications for the objectives of an interregional agreement. For example, Mercosur, not only faces real challenges in terms of its institutions, legitimacy and identity, but also needs to come to grips with issues related to energy and food security, global environmental and climate change, shifts in the global power structure, and the overall governance of these increasingly inter-locking policy areas. In this context, a consistent and coherent integration agenda could contribute towards building a strong regional institutional base to support creation of multi-level governance structures that can effectively address these issues.⁸ Steps in this direction would actually contribute to a 'globally active' type of interregionalism rather than simply building intra-regional institutional capacity. Crucially, the EU faces similar challenges in these issue areas. The

joint mechanisms developed to address them could eventually provide genuine support for Mercosur's further integration.

TENSIONS IN MERCOSUR'S INTERNAL AND EXTERNAL AGENDAS

The interregional negotiation process forms one of the central elements of Mercosur's external agenda. The problems arising from internal crises and integration deficits form part of Mercosur's internal agenda (Doctor 2013). This section examines whether pressures arising from Mercosur's external agenda have impacted the region's internal agenda, effectively answering the main research question. The theoretical literature argues that the external agenda should provide enough impetus to encourage Mercosur to resolve the problems highlighted in the internal agenda. In other words, the gains from interregionalism should be sufficient to tempt a region into a deeper and more institutionalised integration. However, whether interregionalism is a sufficient lure for Mercosur depends not only on what is on offer. It also depends on internal (often political) constraints as well as those arising from the region's links to the global economy. Clearly, Mercosur actions can directly resolve some of the constraints that hamper finalising an interregional agreement (e.g. developing a shared vision for integration into the global economy; harmonising macroeconomic policies; completing the customs union; agreeing regional parameters for industrial policy), but others lie outside the direct control of Mercosur (e.g. EU and US trade policy priorities and negotiating strategies as well as their shifting interest towards Asian markets; slow progress in multi-lateral trade negotiations).

The question of whether Mercosur's internal and external agendas reinforce each other is extensively debated in academic as well as policy circles. Some argue that the external agenda (especially negotiations with the EU) provides the 'glue' to hold the project together (Phillips 2003). A twist on this argument is that the potential benefits from signing an

interregional agreement with the EU could actually be harnessed to serve as an impetus for consolidating Mercosur (Rios and Doctor 2004; Santander 2005). The latter version of the argument lies at the heart of the research question. Economic policy-makers often argued the opposite, that is, Mercosur's external agenda actually generates additional conflicts and exposes divergences in the national priorities of its members. In this view, interregionalism is more hindrance than help. A third view argues that the stalling of the internal agenda became the main obstacle to progress on the external (Carranza 2006). Thus, the sequence in which a policy agenda is dealt with matters for outcomes. Is there evidence to support these views in the evolution of Mercosur integration?

In the first view, the process of engagement with external negotiations was crucial to understanding the continuing survival of Mercosur. Thus, it weathered the storms of the late 1990s by re-launching and redefining the project as a political platform for attaining shared external objectives. By having an external focus, where bargaining as a bloc made sense and improved the prospects for influencing outcomes, Mercosur's external negotiations provided an arena where some progress was possible. For example, the external agenda with the EU linked closely with discussing the normative aspects of the regionalism agenda (democracy and social inclusion) and it is here that the 'glue' was most effective. Thus, the external agenda provided areas where members could agree. It allowed them to hone in on common concerns, interests and values, and thus helped keep (and still is keeping) Mercosur alive. The EU's insistence on negotiating with Mercosur as a bloc provided a vital focus and an indirect means of holding the partners together in the midst of its deepest crisis (1999-2002), although the more pessimistic would say that it only contributed to its 'inertial survival' as discussed in Gomez-Mera (2013). This view directly coincides with Doidge's 'capacity building' type and Rüländ's 'institution building' function of interregionalism.

In the extended version of this argument, the potential substantive gains⁹ from finalising interregional negotiations were a carrot for deepening the intra-regional integration agenda. This argument provided empirical support for the theoretical functions of interregionalism discussed by authors such as Doidge, Hänggi and Rüländ, especially when they refer to its internal and downward operating aspects in terms of institution building and collective identity formation. In some ways, the ‘carrot’ version complemented the ‘glue’ version of the argument. Both saw the inter-locking of the internal and external agendas as a positive force and emphasised the substantive outcomes as a motivation for moving forward at regional and interregional levels. This reasoning was highlighted under so-called progressive governments elected into office in the early 2000s. They preferred to neglect the neo-liberal connotations of open regionalism, instead focusing on political dialogue and ideological affinities to deepen regional relations (Tussie 2009). In practical terms, this implied that the anticipated benefits from the reform ‘lock-in’ aspect of integration had now shifted from the intra-regional to the interregional level. Thus, it was interregionalism that now could be expected not only to increase trade flows, but also to result in more investment, better and credible regulatory regimes, and improved systemic competitiveness (Doctor 2007).

Given that the bigger members insisted on adhering strictly to inter-governmentalism in regional arrangements, smaller members believed interregionalism could ameliorate the impact of power asymmetries within the bloc. In the absence of greater institutionalisation within the region in the first instance, international agreements might provide the legal assurances as well as political resolve for policy-makers to sustain integration. The political logic was that it would be much harder for any member to ignore international commitments made within the framework of any interregional agreement. An excellent example of this mutually reinforcing aspect of the internal and external agendas as well as interregionalism’s contribution to deeper regionalism was the finalisation of a joint customs code mentioned

earlier. Evidently, by 2010, Mercosur members had accepted that the re-launch of EU-Mercosur trade negotiations would be meaningless without progress on this front.

A second and opposite view was that Mercosur's external agenda had over time actually added to the strains of integration. This view came across most clearly in the interviews and was not well represented in the academic literature. However, it can be inferred from some of the more pessimistic and/or cautious accounts of Mercosur survival (Malamud 2005; Gomez-Mera 2013; Oelsner 2013). Mercosur's external agenda, it was argued, had forced policy-makers into tackling issues and formulating common positions before they were ready to do so. The insistence of EU trade negotiators that Mercosur further lower tariffs and remove other barriers to trade in manufactured goods and services created growing pressure on the region's industrial and service sectors. These sectors had already been hard hit by the market reforms of the early 1990s, the economic crises of the late 1990s, and increasing competition from China in the 2000s. In addition, the external agenda was also strained at the multi-lateral level, where each Mercosur member negotiated on its own behalf.¹⁰ Within this highly uncertain and competitive environment, the interregional dimension of the external agenda seemed to be just one more unwelcome burden where governments found themselves pushing reluctant Mercosur businesses and workers to accommodate such demands. Thus, the external agenda could be interpreted as Mercosur biting off more than it could chew – it was a case of too much too soon. It pushed Mercosur to deepen integration too quickly (if successfully completed, it would have meant achieving customs union status in almost half the time it took the EU), but ended up with little progress. As Cason pointed out, cases of 'vulnerable integration' like Mercosur were buffeted by events in the international political economy, which subjected their regionalism to numerous crises of confidence and understandable back-peddling on commitments (Cason 2011) and the need to cyclically reboot the deepening process after each crisis (Dabène 2009).

The third argument, most clearly stated in Carranza (2006), was that if Mercosur policy-makers did not take the initiative in working for greater internal consolidation of the bloc, then the external agenda was meaningless and simply insufficient for Mercosur survival. In other words, the external agenda was not a substitute for facing up to Mercosur's many internal deficits (Blyde, Giordano and Fernandez-Arias 2008; Doctor 2013). The problem was exacerbated by Brazil's foreign policy calculation that Mercosur enlargement rather than deepening favoured its strategic objective to gain further recognition as a global power (Carranza 2006:809).

Another point worth highlighting is that in recent years Mercosur governments have pushed for a 'more political' Mercosur that promoted an ideologically defined social agenda rather than focusing on 'mere market goods' (Margheritis 2013; Tussie 2009). This agenda emphasised political and ideological affinities, highlighted civil society engagement in intra-regional forums and showed how shared values (often simply related to rejecting neo-liberalism) created a regional identity and collective sense of solidarity against the hegemonic orthodoxies of the 1990s.

Authors such as Dabène (2009) argue that politicisation does not necessarily mean failure, and if politicisation supports achieving regional integration goals, this view would be correct. Thus, evaluating the impacts of politicisation necessitate an understanding of the type of regionalism Mercosur's members (state and civil society) actually want. It is hard to get away from the impression that there is an element of complacency about the more politically driven version of regionalism. Even Uruguayans, who would have much to gain from a more market-focused regional production integration and all it entails in terms of trade facilitation, investment flows and economies of scale, seem comfortable with a regionalism based on ideological affinities and identities rather than on pragmatic economic outcomes.¹¹

Thus, my research (interviews, official statements and documents) suggested that it made more sense to be pessimistic about the possibility of Mercosur consolidation piggy-backing on the attraction of signing a PTA with the EU, not to mention the now dead negotiations for the FTAA. Nor does engaging in interregionalism seem to have a balancing aspect for most Mercosur members. Rather, research suggested that Mercosur must prioritise its internal agenda, if it did not want to remain stuck in a rut. It might need to re-express what regional integration should entail for its members, but it cannot afford to continue ignoring the many problems of integration. The very survival of the bloc could be jeopardised if Mercosur governments and civil society actors do not seriously address the issues arising from the need to strengthen institutional capacity, clarify implementation mechanisms under inter-governmentalism, and eventually integrate markets. It is here that the non-trade pillars of an EU association agreement have the most to offer.

Whatever one's views on the prospects for interregionalism to support deeper integration in Mercosur, evidence suggests that the outcomes are strongly shaped by the almost exclusively inter-governmental nature of decision-making and implementation in Mercosur. Although dispute settlement tribunals and procedures exist, these are weak and often ignored (e.g. the dispute between Argentina and Uruguay about building a pulp mill on the River Uruguay had to be taken to the International Court of Justice since no agreement was possible within Mercosur frameworks). Arguably, the reluctance to allow any supra-national decision-making powers is the main shortcoming hampering deeper integration. Mercosur's pro-inter-governmentalism position is most strongly stated by Brazil, and hence, understanding its position is crucial to evaluating the prospects for regional capacity building.

On the one hand, Brazil is the key driver of the regional project. On the other hand, its reluctance to surrender national sovereignty to regional institutions is one of the main brakes on further integration. Gomez-Mera (2013:197) correctly notes how Brazil's instrumental

view of Mercosur contributed to the latter's endemic weakness. Thus, although Brazil enjoys a leading position in Mercosur agenda setting, institution building and influence gaining strategies, its insistence on strict inter-governmentalism can be directly blamed for the lack of progress. In addition, Mercosur's other members have been forced to accept Brazil's strategic partnership with the EU, which understandably serves to increase resentment and distrust (especially in Argentina). Thus, the EU's capacity building rhetoric contradicted its more globally oriented actions with respect to relations with South American states.

Ultimately, Mercosur regionalism cannot be deepened without greater trust among its members and willingness to yield some amount of national policy-making autonomy. Since interregionalism would not solve this problem, it cannot be expected to substitute for supra-national processes. The incentives, rewards and opportunities on offer via the external agenda were simply seen as too meagre to be worth sacrificing national decision-making autonomy. The way forward for Mercosur policy-makers and societies would be to re-evaluate the internal benefits of regional integration on its own merits. In addition, only emphatic societal support for regionalism (and ideally, a growing sense of regional identity) was likely to lead politicians to consider yielding some autonomy to help consolidate a lasting regionalism.

To conclude, one cannot forget that the Mercosur economies suffered a number of severe crises in the past two decades. Unsurprisingly, the ever present threat of crisis dissuaded policy-makers from ceding autonomy in the first place. More to the point, interregional agreements were in no position to protect or guarantee from these threats nor could they offer sufficient compensatory gains. Interregionalism was unlikely to serve either as the 'glue' or as a 'carrot' for Mercosur integration. Much of the evidence suggests that essentially the interregional process had at best held off Mercosur's dissolution, but was not conducive to encouraging its consolidation.

In effect, my argument is that interregionalism cannot be expected to function efficiently as a promoter of regional integration. At best, it can help shape regional calculations (possibly in a positive direction, depending on the attractiveness of what is on offer); at worst it can add to the strains of the integration process. The EU should not be tempted to weigh in on the side of faster and deeper Mercosur integration. Initially the EU used a regional ‘capacity building’ agenda to boost its own broader ‘globally active’ type of interregional agenda, but recent power and economic shifts in the global economy as well as the euro-zone crisis have implicitly altered the EU’s calculations and strategies towards interregionalism. Its use of hybrid strategic partnerships involving single countries within a regional bloc is another sign of shifting priorities (without calling too much attention to the lower priority given to more normative dimensions of EU interregional dialogues). Moreover, the EU has come to recognise that it might not accomplish either of the two agendas in the absence of a meaningful self-propelled deepening within its regional partners. The pace and direction of intra-regional relations and institution building is a choice that should really be left to Mercosur governments and societies. Interregionalism cannot compensate for low intra-regional institutionalisation or ameliorate the impacts of inter-governmentalism or substitute for weak political willingness to act to deepen regional integration.

Biographical Note: Mahrukh Doctor is Senior Lecturer in Political Economy at the University of Hull (UK).

Address for Correspondence: School for Politics, Philosophy & International Studies, University of Hull, Hull HU6 7RX; Email: m.doctor@hull.ac.uk

ENDNOTES

¹ There are some exceptions, such as J. Gilson, *Asia meets Europe: Interregionalism and the Asia-Europe Meeting*, (Cheltenham: Edward Elgar, 2002).

² The author would like to thank all interviewees for their time and insights (some eighteen individuals were interviewed in 2008 and 2010). Interviewees included top government officials and diplomats/negotiators from the ministries of foreign relations and industry in Argentina, Brazil and Uruguay, representatives and directors of the Brazilian National Confederation of Industry (CNI), the Argentine Industrial Union (UIA), Brazilian Association of Industrial Development (ABDI), Mercosur-European Union Business Forum (MEBF), researchers/staff at relevant think-tanks and other business organisations.

³ While both the EU and Andean Community built in some supranational elements from inception of their regionalism projects, it is only the more advanced regionalism (i.e. the EU) that developed additional supranational structures and decision-making powers as regionalism deepened.

⁴ For example, see the various EU-Mercosur Regional Strategy papers.

⁵ From a Mercosur integration perspective, the two worst crises were the Brazilian currency devaluation in 1999 and the political and economic collapse in Argentina in 2001-2002 with its knock-on effects on Uruguay and Paraguay.

⁶ The Report makes special note of Mercosur barriers related to government procurement, maritime transportation, export of raw materials (agriculture as well as hides for leather), and non automatic import licenses.

⁷ For example, EU agreements with ACP countries put huge strains on the regional relations of states in Africa and the Caribbean. Thus, successful EU agreements are often with single countries (e.g. Mexico, not NAFTA; South Africa, not SADC; Chile).

⁸ See the chapters by Andrés Serbin and Marcelo Saguier in Riggiozzi and Tussie (2012) for an interesting discussion on related themes and the role of civil society actors.

⁹ See Sustainability Impact Assessments for the EU-Mercosur negotiations available on <http://sia-trade.org/mercosur> . The reports discuss economic implications of an agreement on various sectors, although less is said about implications for Mercosur institutionalisation.

¹⁰ Note the divergent responses of Brazil and Argentina to the “Lamy package” after the WTO ministerial meetings in Geneva in July 2008, as well as Paraguay and Uruguay’s disagreement with the position of other developing countries with respect to the special safeguard mechanism to protect from import surges of sensitive and special products.

¹¹ This impression is based on discussions with Uruguayan academics during a brief visit to the country in October 2014. I dare say interviews with businesspeople would yield a very different picture (as portrayed in the Uruguayan media).

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