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# Mercosur's Unsettling 30<sup>th</sup> Anniversary and the Challenge of Keeping it Relevant

## Executive Summary

Mercosur celebrates its 30 years amid criticism and debate. As with any multi-dimensional regional process, the assessment of its success or failure depends on the lens we choose to “capture the moment”: the neoliberal lens or the developmental lens. Nowadays, the first one gains leverage in settling the short-term agenda as the States focus regional discussion on common external tariff and the “flexibilisation” of the external trade negotiations agenda. Beyond these topics, what challenges does the Covid-19 age -and the period after- present to keep Mercosur still relevant? This piece argues that four challenges should be addressed: 1) institutional issues -mainly normative effectiveness 2) regional economic recovery and how external actors play their roles -China, for instance 3) “green swans” in the regional agenda -climate change and global health 4) building a real “unity project” beyond members’ political divergences.

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## Starting Point: An Unsettling Anniversary

The Treaty of Asuncion, the founding stone of Mercosur, reaches its 30th anniversary amid criticism and debate in the region. What role does regional integration currently have in members' foreign policies? Do they still perceive the region as a natural platform for social and economic development as well as international insertion? What challenges does the international order present during the Covid-19 syndemic/pandemic and the day after?

As Mercosur is a complex process, combining multiple dimensions –economic, social, productive, institutional, among others–the assessment of its success or failure depends on the lens we choose: the neoliberal or the developmental lens. In early 90s, national Governments in the region converged on the idea that economic integration was a mandatory step to obediently join the dynamics of globalisation (Tussie and Riggirozzi, 2018). The neoliberal lens highlights the relevance of the trade agenda in the bloc's history; in particular, during the first phase (1991-2000) when intra-Mercosur exports recorded their highest-ever participation in the bloc's total exports in 1998: 23.2% (ECLAC, 2018, 24) and the free trade zone was formally achieved on January 1, 2000.

Besides these initially auspicious results, the balance shows some *chiaroscuros* after three decades of integration. Over the years, the national Administrations adopted economic measures that challenged the trade commitments, such as the Uruguayan consular fee, the Argentinian statistical fee, or the Argentinian non-automatic import licences. Likewise, in purely monetary terms, intra-zone trade has languished. Today, under the effects of the Covid-19 pandemic/syndemic, intraregional trade represents only 10% of the total of the member's exports, according to the Mercosur's Foreign Trade Statistics System.

From the neoliberal lens, the bloc did not fulfil its role as a platform for international insertion that could foster the joint signing of preferential trade agreements –in accordance with Decision 32/00 and consensus rule. Even regarding the Mercosur-European Union Agreement, which was pointed out as the last opportunity to proclaim Mercosur's relevance as an international actor, the possibilities of signing and consequently approving it are diluting. In this context, Mercosur's "flexibilisation" has become the centre of the regional discussions, reappearing in different shapes: the reduction of the common external tariff and the liberalisation of the external relations in a multi-speed model.

With the neoliberal lens, the centrality of the economic agenda obscures the ethos of the

regional integration and focuses on its ability to build a commercial bridge beyond South American borders; often without considering the asymmetries between commercial partners. However, trade agreements involve not only market access, but also environmental, labour, investment, or intellectual property regulation, which may result in “welfare-reducing, or purely redistributive outcomes under the guise of free trade” (Rodrik, 2018, 76). Thus, impact assessment is essential.

The 30th anniversary of Mercosur can also be seen through another lens: developmentalism. According to this narrative, Mercosur is not grounded exclusively on a commercial agenda; other dimensions, such as political, social, education, or productive integration, play a significant role. Nevertheless, from the developmental lens, the balance also has nuances.

Although intra-zone trade is particularly relevant because it involves a higher value-added trade as well as a greater rate of participation of small and medium-sized companies, the difficulties to consolidate regional value chains remained unsolved and macroeconomic coordination has been insufficient. Consequently, the private sector has seldom perceived the region as a space of belonging.

The region did show its worth on more specific issues. From a political point of view, the

preservation of democracy through the Ushuaia Protocol cannot be ignored. The Structural Convergence Fund (FOCEM), although was not able to completely achieve the goals of reducing the internal asymmetries, made remarkable contributions to bringing Mercosur closer to people through social development-. FOCEM’s projects cover diverse areas: electricity interconnection, water and sanitation access, roads and railways recuperation, health research, among others.

For instance, in April 2020, the FOCEM Emergency Fund to fight Covid-19 financed rapid diagnostic tests produced by national institutions, such as the Pasteur Institute of Montevideo or the Biomedicine Research Institute of Buenos Aires -CONICET-. Moreover, the project “Research, Education and Technologies applied to Health” made a major contribution in equipment for the attention of Covid-19 and other future biological threats. Despite these relevant efforts, there are no permanent instances for developing a regional network of surveillance and response (Herrero and Lombardi Bouza, 2020).

Another remarkable example in regional history is the evolution from investment protection to investment facilitation. The new model of investment agreement -the Investment Cooperation and Facilitation Protocol (2017) - does not include investor-State dispute settlement mechanisms, moving towards the

reconfiguration of the international regime from the Global South. Similar changes took place in May 2020, in the European Union, when 23 members signed an agreement to terminate all existing intra-European Union bilateral investment treaties, including the sunset clauses.

In contrast, institutional aspects show inconsistencies, even from the developmental lens. While agendas multiplied and regional forums or organs' competencies overlapped, the most controversial issues have not been addressed. Due to "normative inflation" together with a long process of normative internalisation, the percentage of regional norms in force is extremely low, even when incorporation is mandatory by the Protocol of Ouro Preto -article 42-. This situation may lead the States to an unresolved dilemma: whether they should modify one of the foundational treaties or file a claim in an almost unused dispute settlement system. Both have their advantages and disadvantages, but the first one has a symbolical cost: the acceptance that the intergovernmental model chosen by members in 1991 has contradictions.

Trying to understand or evaluate Mercosur from a single lens, neoliberal or developmental, leads to ignoring the uniqueness of the region or the challenges that the international order presents.

## Challenges for Mercosur

While today's leaders diverge on how to assess the Mercosur's 30-year-balance, the liberal lens gains leverage in settling the short-term agenda. National governments have focused their attention on the discussion about Mercosur's common external tariff and the "flexibilisation" of the external trade negotiations agenda. However, beyond these topics, there are four challenging issues members will have to deal with in the near future to keep the bloc's relevance: the institutional agenda, the regional economic downturn, pandemics and climate change, and the World Order transformation.

One of Mercosur's main problems is the contrast between what is said and decided on the regional level and what actually happens. The bloc relies heavily on the role of the executives, which might become a problem when leaders' views diverge. In addition, Mercosur is deemed to have trouble with the lack of internalisation of norms; institutions that are not fit for purpose -or at least, aren't any more- especially regarding committees that are no more effective; and some rules and practices that need to be revised to adapt to modern times, such as the ones referring to the controversial resolution mechanisms (Fernandez Reyes, 2021). What everyone agrees on is that things are not working well, and that change is needed. However, what road

to take remains unclear. Furthermore, as Bouzas points out, Mercosur's lack of concretion could have become the key to its survival (Bouzas, 2021). While governments have focused their attention on the discussions of the common external tariffs and negotiations with third-party countries, they have overlooked the relevance of the "internal" agenda in the process of making the bloc stronger.

The economic forecast for the post-pandemic age is quite worrisome for the region, as an economic downturn is another challenging issue. Argentina, Brazil, Uruguay, and Paraguay's economies were under tension before the arrival of the Covid-19, with alarming rates of poverty among their societies. For ECLAC, the region was on the verge of a new "lost decade", referring to the growth in poverty and unemployment rates. During 2020 and 2021 the region has been severely affected by Covid-19 syndemic/pandemic. Consequently, the GDP growth is expected to be moderated (5.2% for 2021 and 2.9% in 2022, according to the World Bank forecast), and to rely mainly on external factors such as foreign demand from China and the United States and the price of commodities. Mercosur countries are, therefore, economically vulnerable. Whereas the bloc accounts for a smaller amount of the member's trade, it accounts for larger value-added merchandise than extra-regional trade. Nowadays, the bloc architecture -remaining

without change- can only offer limited (although valuable) tools for improving the situation.

The third challenge is how to deal with the "green swans" to come. Climate change and global health are bound to be on the 2030-2050 agenda, but the question is whether the region is prepared to deal with them as a coalition. The lack of coordination among member's national policies can be a hurdle to overcome in order to protect public goods. According to Bizzozero (2021), Mercosur needs to preserve its regional identity in dealing with them and should outline a common strategic projection. And, as Bas Vilizzio and Tussie underline, Mercosur has some very important assets to do it: the region has one of the biggest reserves of water and energy resources in the world (Bas Vilizzio and Tussie, 2021).

The rise of China is one of the most unsettling phenomena for regional cohesion. On the one hand, Mercosur does not have a shared policy towards China. On the other hand, China has a centrifugal effect on member's relations, especially in its impact on the trade flows. With a growing volume of exports heading there, China moves policy-maker's attention from the South American region towards the Asia-Pacific area. At the same time, foreign imports are replacing regional trade.

For Paikin, this change in the patterns of trade calls for reimagining Mercosur's strategy in

trade negotiations and blocs policy towards the development of their members –for example, by identifying strategic sectors and creating special regimes for them– (Paikin, 2021). For Bas Villizio and Tussie, it is not only on trade that Mercosur needs to move forward together in its relationship with China but also in the infrastructure and energy agenda (Bas Villizio and Tussie, 2021). It would be difficult to imagine Mercosur’s productive regional integration with different infrastructures in 5G technology among the members.

In addition, as the world moves towards a “cooperative rivalry” between China and the United States (Nye, 2021), political relations of third countries towards the two powers also become important. However, Mercosur’s countries have rarely coordinated their foreign policies beyond the trade agenda. This increases the region’s vulnerabilities towards world policy-related risks. In the face of these challenges, some experts are calling for a “unity project” (Vázquez, 2021) or at least for the imagination of a shared strategy to prioritise the creation of some room for manoeuvre (González Jáuregui, 2021).

## Keeping Mercosur Relevant

To sum up, Mercosur’s 30th anniversary has

found its members in a process of rethinking their rationale for regional integration, amid several global challenges. In times of increasing global uncertainty, “weaponisation” of trade, and eventual reshoring in global value chains, a stronger Mercosur can give leverage to its members and improve the welfare of their societies. In the short term, the goal is just to keep Mercosur relevant; in the long term, to become the strategic asset for their members’ global projection.

The roadmap for these goals includes:

- i. Normative effectiveness: members ought to move forward in revising the internalisation process of regional regulations. We suggest that an institutional change in this sense is unavoidable if members want to stop the vicious circle in which Mercosur is currently stuck in.
- ii. Visibility: Mercosur needs to improve its strategy for becoming more “visible” for societies. Public communication and outreach are central to foster a feeling of belonging among citizens, civil society, the business sector, and politicians. This could set the basis for long-term policies.
- iii. Strategic external relations: FTA negotiations and other common external relations need to have a

common strategic goal. In this, doing and publicising impact assessments in communication with civil society is a cornerstone. Members need to engage in international negotiations with a shared view and shared goals.

- iv. Anticipate the next “swans”: Several studies suggest that regions might be the winners in the near future. But to make this happen, Mercosur needs to improve its robustness and resiliency. For instance, members should pay attention to the steps

needed to improve regional health coordination, which proved to be weak during the pandemics.



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