

MERCOSUR'S EXPERIENCE AND PROGRESS TOWARDS TRUE REGIONAL INTEGRATION

SYNOPSIS

This South Centre Analytical Note provides a background and discussion on the history of the Mercado Común del Sur – Mercosur's regional economic and political cooperation and the insights it can provide to developing countries seeking to build greater integration in their region. Analysis focuses on the evolution of the integration process, overcoming certain challenges and enhancing political cooperation in South America.

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EXECUTIVE SUMMARY

The effects of globalization have greatly affected southern countries and their presence in both global politics and economics; this is why many of them have turned regional integration as a development strategy to adapt to these changes.

In many cases, regional integration largely involves the integration of neighbouring states the integration of national economic policies and strategies to allow the region to participate more effectively in the global economy. This was largely true of the Southern cone Common Market – Mercosur’s experience in the early stages of the integration process.

However as Mercosur developed itself as a regional integration mechanism, it began to realise that economic integration was a difficult and tumultuous process and that it was not sufficient to create deeper integration and unified regional bloc.

Mercosur’s development and experience is described to explain the relaunching of Mercosur towards an enhanced political cooperation and integration not only within the bloc but also extending to the rest of the South American region.

This papers looks at how integration for Mercosur was a learning process overcoming various challenges which stem from the diverse nature of its members and the impact that global politics and global market had on the bloc’s progress towards a growing political integration.

MERCOSUR'S EXPERIENCE AND PROGRESS TOWARDS TRUE REGIONAL INTEGRATION*

I. Historical background leading to the formation of Mercosur

1. The Southern cone Common Market - Mercosur was a consequence of various changes occurring in the region, more specifically in Argentina and Brazil, where democracy was re-established, the perception of conflict and threat in the region evaporated and the adoption of liberal open economic policies. It was with these changing times that the governments of Argentina and Brazil concluded that cooperation in the region would be more beneficial to their national development than the long entrenched rivalry¹. Political and economic cooperation would not only enable the economic development and competitiveness of the region but also avoid dependence of the US economy and isolation from the global market. Hence the formation of Mercosur was the result of a strategic alliance between Brazil and Argentina (Carranza, 2006). This strategic alliance began in the mid-1980's as Presidents Alfonsín and Sarney cooperated to consolidate democracy and opted for economic liberalization of their countries and that of the region consequently².

II. The vision and purpose of Mercosur

2. Mercosur's creation followed the political and economic cooperation in the region with a purpose to open their economies, both internally and externally, to enhance the region's position and competitiveness in the global market. In its practical application, Mercosur was created to become a free-trade zone for goods, services and the production of these and later it was to become a customs union with the aim of creating a common external trade policy³. It was also created with the purpose to coordinate macroeconomic policies and harmonize the domestic legislation to enable the strengthening of the integration process of the bloc.

3. Mercosur's regional integration vision can be divided into two parts, on the one hand, the short term vision of establishing a complete and effective

* The South Centre acknowledges the research contributions of Ms. Carolina Henning to this paper.

¹ Jose Augusto Guilhon Albuquerque (2004) Political Cooperation in Mercosur, Chatham House Mercosur Study Group, http://www.chathamhouse.org.uk/publications/papers/download/-/id/165/file/3803_guilhon_paper.pdf.

² Laura Gomez Mera (2005) Explaining Mercosur's Survival: Strategic Sources of Argentine-Brazilian Convergence, Journal of Latin American Studies, Vol.37, pp 109-140, <http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=282326>

³ G. Baruj, B. Kosacoff & F. Porta (2006) Políticas nacionales y la profundización del Mercosur: El impacto de las políticas de competitividad, CEPAL, http://www.eclac.cl/cgi-bin/getProd.asp?xml=/publicaciones/xml/8/24238/P24238.xml&xsl=/argentina/tpl/p9f.xsl&base=/celad/e/tpl/top-bottom_env.xsl

customs union and on the other hand provide the structure and means to create medium to long term policies and objectives for the region such as the common market and common policies in certain sectors⁴. The founding members believed that the adjustment to the globalized economy would be smoother if linked to stronger regional interdependency and competitiveness. The creation of Mercosur was to facilitate the needed political and economic stability of the region through economic interdependency, which would lead to political cooperation. It can therefore be seen that from the beginning of its creation, “the political driving force towards Mercosur has consistently been translated into economic decision-making”⁵.

4. As Mercosur progressed as a mechanism for regional integration, the divergence in the visions for this process by its members became more and more apparent. Argentina, Paraguay and Uruguay’ vision and participation in Mercosur as primarily dictated by their economic necessities, these were characterized by dependence on the regional market and their vulnerability to external capital flows⁶. Uruguay and Paraguay envisioned the solid institutionalization of Mercosur, to ensure a balanced and democratic distribution of power and decision-making, whereas Argentina and Brazil did not. Argentina’s vision of integration was to produce more benefits and gains from economic cooperation and therefore encouraging the “deepening” and expansion of the bloc. Brazil’s vision for Mercosur on the other hand, was one of enhanced economic cooperation that would better their negotiating power in the global market but that would not constrain or infringe upon Brazil’s economic and political policies hence its weak support for institutionalization and policy harmonization⁷.

5. It is said that the nature of the move towards regional cooperation and integration was at first political, “due to a shared sense of vulnerability rather than strength on the part of the newly established regimes”⁸. It was necessary to reconsider and adjust the countries’ and region’s position and strategic role in global affairs and security through the emerging effects of democratization,

⁴ European Commission (2002) Mercosur- European Community Regional Strategy Paper 2002-2006, E.C., ec.europa.eu/external_relations/mercosur/rsp/02_06en.pdf

⁵ J. Albuquerque (2004) Political Cooperation in Mercosur, p 4, Chatham House Mercosur Study Group, http://www.chathamhouse.org.uk/publications/papers/download/-/id/165/file/3803_guilhon_paper.pdf.

⁶ N. Phillips (2003) The rise and fall of open regionalism? Comparative reflections on regional governance on the Southern Cone of Latin America, Third World Quarterly, vol. 24, pp 217-234, <http://www.ingentaconnect.com/content/routledg/ctwq/2003/00000024/00000002/art00003?token=00491a1baab74bc0086d4e2224677e442f20675d3b763f446a496e6c427a51af7d33c95e6>

⁷ N. Phillips (2001) Regionalist governance in the new political economy of development: ‘relaunching the Mercosur’, Third World Quarterly, vol. 22, pp 565-583, <http://www.informaworld.com/smpp/content~content=a713701178~db=all>

⁸ A. Malamud (2005) Presidentialism and Mercosur: A hidden cause for a successful experience, n Finn Laursen (ed.): Comparative Regional Integration: Theoretical Perspectives, Ashgate, Aldershot, p63. [http://home.iscte.pt/~ansmd/Presidentialism%20and%20Mercosur%20\(Laursen%20book\).pdf](http://home.iscte.pt/~ansmd/Presidentialism%20and%20Mercosur%20(Laursen%20book).pdf)

modernization of productivity and global political challenges⁹. It was also a useful means to increase interest and attention to the region during its first efforts towards liberalization and opening up to the global market and politics with a view to enhance the region's negotiating power.

6. After 15 years of existence, Mercosur is still in the process of completing its integration and to establish or reinforce the joint bodies and institutions that it needs to further this integration. This process is slow and inconsistent, as various concerns such as special interests and sovereignty often get in the way of advancing on the issues of integration and institutionalization. In turn these two incomplete issues weaken Mercosur's common position on the regional and international scene. To solve these challenges Mercosur needs to continue and complete its integration process with a clear vision and defined goals. This would imply facing up to three main challenges which include the completion of the internal market, strengthening the institutionalization of its structure and purpose and finally enhance the participation and integration of Mercosur into the regional and international arena¹⁰.

III. The Structure of Mercosur

7. The Treaty of Asuncion in 1991 formed a partnership between Argentina, Brazil, Paraguay and Uruguay to create a free trade bloc and a customs union. Venezuela has now joined the trading bloc as a full member and Bolivia is currently being considered. Chile, Colombia, Ecuador and Peru are associate members who do not have full voting rights or complete access to markets as the full members do.

8. The protocol of Ouro Preto in 1994 established the creation of the main organs of Mercosur which are the Common Market Council and the Common Market Group who are aided by the Mercosur Trade Commission. All bodies of the Mercosur were created strictly as intergovernmental and have rotational headquarters except for the Administrative Secretariat. Mercosur also has a rotational presidency, which means representatives (the presidents) of the full member countries assume the leadership of the bloc and switch every six months.

9. The Common Market Council is the political and diplomatic representative body of Mercosur and it has the legal authority to internationally negotiate and sign agreements in the name of Mercosur (i.e. with third countries, other trading blocs and international organizations). However the final decision to support negotiations or agreements is taken by the consensus of all member

⁹ E. Rivas (2004) El futuro del Mercosur: una vision politica, Comunicacao & Politica, vol. 6, pp 170-203, <http://www.cebela.org.br/imagens/Materia/2004-1%20170-203%20eduardo%20rivas.pdf>.

¹⁰ European Commission (2002) Mercosur- European Community Regional Strategy Paper 2002-2006, E.C., ec.europa.eu/external_relations/mercosur/rsp/02_06en.pdf

states. The Council is composed of Ministers of foreign relations and economy and it meets at least twice a year with the Presidents of the five full member states. Mercosur does not have a mechanism to automatically enforce legal acts; it is the active participation and influence of these officials with their respective governments which allows policies to be implemented or not¹¹.

10. The Common Market Group is composed of four members and four alternates for each member, from the Ministries of foreign relations, the Ministries of economy and the central banks. The Common Market Group is responsible for monitoring compliance with the treaties, protocols and agreements adopted by taking measures necessary to enforce the Group's decisions and drawing up a programme of work¹².

11. The Trade Commission is the central organ of Mercosur, which formulates the trade policies and is composed of four representatives of each of the full member states. The Joint Parliamentary Commission, which provides the liaison between Mercosur and the parliaments of its member states to enable the incorporation of Mercosur's treaties and decisions into the different national legislations. The Economic and Social Consultative forum represents the different economic and social sectors of member states. The Administrative Secretariat provides technical advice, elaborates and provides support for the implementation of norms and documentation. All of the above mentioned bodies of Mercosur have been designed to avoid the exercise of supranational decision-making and activities.

12. The dispute settlement mechanism outlined in the Treaty of Asuncion and the Protocol of Brasilia declare that disputes between states must first be addressed through direct negotiations. If this fails, then the dispute should be addressed by the Common Market Group to act as a conciliator, and if this fails the Common Market Council should intervene. Further in 2002 the Protocol of Olivos was signed to create the Permanent Tribunal of review to hear appeals from the ad hoc arbitral tribunals.

13. The jurisdiction and legal framework to guide dispute settlement are all the treaties and protocols adopted by the Common Market Group, Common Market Council and the Trade Commission. This limits the possibility of private parties to engage in dispute settlement against states as it has to go through the national section of the country of origin of the complaining party¹³. Importantly all verdicts made by these procedures do not have supremacy over national legislation therefore the enforcement of these verdicts is not legally binding. This

¹¹ R. Bouzas & H. Soltz (2000) Institutions and regional integration: the case of Mercosur, in V. Bulmer-Thomas (ed), London: Institute of Latin American Studies, <http://www.netamericas.net/Researchpapers/Documents/Bouzas/Bouzas1.pdf>.

¹² UNCTAD (2003) Dispute settlement, Regional Approaches: 6.2 Mercosur, UNCTAD, Geneva, www.unctad.org/templates/Download.asp?docid=3679&lang=1&intItemID=2102

¹³ L. Baptista (1998) Mercosur, its institutions and juridical structure, Foreign Trade Information System, http://ctrc.sice.oas.org/geograph/south/mstit2_e.pdf

is a consequence of the way treaties and protocols were formulated to be internalized by the national legislation but without specified implementation processes or time frames, therefore there are no means to enforce compliance¹⁴. In summary, the dispute settlement mechanism relies heavily on diplomatic solutions and arbitral jurisdiction is always considered as the last resort, which limits its ability to end disputes and is characterized by a relatively high rate of ongoing disputes.

14. In August 1998 in Ushuaia, Argentina, Mercosur Heads of State produced a final declaration supporting democracy, human rights and peace. The declaration of a "peace zone", free of weapons of mass destruction covers the whole Mercosur area, including its associate members Bolivia and Chile. Joint manoeuvres amongst Argentine, Brazilian, Chilean and Uruguayan armed forces have become a routine event. In April 1998, the ministers of the interior and justice of the four countries, plus Chile and Bolivia, established a Security Agreement for the triple border (Argentina, Brazil, Paraguay). The objective of the agreement is to co-ordinate government efforts in the areas of terrorism prevention, illicit drugs and arms trafficking, and contraband interdiction¹⁵.

15. The Mercosur Parliament was legally created on the 9th of December 2005 to represent the political and ideological diversity and plurality of its main five members, as Argentina, Brazil, Paraguay, Uruguay and Venezuela signed the Constituent Protocol of the Mercosur Parliament. It was finally inaugurated and came into function on the 7th of May 2007 in Montevideo, Uruguay, where it is based and held its first meeting.

16. Although the parliament has no decisive powers as it does not have supranational powers to legislate over the various national congresses, it is an independent and autonomous organ, which has been created to have a strong political role to enhance the integration process. The parliament should therefore enhance and provide more stability in the decision-making processes of Mercosur, as it is the parliament's role to encourage the incorporation and enforcement of sub-regional rules. Importantly, the parliament will be the first organ of the Mercosur where decisions will not need unanimous votes, which should greatly increase the number of rules, declarations and recommendations produced and implemented.

17. The implementation process of the parliament will occur in three different stages. During the first stage, regional legislators (18 representatives from each Mercosur member country) will be elected among the representatives and senators of national Congresses. Representatives of the Associated Member

¹⁴ R. Bouzas & H. Soltz (2000) Institutions and regional integration: the case of Mercosur, in V. Bulmer-Thomas (ed), London: Institute of Latin American Studies, <http://www.netamericas.net/Researchpapers/Documents/Bouzas/Bouzas1.pdf>.

¹⁵ Mercosur Declarations website: <http://www.mercosur.int/msweb/portal%20intermediario/es/index.htm>

countries (Bolivia, Chile, Colombia, Ecuador and Peru) will be allowed to participate in parliament discussions however they will not have the right to vote. This will allow for a period of transition until the end of 2010 during which the above indirect election procedure will be used. In the second stage (2010-2014), each member country will have to choose its parliamentary representatives according to its elections agenda for the forthcoming four-year term. Finally in the third stage (2014 onwards), Mercosur parliamentarians will be elected by citizens of the bloc's countries through direct, universal, secret ballots and the elections to take place simultaneously in all countries ¹⁶.

IV. Mercosur in the early stages of the integration process

A. Customs Union

18. One of the main characteristics of Mercosur is the establishment of a customs union and the common external tariff (CET) for most of the imports. The CET was applied to about 85% of imports as it included twelve tariff levels depending on the goods, which lead to a great decrease in overall tariffs compared to the rest of the world¹⁷. This encouraged the economic integration of Mercosur, which quickly resulted in a significant increase in intra-region trading between 1990 and 1998.

19. At the same time, the favourable opening of trade policies of the member countries also led to a substantial increase of trade with countries outside the region, therefore the regional trade liberalization increased the overall trade liberalization. Importantly, the regional trade between members was more significant and created more revenue than outside trade, thus fulfilling the purpose of the alliance, to be most beneficial to its member states and the region. Additionally, one of the greatest consequences of the Mercosur economic integration process was the increase in direct foreign investment in the region, especially between Argentina and Brazil¹⁸.

20. The regional agreement created increases in the openness and levels of intra-industrial trade between countries and this not only strengthened trade but also the individual economies and industries of the member countries. This generated a greater interdependence as countries divided the production of specific products between them to share the costs and gains of trade. An important challenge Mercosur faces is to advance decisively toward the deep integration of the national economies into a single economic area. This strategic goal would imply avoiding national macroeconomic regimes, which could deter

¹⁶ INTAL, Newsletter, March 2007, IADB, http://www.iadb.org/intal/detalle_carta.asp?tid=5&idioma=eng&carta_id=501&cid=234

¹⁷ P. Paiva & R. Gazel (2003) Mercosur: Past, Present and Future, IADB <http://www.face.ufmg.br/novaeconomia/sumarios/v13n2/Paiva.pdf>

¹⁸ R. Bonelli (2001) in Paolo Paiva & Ricardo Gazel (2003) Mercosur: Past, Present and Future, IADB <http://www.face.ufmg.br/novaeconomia/sumarios/v13n2/Paiva.pdf>

trade and the need to strengthen policy coordination however the economic crises of certain members and their concerns over sovereignty interfered with the progression of this goal.¹⁹

B. The process of policy harmonization

21. The process of harmonizing macroeconomic policy was a necessary condition for the integration process; however their efforts were not always focused, coordinated nor continuous. Argentina and Brazil suffered economic crises that had major impacts on the regions economies and highlighted the need for coordinated macroeconomic policies that would allow member states to be less susceptible to these intra regional economic shocks but also more prepared for external shocks²⁰.

22. Harmonising both trade and economic policies is one of the greatest challenges the Common Market Group, Common Market Council and the Trade Commission face and which is they main responsibility. However very often the process of harmonization and creating common policies is one dictated by the member states governments and state of affairs. This is why ministers of economic affairs and the presidents of central banks of the full and associate member states met in 2000 and finally clearly established common macroeconomic policies and targets such as:

- a maximum inflation target of 5% for the period between 2002-2005
- a budget deficit of no more than 3% of GDP
- a suggested ration of public debt to GDP of no more than 40%.²¹

23. Without policy harmonization, not only are the member countries more susceptible to economic imbalances and crises but also they would continue to experience imbalance of economic gains and losses from the union²². Uruguay and Paraguay are the two smallest economies of the bloc and therefore have even more limited opportunities for economic growth if the other member countries do not make efforts to harmonize the region's macroeconomic and financial policies. The commitment to increase efforts to share and provide balanced gains

¹⁹ J. Fanelli (2002) Monetary Regimes and Macroeconomic Policy Coordination in Mercosur, CEDES Buenos Aires, <http://www.chathamhouse.org.uk/research/americas/papers/view/-/id/166/>

²⁰ W. Baer, T. Cavalcanti, & P. Silva (2002) Economic integration without policy coordination: The case of Mercosur, *Emerging Markets Review*, vol. 3, pp269-291, <http://econpapers.repec.org/scripts/redir.pl?u=http%3A%2F%2Fwww.sciencedirect.com%2Fscience%2Farticle%2FB6W69-46RDPYG-5%2F2%2F1ad602a253a5282ce1a3f3a993ac47dd;h=repec:eee:ememar:v:3:y:2002:i:3:p:269-291>

²¹ P. Paiva & R. Gazel (2003) Mercosur: Past, Present and Future, IADB <http://www.face.ufmg.br/novaeconomia/sumarios/v13n2/Paiva.pdf>

²² W. Baer, T. Cavalcanti, & P. Silva (2002) Economic integration without policy coordination: The case of Mercosur, *Emerging Markets Review*, vol. 3, pp269-291, <http://econpapers.repec.org/scripts/redir.pl?u=http%3A%2F%2Fwww.sciencedirect.com%2Fscience%2Farticle%2FB6W69-46RDPYG-5%2F2%2F1ad602a253a5282ce1a3f3a993ac47dd;h=repec:eee:ememar:v:3:y:2002:i:3:p:269-291>

from policies is a very significant factor in the deepening of the regional integration. It is recognized that not all members are equally vulnerable to market fluctuations or the measures taken by other member states to avoid economic loss, therefore the process of policy harmonization is vital for the progression of integration but also for the development of the various member states.

C. Promotion of democracy:

24. One of the significant characteristics of Mercosur's integration process is the importance and emphasis given to democratic principles and promotion of democracy. The 1998 Ushuaia Protocol highlighted that democracy is an essential component for successful integration and therefore all member states should be governed democratically. The protocol also declared that measures would be taken if the democratic order of a member country was ruptured.

25. Through this protocol they also declared that the Mercosur area, including its two associate states at the time: Bolivia and Chile, forms a peace zone, free of weapons of mass destruction. This helped remove any past threats or feelings of rivalry or hostility among the member countries and produced a greater sense of security in the region. In two different instances, Members of Mercosur used diplomatic means and pressure to ensure that democratic principles and practices would be enforced in Paraguay and Bolivia after political violence surged in both of these countries. Diplomatic pressure by individual states was the only possible means to promote a democratic resolution of the conflicts as Mercosur as a united bloc could not issue a statement because it would necessitate absolute consensus from all member states. However, despite this need for absolute consensus to take a stand on an issue, there is the provision that if an undemocratic government were to take power in one of the member states, that state would no longer be a member of Mercosur.

26. The democratic principle is also very important to the integration process of Mercosur as an institution. As Ricardo Lagos (the ex-president of Chile) stated at a conference on the regional integration in July 2006, both political and economic integration is a long and difficult process that must encompass the different realities of its member countries²³. The option of a political membership of states (such as the role of associate members) recognizes that Mercosur has a democratic identity that helps fulfil the need for regional unity to face global challenges. It is therefore these democratic principles and practices that often enable Mercosur's participation and influence in both regional and global issues.

²³ Mercosur (2006) Se realizo en Montevideo el encuentro del Mercosur sobre la integracion regional, Mercosur Press Release, http://www.presidenciamercosur.org/es/prensa_ver.php?id=128&PHPSESSID=ea28b8eaf24faf5dfee6a1feca60619e

D. Becoming a negotiating bloc

27. Becoming a united negotiating block is one of the main purposes of the creation of Mercosur as an integration mechanism, to create more leverage and promote their interests in the regional but also in the global political economy. In January 2002, for the first time Mercosur effectively presented a united political front to the rest of the world through their negotiations with the FTAA. Further that year they presented their clear interest in negotiating with the EU as a united trading block²⁴. This is evidence that Mercosur as an integration mechanism is finally starting to function and adequately using its negotiating power.

28. The integration of Mercosur into the regional/international context implies being able to define common policies and more generally trade policies. Mercosur's openness policy towards the rest of the world has distinctive features and sequence. These have been identified by Espino and Azar (2005²⁵) through the bloc's three levels of trade liberalization: unilateral opening, multilateral liberalization in the framework of the WTO, and liberalization through integration schemes. These actions have become mutually reinforcing, and have helped work towards the formation of a common trade policy even though the economic and political contexts of the member states are very different and diverse which has made this process a difficult one.

29. The greatest examples of Mercosur's increasing ability to become a unified negotiating bloc can be seen through the agreements made with Chile and Bolivia, the active negotiations with the European Union and Andean Community countries, as well as their strong stance in the FTAA negotiations. These negotiations are also evident signs of their desire to multiply trade linkages with other areas on the basis of reciprocal agreements to expand economic but also political cooperation and the gains that these can produce. This positive element of the regional integration process needs to be strengthened as it would enhance the bloc's bargaining position as well as visibility on the international scene.

D. Improvement of social and labour rights and conditions

30. The member states of Mercosur have recognized that regional integration does not and cannot limit itself to trade and economic aspects as these often do have a spill over effect in other areas. This therefore created the need for Social and Labour Declarations that promote and underline the rights of the citizens of member states and create enhanced regulation frameworks. One of the consequences of the regional integration mechanism established was the opening of the labour market for free movement of workers between countries and

²⁴ A. Espino & P. Azar (2005) Mercosur: are we there yet? From cooperation to integration, Latin American Gender and Trade Network, Uruguay, <http://www.igtn.org/LatinAmerica/Mercosur-IGTN-01-05.pdf>

²⁵ IBID

entitling them to benefit from social protection. This also allowed them further work towards and implement the values and rights of established by international labour conventions of the ILO.

31. By creating social and labour norms and goals, and through their implementation in all member states, it not only helps the individual countries' development but it also creates greater capacity and compatibility to integrate societies, knowledge and transfer of these²⁶. The focus on the importance of education and coordinating educational policies has been an important achievement towards integration and development of the region as it greatly enhances the free movement of people and opportunities for employment throughout the region²⁷. Significantly, these common norms and goals help limit inequalities and imbalances between the different member states and their societies, which facilitates the integration of these. A prime example is the encouragement in the educational curriculum of all member states to include Spanish and Portuguese to further encourage integration and familiarization of the different cultures and societies of the bloc.

V. Mercosur's Mid-life crisis: the challenge of an overly economic integration process

A. Regional economic problems

32. Regional economic problems at the end of the 1990's slowed down the processes of liberalization and economic integration of Mercosur. The Asian financial crisis caused many economic challenges and recessions such as the Brazilian devaluation of the real in 1999 followed by the Argentinean peso overvaluation which both contributed to Argentina's economic crisis in 2001²⁸. These regional economic challenges and crises caused many conflicts between the member states, such monetary policies and changing tariff levels and nontariff barriers to try to compensate for economic problems. The lack of monetary policy harmonization between Brazil and Argentina is often blamed to be the cause of "disintegration in the Mercosur", as it had severe repercussions on the other member states.

²⁶ R. Monteiro (1999) Globalización, identidades y medios: el recorrido por una trama compleja, La integración: aspectos económicos, sociales y políticos, Universidad Nacional de Río Cuarto. Depto. de Ciencias de la Comunicación
<http://www.ceride.gov.ar/servicios/comunica/ponencias/endicom1999.htm>

²⁷ CCSCS (2004) La centralidad del empleo y del trabajo para la integración del Mercosur, Documento de análisis, Coordinadora de Centrales Sindicales del Cono Sur,
<http://www.trabajo.gov.ar/crem/conferencia/files/centrales.pdf>

²⁸ G. Bird & R. Rajan (2002) The political economy of a trade-first approach to regionalism, Centre for International Economic Studies, Adelaide University, Discussion Paper no. 0218,
<http://www.adelaide.edu.au/cies/papers/0218.pdf>

33. The economic crises led to disputes, as tariff levels were not respected and more protectionist policies were put in place to favour national economic progression rather the policies that took into consideration the bloc's needs and established legal policy requirements²⁹. These changes and policies increased imbalances and greatly affected the other member countries without any prior consultations or regard as to their negative spill over effects. These events showed that governments would always prioritise self-interest before the group's policies and interest. The economic crises therefore have not only been obstacles to the continuation and deepening of integration but have also harmed the credibility and enthusiasm for the process itself.

34. The lack of timely and efficient macroeconomic policy harmonization has also been said to contribute to the regions economic problems and consequently leading to the stagnation of the process and the lack of belief in this system of integration. Further the lack of institutional infrastructure and more formal and efficient mechanism for dispute settlement has impeded the progression and strengthening of the regional system of integration, rendering it unable to overcome these economic problems and disagreements. The practical reality of the process was that decisions depended on diplomatic/political actions and did not allow for a systematic and timely approach to issues, policies and disputes.

35. Although Mercosur experienced vast economic and trade improvements in its early years, it did not consolidate into a fully integrated economic area, rather Baruj, Rosacaff & Porta (2006³⁰) put forward that if "functioned as a very imperfect free trade area". These consequences of the regional economic problems partly caused what we could call the "midlife crisis" of the integration process as it greatly questioned the bloc's ability and needed compatibility to create a strong integration mechanism³¹.

B. Lack of shared vision and enforcement processes

²⁹ G. Baruj, B. Rosacaff & F. Porta (2006) Políticas nacionales y la profundización del Mercosur: El impacto de las políticas de competitividad, CEPAL, Documento de Proyectos no.74, http://www.eclac.org/cgi-bin/getProd.asp?xml=/publicaciones/xml/8/24238/P24238.xml&xsl=/argentina/tpl/p9f.xsl&base=/dma_ah/tpl/top-bottom.xslt

³⁰ G. Baruj, B. Rosacaff & F. Porta (2006) Políticas nacionales y la profundización del Mercosur: El impacto de las políticas de competitividad, CEPAL, Documento de Proyectos no.74, http://www.eclac.org/cgi-bin/getProd.asp?xml=/publicaciones/xml/8/24238/P24238.xml&xsl=/argentina/tpl/p9f.xsl&base=/dma_ah/tpl/top-bottom.xslt

³¹ J. Pinto Andrade, M. Falcao Silvia & H. Trautwein (2005) Disintegrating effects of monetary policies in the Mercosur, Structural Change and Economic Dynamics Journal, vol. 16, pp 65-89, <http://econpapers.repec.org/scripts/redir.pl?u=http%3A%2F%2Fwww.sciencedirect.com%2Fscience%2Farticle%2FB6VFN-4D9924W-1%2F2%2F8990b5df42142e0482cebf1affa9ee8a:h=repec:eee:strepo:v:16:y:2005:i:1:p:65-89>

36. Although the vision for Mercosur was to create a common market, it has failed to become a full and functioning common market, this can explain the move towards a simpler goal: a customs union³². However creating this customs union was also difficult and is a dysfunctional union because of over 800 exceptions to tariffs and the imperfect and inconsistent implementation of procedures at border customs. Hulse (2005³³) argues that Mercosur is the “diluted mix” of a common market, customs union and free trade area which can be best described as an “imperfect customs union”.

37. The lack of a shared vision and implementation process of the integration among the member states is a major obstacle to the deepening of Mercosur as an integration process. Both Argentina and Brazil have the greatest political and economic weight in this union and therefore all decisions and the strengthening of the Mercosur is functional to the respective national agendas and more specifically the agendas of the current presidents in power³⁴. These two key member states have always preferred to maintain national sovereignty and therefore have pursued to shape Mercosur on the principles of “inter-governmentalism” rather than creating independent supranational institutions, such as those of the EU, to govern the process of integration.

38. Uruguay and Paraguay (the two smaller countries of the union) would have preferred a deeper institutionalization of the Mercosur as it would have given them more opportunities and leverage to defend their interests which up to now have often been undermined. This imbalance of power greatly affected the ability to have and create a common vision for the bloc and for decisions to be made. It is the lack of institutional procedures and the use of consensus as decision-making power which became obstacles to creating and adopting common political alignments and policies which would allow for greater political integration³⁵. These differences in the visions and functions of Mercosur as an integration process can explain the often slow and stagnating development of Mercosur, especially as it welcomes more full and associate members.

C. Integration viewed solely as economic decision-making

39. The deepening of Mercosur’s integration in its early years was associated with fulfilling determined policies and trade obligations rather than encouraging

³² J. Hulse (2005) Mecosur – Demystified, Global Envision, <http://www.globalenvision.org/library/15/807/>

³³ IBID

³⁴ A. Espino & P. Azar (2005) Mercosur: are we there yet? From cooperation to integration, Latin American Gender and Trade Network, Uruguay, <http://www.igtan.org/LatinAmerica/Mercosur-IGTN-01-05.pdf>

³⁵ J. Albuquerque (2004) Political Cooperation in Mercosur, p 4, Chatham House Mercosur Study Group, http://www.chathamhouse.org.uk/publications/papers/download/-/id/165/file/3803_guilhon_paper.pdf.

dialogue, cooperation and institutionalization. From its creation, Mercosur's main concern was economic development and progression in the global economy. This is why the "incentive wars" and national policies have often proved to be prejudicial to the integration process as national actions and policies to adjust to economic difficulties have had negative effects and have created further competition between member states³⁶.

40. For the further deepening of the integration of the region, member states should have adjusted their national policies and coping mechanisms to reflect the principles of an open regional market and reducing the conditions for competition with all producers in member states rather than causing imbalances in competition and opportunities. However, the relationships between the member states were often purely economic rather than conducive to dialogue and cooperation. It would have greatly helped strengthen regional cooperation and integration in more areas than just economic development if regional relations were less focused on the economic gains this partnership could bring.

41. This purely economic vision and purpose of the union is reflected in Mercosur's initial institutional structure, where most organs that composed it, dealt with trade and economic policy. Political and social aspect of regional integration was not directly incorporated into the functioning of the institution nor was it given sufficient importance or opportunities to be discussed. The lack of political integration in Mercosur's endeavors possibly also greatly hindered Mercosur's development, as it did not have that purpose to counter the stagnating economic integration due economic problems and divergences of member states. Therefore once the bloc was economically disintegrating, it put into question the existence and future of the union as it seemed to serve no other purpose.

D. Lack of policy coordination and implementation

42. The lack of coordination of policies and the view that minimal fulfillment of the customs union commitments is sufficient to produce integration and beneficial results, limited the potential that Mercosur could have as a mechanism of regional integration. The tendency towards "ad hoc decision making" especially in times of economic crises and violations of the core agreements, undermined any attempted policy coordination or harmonization and importantly undermined the credibility of the agreements that make up Mercosur³⁷. Too often did the individual countries' economic policies override

³⁶ G. Baruj, B. Rosacaff & F. Porta (2006) Políticas nacionales y la profundización del Mercosur: El impacto de las políticas de competitividad, CEPAL, Documento de Proyectos no.74, <http://www.eclac.org/cgi-bin/getProd.asp?xml=/publicaciones/xml/8/24238/P24238.xml&xsl=/argentina/tpl/p9f.xsl&base=/dmaah/tpl/top-bottom.xslt>

³⁷ N. Phillips (2003) The rise and fall of open regionalism? Comparative reflections on regional governance on the Southern Cone of Latin America, *Third World Quarterly*, vol. 24, pp 217-234,

the group's strategic economic policies to allow for better adjustment to the competitiveness of the liberalization process to integrate the global market.

43. The declining economic harmony and cooperation in the region in the late 1990's, exposed the declining relevance of Mercosur which in turn negatively affected the little domestic political support it had³⁸. The lack of adequate and systematic use of the dispute settlement mechanisms also interfered with the implementation and/or coordination of policies which weakened not only Mercosur's strength as a trading bloc but also weakened its credibility with other trading blocs.

44. The lack or weak implementation of common policies greatly affected the effective functioning of the regional integration scheme. A good example is the arbitration mechanism (established by the Protocol of Brasilia, 1994), which is based on an Ad hoc Arbitration Court, which does not lead to a binding mechanism for solving disputes. This therefore signifies that any decision reached by the Ad hoc Arbitration Court is not legally binding. Some disputes have even necessitated the intervention of the Presidents of the four countries to solve (trade) disputes of a technical nature. However, the decision to establish a new arbitration mechanism and to create a Permanent Arbitration Court was taken during the recent meeting of the Mercosur Common Council (18 February 2002).

E. Inconsistent leadership and political commitment

45. Weak political commitment to Mercosur and its institutionalization is one of the major obstacles for effective integration³⁹. Political commitment and utilization of Mercosur as an institution was based on current national interests and gains from the member states and therefore there were no consistent efforts to strengthen or expand its scope and function. Gomez Mera⁴⁰ argues that the survival of Mercosur "can be understood in terms of convergent strategic or foreign policy interests of its two major partners, Argentina and Brazil as the commercial relevance of the bloc weakened in importance, negotiating access to developed countries markets became essential". The focus on economic integration has resulted in a weak political integration and importantly it has not

<http://www.ingentaconnect.com/content/routledg/ctwq/2003/00000024/00000002/art00003?token=00491a1baab74bc0086d4e2224677e442f20675d3b763f446a496e6c427a51af7d33c95e6>

³⁸ L. Gomez Mera (2005) Explaining Mercosur's Survival: Strategic Sources of Argentine-Brazilian Convergence, *Journal of Latin American Studies*, Vol.37, pp 109-140, <http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=282326>

³⁹ R. Bouzas (2005) Perspectias de la integracion en Amercia Latina y el Caribe, Logros y limites de la integracion regional: Mercosur, INTAL/BID, http://www.iadb.org/intal/aplicaciones/uploads/ponencias/Foro_intal_2005_13_Bouzas.pdf

⁴⁰ M. Gomez Mera (1995) in M. Carranza (2006) Clinging together: Mercosur's ambitious external agenda, its internal crisis, and the future of regional economic integration in South Amercia, *Review of International Political Economy*, Vol.13, Issue 5, pp813 <http://www.informaworld.com/smpp/content~content=a764337913~db=all>

facilitated the participation and representation of the citizens of its member states.

46. Malamud⁴¹ argues that the lack of established regional institutions to guide the integration process of Mercosur is both cause and effect of the executive form of decision-making and the leadership of Mercosur by the member state's Presidents. That is to say, all decisive power and efforts have emanated from the Presidents in power and therefore remove the function of any structured institutionalization of decision-making. Mercosur was the extension of a treaty created by the presidents of Brazil and Argentina and it was these same presidents who pushed forward the regional integration process, which was then continued at will by their successors. It is also said that one of the unique characteristics of Mercosur is the role presidents played in keeping the integration process from stalling completely and disintegrating, however of course this greatly depended on the current needs and contexts at the time.

47. The replacement of institutionalism by "presidentialism" can be explained by the general lack of trust and confidence in national institutional channels, as they are perceived as slow and unjust in their decision-making. This is why there is a culture of engaging directly with the decision-making powers: in this case, presidents. Importantly civil society has not been included in the creation or the implementation of the integration process until mid 2000's and this was only one when the need for social and labour policies was evident⁴². This lack of inclusion of various sectors of the population and citizens themselves has hindered any support the different states sought for strengthening Mercosur. This is a clear indication that Mercosur is a State (or president) led project, with unbalanced decision-making processes, which clearly lack the needed support and credibility.

48. So far, all important decisions taken are by the presidents and ministers of the countries involved. This breaks and limits the institutional dynamics of integration. Firstly, because presidents and ministers cannot meet frequently and when they do, instead of discussing a positive agenda, they are forced to deal with problems, and very often these could have been dealt with at the level of Mercosur's lower bodies⁴³. In conclusion the lack of a supranational organism or leadership greatly hinders the ability to accomplish any actions towards deepening integration (Enrique Petracchi, 2006 interview on Mercosur abc).

⁴¹ A. Malamud (2005) Presidentialism and Mercosur: A hidden cause for a successful experience, n Finn Laursen (ed.): Comparative Regional Integration: Theoretical Perspectives, Ashgate, Aldershot, p63. [http://home.iscte.pt/~ansmd/Presidentialism%20and%20Mercosur%20\(Laursen%20book\).pdf](http://home.iscte.pt/~ansmd/Presidentialism%20and%20Mercosur%20(Laursen%20book).pdf)

⁴² M. Carranza (2006) Clinging together: Mercosur's ambitious external agenda, its internal crisis, and the future of regional economic integration in South America, Review of International Political Economy, Vol.13, Issue 5, pp813
<http://www.informaworld.com/smpp/content~content=a764337913~db=all>

⁴³ M. Guedes de Oliveira, J. Monnet & R. Schuman (2005) Mercosur: Political Development and Comparative Issues with the European Union – Paper Series Vol.5 No.19, <http://www.miami.edu/eucenter/guedesfinal.pdf>

F. Inconsistent as a united negotiating bloc

49. Mercosur as a political and strategic platform has not yet resulted in any specific beneficial outcomes. During the negotiations with the EU, the talks not only stalled because of the EU's reluctance to make concession on agricultural subsidies but also because the member states could not agree on a list of goods to offer market access to the EU. This is not only a failure in the strategic external agenda of Mercosur but also that of the internal agenda as exceptions in lists of goods and tariffs are still key impediments to intra-regional trade. This lack of coordination and unity towards a major key global actor and trading partner greatly hampers their future negotiating power and credibility. Mercosur was unable use its potential power as a negotiating bloc during these negotiations because of disagreements between the member states and as a bloc, Mercosur clearly needs to establish unity and commitment to both its internal and external agendas.

50. The difficulty of becoming a negotiating bloc is that these economically and politically diverse countries were exposed to various negotiations at the same time. They needed to juggle their interests and strategies between FTAA, EU and the WTO negotiations in addition to the regional trade agreements with the Community of Andian Nations. Their position with one trading bloc and the outcome of those negotiations would greatly affect the outcomes of the other negotiations, and of course there were disagreements between them as to which of these negotiations to favour and progress with. There were too many options available and too many diverging conditions for members of Mercosur to produce one adequate negotiating position.

51. Additionally to their diversity in expectations for the negotiations, they always have to start any negotiation with the least advantageous position that one of the individual member states may have on the specific item or area. For example, if Argentina refuses to open its inefficient sugar sector, Mercosur automatically worsens its bargaining position involving this sector, thus harming the interests of sugar exporters in Brazil – the biggest and most efficient sugar producing nation in the world⁴⁴. This illustrates how lack of policy harmonization and coordination not only hinders other member states of the bloc but also greatly disadvantages Mercosur's negotiating power with other trading blocs.

⁴⁴ M. Jank (2004) A suitcase without a handle: Brazil's expression, Mercosur's fate, Yale Global online, <http://yaleglobal.yale.edu/display.article?id=4696>

G. Disenchantment and disagreements amongst members

52. All of the above mentioned challenges that Mercosur has faced are a product of the differences between the member states and imbalances of power that emanate from these. Mercosur's inability, as a regional integration mechanism, to tackle these negative effects of the alliance has caused not only numerous disagreements but also disenchantment amongst members with the integration process. The focus on trade related issues and disputes not only dictated the nature of the often hostile relationships between the member states but also limited the purpose and use being a member of the bloc, therefore removing any desire to keep the integration process alive.

53. The regional economic problems were a consequence of the lack of policy harmonization and coordination, which then had further repercussion on policy coordination as the member states put their needs and interests first, without coordination or cooperation with the rest of the bloc. The policies adopted to tackle these economic challenges created many disagreements and disputes as they had many negative repercussions on other member states. The disputes and disagreements amongst member states were accentuated by the imbalance of power where Argentina and Brazil had majority of the influence and Uruguay and Paraguay's interests and demands had minor importance and influence.

54. Uruguay's and Paraguay's disenchantment with Mercosur is reflected in their continuous demand for greater institutionalization of Mercosur. With a more structured and solidified institutionalization, policies could be more coherent, further disputes and disagreements could be dealt with more systematically. This disenchantment with Mercosur was manifested even more evidently during the FTAA negotiations, when Uruguay began to independently negotiate an agreement with the U.S. , however Uruguay could not sign such agreement without leaving the bloc. This was the clearest sign that Mercosur was in crisis and could not continue to function as a regional integration mechanism with out making changes.

VI. The relaunching of Mercosur

55. The role and impact of Mercosur began to decrease towards the end of the 1990's, which led to the reaffirmation of commitment towards regional integration by Brazil and subsequently the other members in the early 2000's. This was known as the "relaunching" of Mercosur which put forward a new purpose and role of the bloc, encompassing the expansion of the bloc, more cooperation in various areas such as scientific research, education and military/defense policy, enhanced macro economic policy coordination and the intention

to work towards a common currency⁴⁵. More specifically at the presidential summit in June 2003, the member states reaffirmed their commitment to revitalize the bloc and increase efforts to work towards a full and efficient customs union and common market by 2006.

56. To a certain extent the timing of the recent election of “pro-Mercosur” presidents in Brazil and Argentina was the greatest catalyst for the relaunching campaign, as they both understood the strategic importance and potential of the bloc. These “strategic interests” are termed by Gomez Mera (2005⁴⁶) as “defensive” because of countries’ “relative weakness within a highly asymmetrical international system” and “offensive” because of Brazil’s strong position in the region and maintenance of this advantage. In addition, the collaboration of the executive officials via the increased interaction throughout the years has produced commitment amongst them to further generate support and interest in seeing Mercosur progress.

57. This relaunching emerged from what seems to be a greater political will for the deepening of the integration process to strengthen Mercosur as a political and strategic unit and platform. The new role of this political and strategic platform was needed to ensure successful and beneficial outcomes of negotiations with the FTAA and the EU. The bloc needed to present a united front and the member states needed to have a coordinated position and policy towards these powerful trading blocs to firstly ensure the continuity and relevance of Mercosur, but also gain from any agreement made rather than create more competition and disadvantage in the region.

58. The relaunching was also aimed at addressing questions of competitiveness between members and the challenges posed by the changing market economy on member states. This is why it has been argued that the external agenda of Mercosur was meant to act as the “glue” to keep Mercosur united, because of the divergence with the internal agenda and vision for the bloc⁴⁷. The relaunching enabled the strengthening of the permanent institutions of Mercosur, consequently giving them a stronger juridical status, and allowing them to represent the four member states in the trade negotiations with the FTAA and EU.

⁴⁵ N. Phillips (2001) Regionalist governance in the new political economy of development: ‘relaunching the Mercosur’, *Third World Quarterly*, vol. 22, pp 565-583, <http://www.informaworld.com/smpp/content~content=a713701178~db=all>

⁴⁶ L. Gomez Mera (2005) Explaining Mercosur’s Survival: Strategic Sources of Argentine-Brazilian Convergence, *Journal of Latin American Studies*, Vol.37, pp 109-140, <http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=282326>

⁴⁷ N. Phillips (2001) Regionalist governance in the new political economy of development: ‘relaunching the Mercosur’, *Third World Quarterly*, vol. 22, pp 565-583, <http://www.informaworld.com/smpp/content~content=a713701178~db=all>

59. Given the political, economic and institutional crisis Mercosur experienced, the Common Market Council meeting held in Asuncion in June 2001, emphasized the need to make progress in the following key areas:

- a) Reformulation of the system of dispute settlements;
- b) Identification and elimination of intra-regional barriers to trade;
- c) Elaboration of common trade disciplines to prevent the imposition of trade distorting measures;
- d) Creation of a Free Trade Area of the Americas;
- e) Creation of an Inter-regional Association Agreement with the EU.⁴⁸

These issues are reflected in the recent developments and efforts to strengthen Mercosur and deep its integration process.

VII. Maturing and Deepening of the integration:

A. A move away from trade focus

60. The aims of Mercosur are to deal with regional economic development to ensure that the region will become more relevant and integrated into the global economy than it currently is and to keep relative interdependence in order to be capable of having options for increasing their united international economic and political power. Mercosur has lived through different governments –five only in Brazil- and is undoubtedly a strategic project for its member countries as they continue to commit support and resources to its progression and expansion.

61. From its creation, the four members acknowledged that the endeavour of a common market would also necessitate political integration for dispute settlement and increased stable relations among member countries. Furthermore, a stated goal of Mercosur is to increase the equality and well-being of all member states' citizens, an ambition that can only succeed with some level of political convergence. However, in the fifteen years since the treaty of Asunción was signed, few efforts have been made to harmonize the foreign policies of Mercosur members and integrate the member states socially, and the bloc remains primarily a customs union with few effective levels of political integration.

62. The relaunching of Mercosur enabled to presidents to discuss and emphasise the growing importance of political and social integration in addition to the strengthening of the common market for the future of the bloc. The rhetoric employed by member states significantly centered on the future of MERCOSUR as a social, political and economic union to fight inequality, poverty, unemployment and to guarantee the well-being of its citizens. With this in mind, a social summit was organized to bring together civil society representatives

⁴⁸ European Commission (2002) Mercosur- European Community Regional Strategy Paper 2002-2006, E.C., ec.europa.eu/external_relations/mercosur/rsp/02_06en.pdf

from the member states, to take place alongside the presidential summit. This allowed civil society to form cross-border relationships, discussion of common experiences, needs and values, encouraging them to become involved in the integration process. This will not only help bridge the gap between economic and political integration, but will also increase support for the integration process.

63. With its expanding membership, it is believed that Mercosur will undoubtedly become a mechanism for political integration and shift the focus away from economic integration⁴⁹. The successful establishment of the Parliament should also help guide the new efforts towards political integration even though it will not have supranational powers to legislate over national congresses. However Oppenheimer questions how successful these new efforts towards political integration will be as:

“Mercosur is building political institutions without having implemented its most basic economic agreements. If the new Parlasur parliament helps get each country’s congress to remove trade barriers in the region, it will be a welcome development. If not, it will become just another Latin American integration bureaucracy”⁵⁰.

B. Relations with the EU

64. Mercosur’s progression and future as an integration system is not solely dependent on regional relations but it also dependent on external relations with key global players such as the EU. Mercosur’s strategy and expansion can be described by the term “New Regionalism” which describes the new tendencies in global regional agreements. A striking feature of the New Regionalism, which characterizes Mercosur, is the willingness to negotiate reciprocal free trade agreements with other industrialized countries⁵¹. The negotiations for the FTAA and those with the EU were great challenges for Mercosur to be an effective negotiation platform and achieve a better insertion into the global economy. The negotiations with the EU are part of a strategic development approach to sustainable development, macroeconomic stability, poverty alleviation and the consolidation of democracy and good governance.

65. These negotiations not only represent an economic alliance but also a political alliance between Mercosur and the EU. The negotiations started in November 1999 and in the first phase they were to agree on selected issues regarding the political and cooperation dialogue, exchange preliminary information on tariffs barriers and exchange proposals for the reduction of non-

⁴⁹A. Oppenheimer (2007) Mercosur trade bloc in limbo, Miami Herald, 14 June 2007, http://www.bilaterals.org/article.php3?id_article=8716

⁵⁰ A. Oppenheimer (2007) Mercosur trade bloc in limbo, Miami Herald, 14 June 2007, http://www.bilaterals.org/article.php3?id_article=8716

⁵¹ A. Estevadeordal, J. Goto & R. Saez (2000) The New Regionalism in the Americas: The Case of Mercosur, INTAL Working Paper 5, <http://sejong.metapress.com/index/4UJE9RYM4BNN24X9.pdf>

tariffs barriers⁵². Therefore the negotiations for the Inter-regional Association Agreement are grounded on political and economic incentives as, for both regions, regional integration is an instrument to simultaneously achieve economic and foreign policy objectives. Trade talks entered the second phase in July 2001 when, through the exchange of negotiating texts for goods, services and government procurement, market access negotiations effectively started.

66. The Second Presidential Summit held in Madrid in May 2002 reiterated the political commitment for the conclusion of this free trade agreement between two customs unions and announced an agreement on business facilitation measures. Contrary to other integration processes that simply target the creation of free trade areas, these negotiations wish to create a common market, deepen political cooperation and increase their respective roles in global affairs through regional integration policies. Most importantly these negotiations with the EU help increase Mercosur's internal legitimacy and support and help rebuild its external credibility. For this to occur, the member states have to be more cooperative than in the past and consolidate a common position in front of the EU, which in itself will be proof of deepening integration in Mercosur⁵³.

C. Expansion of membership and associate members

67. Negotiations with Chile and Bolivia ended in 1996 with the creation of two separate free trade areas. These successful agreements have created a model for other intra-regional negotiations as they have demonstrated the benefits that arise from having the political status of associated members of Mercosur. Significantly these agreements provide the obligation of gradually and automatically dismantling all tariffs, without allowing any permanent exception. These types of agreements have a specific strategic purpose as they allow countries to experience the integration process and encourage them to seek full membership, as is the case for Bolivia. Regional expansion of Mercosur would certainly increase gains and resources available to help the integration process progress and be more efficient.

68. Mercosur now has two new full members, Bolivia and Venezuela. The acceptance of these new members were very important political and economic strategic decisions. Both of these countries will add valuable trade and energy sources to the bloc. However they also have strong political stances that not all of Mercosur members agree with and this will affect the political integration process and also Mercosur's external agenda. These controversial aspects of the new

⁵² P. Giordano (2002) *The External Dimension of Mercosur: Prospects for North-South integration with the European Union*, Royal Institute for International Affairs, London, <http://www.chathamhouse.org.uk/research/americas/papers/view/-/id/168>

⁵³ European Commission (2002) *Mercosur- European Community Regional Strategy Paper 2002-2006*, E.C., ec.europa.eu/external_relations/mercosur/rsp/02_06en.pdf

members are reflected in practical application of membership as the Brazilian and Paraguayan parliaments still have to ratify their membership⁵⁴.

D. Finally an established parliament

69. The Mercosur Parliament was finally created this year, over ten years after the creation of Mercosur and having overcome the great reluctance of certain member states to have a more formal institutionalization of Mercosur. However, the parliament has only met for one session and still needs to become a fully functioning organism. The parliamentarians have been indirectly elected by their respective government and will only be elected by the member states' citizens around 2014 when the system will hopefully be fully functioning. The parliament will allow the member states' representatives to interact and discuss matters more efficiently, which should produce greater results for the integration process.

70. The effective implementation and use of the parliament will not only make the decision-making process more democratic and informed but it would also enable the inclusion of civil society in the formulation of policies and decisions. A meaningful participation of civil society and experts would certainly facilitate the deepening and strengthening of the integration process. The parliament will also assist in creating compatibility between national political projects and policies with the political projects and policies of the bloc⁵⁵. For the parliament to fulfill its mission and purpose it will have to be representative of all its member states and their societies, with efficacy, legitimacy and credibility⁵⁶. This has not been the case in the past due to the lack of institutionalization, which therefore limited the progression of regional integration⁵⁷. It is hoped that a clearer legislative hierarchy and deepened institutionalization through the parliament will greatly enhance integration and guarantee the effective implementation of decisions and policies taken by the bloc.

E. Enhanced cooperation and dialogue with other South American countries and integration blocs

71. With the recent addition of Bolivia who is also a member of the Andean Community and Venezuela who was a former member of the bloc, Mercosur hopes to create closer ties and cooperation between the two blocs and their

⁵⁴ U. Nogueira (2007) MERCOSUR y la agenda de incorporación de la República Bolivariana de Venezuela, Mercosurabc, <http://www.mercosurabc.com.ar/nota.asp?IdNota=1207&IdSeccion=2>

⁵⁵ M. Garcia (2006) Mercosur y America del Sur se confundieron para bien y para mal, Mercosurabc Interviews, <http://www.mercosurabc.com.ar/nota.asp?IdNota=737&IdSeccion=7>

⁵⁶ F. Pena (2006) Mercosur: Una estructura normativa de profundo sentido politico, Mercosurabc Interviews, <http://www.mercosurabc.com.ar/nota.asp?IdNota=877&IdSeccion=7>

⁵⁷ E. Petracchi (2006) Derecho Comunitario debe regular la integracion, Mercosurabc Interviews, <http://www.mercosurabc.com.ar/nota.asp?IdNota=654&IdSeccion=7>

member states. They have also encouraged other Andean and South American nations to consider becoming associate members of Mercosur, such as Ecuador and Colombia. Further, dialogue has also been enhanced with the Caribbean nations, to possibly counter the effect of the FTAA and the bilateral negotiations some of the Caribbean countries are/ have negotiated with the United States. This continental dialogue and cooperation allows not only for greater development opportunities for the countries concerned but also allows the different blocs an alternative to joining the FTAA and turn South America into a more integrated region.

72. Importantly, the political climate and tendencies in South America are changing and moving away from neoliberal theories which is also influencing the relaunching and strengthening of Mercosur. The elections of leftist Presidents such as Evo Morales and Hugo Chavez, Argentina and Brazil's repayment of their entire debts to the IMF and the creation of the Bank of South are clear signs that South American leadership wants a change and is searching for alternative ways to strengthen their global position as a bloc.

73. Carranza (2006⁵⁸) argues that if Mercosur is to survive and continue forming a mechanism of integration, it must move away from neoliberal globalization and formulate an alternative, autonomous development strategy. For this occur, Carranza⁵⁹ puts forward that there needs to be greater involvement and mobilization from the citizens of the member states to "energize a regionalism from below". This would lead to the democratization of the project and allow not only for a greater sense of involvement but also ownership of Mercosur and its future by the member states' citizens. This change of direction for Mercosur's regional integration strategy is reflected in their recent endeavours, described below, to not only unify Mercosur member countries but also South America as a continent. These endeavours show a clear commitment to progress towards a social and political integration, the development of the continent and a shift away from the purely economic focus of integration.

(i) A Unified Constitution for Latin America

74. In 2006, an initiative was launched from the discussions held at the Fifth World Social Forum in Porto Alegre, to create a unified constitution for Latin America with the objective to create a common minimum standard of living and norms in the region. The initiative was produced by a group of over 90 academics specialists from Argentina, Bolivia, Brazil, Germany, Mexico, Peru, Spain, Uruguay and Venezuela, coordinated by the Federal Work Team (an

⁵⁸ M. Carranza (2006) Clinging together: Mercosur's ambitious external agenda, its internal crisis, and the future of regional economic integration in South America, *Review of International Political Economy*, Vol.13, Issue 5, <http://www.informaworld.com/smpp/content~content=a764337913~db=all>

⁵⁹ IBID p803

Argentinean academic institution)⁶⁰. The text includes constitutional norms that go beyond human rights, approaching new emerging themes that consider specific Latin American issues such as sustainable development, poverty, health, work, education, climate change, political and social corporate responsibility etc.

75. This text was first presented to the public in August 2006 in the Argentinean national senate during the XII International Congress of the Federal Work Team. It was then distributed to universities, parliaments, embassies, trade unions and made accessible to the general public. Although this initiative for a regional constitution was not produced by Mercosur as an institution it was produced its member countries and their academics and specialists which were inspired by the importance and efforts of deepening integration of Mercosur and Latin America. This constitution would go beyond the Socio-Labour Declaration of Mercosur and would also be adopted by more countries rather than just South American, as Central American countries are often absent from the South American integration alliances and their declarations /treaties. If this constitution were to be adopted, it would not only reinforce the importance of integration and a regional, unified community but would also highlight the need of cooperation through laws, norms and rights rather than economic cooperation.

(ii) Energy integration

76. Acknowledging the current global issues and demand for energy, various South American Presidents met in April 2007 at the first South American Energy Summit to design an energy integration strategy for the region. During the summit, the leaders of the region discussed plans for a regional gas pipeline, the development of biofuel, the creation of the Bank of the South, and the unification of South America. The Venezuelan President, Hugo Chávez, proposed a “South American Energy Treaty” in order to guarantee energy, gas, petroleum and alternative fuels to the region for the next 100 years as predictions believe that consumption will only continue to increase rapidly and therefore efforts need to be made to meet the consumption rates⁶¹.

77. To meet their energy needs, the member countries at the summit agreed on various manners to implement energy cooperation and integration in the region. For example, Venezuela and Brazil launched a joint petrochemical plant, which is a clear step towards energy cooperation and integration (South Centre, South Bulletin 144 May 2007). Central to their integration plans the leaders discussed the construction of the gas pipeline known as the Great Gas Pipeline of the South, and the Trans-Caribbean Pipeline. With these pipelines Venezuela could supply the region with their gas reserves, beginning with Brazil. Most

⁶⁰ R. Capon Filas (2006) Una constitucion para America Latina. El primer anteproyecto, Mercosurabc Interviews, <http://www.mercosurabc.com.ar/nota.asp?IdNota=672&IdSeccion=7>

⁶¹ South Centre (2007) South Bulletin 144 May 2007, <http://www.southcentre.org/info/southbulletin/bulletin144.pdf>

strikingly, the pipeline is set to be built by Petrosur, a new venture between Petroleos de Venezuela, Petrobras, and Enersa, respectively the Venezuelan, Brazilian, and Argentinian state-owned oil companies. Petrosur has already started leading three of the projects on Mercosur's agenda: one in the Venezuelan Orinoco oil belt, another one in the Brazilian refinery "Abreu the Lima," and an exploration of reserves in Argentina. If this succeeds, Mercosur will be the world's fifth-largest oil exporter and will control the two largest natural gas reserves in the hemisphere after the US⁶².

78. On the very controversial topic of ethanol, the leaders managed to come to an agreement and resolve the differences between Venezuela and Brazil. Brazil had launched a plan with the U.S. to produce ethanol prior to the summit, and Hugo Chávez and Fidel Castro had criticized the plan as the production of ethanol could reduce the amount of fertile land allocated to produce food. They all agreed that in light of the energy crisis ethanol is a useful and viable alternative fuel that can complement traditional fuels like gasoline, but it would be "absolutely impossible" to use it as a replacement for gasoline and therefore more efforts should be made find alternative solutions.

79. Another important initiative that arose from the summit has been the financing of the infra-structural projects in the region. Brazil directed the Brazilian development bank, *Banco Nacional de Desenvolvimento Economico e Social*, (BNDES), to finance projects that would create and develop the integration of communications (roads, railroads, waterways and ports) the common production of energy (dams, the use of natural gas and other common natural resources such as water). The financing of these infrastructural needs across the region will help alleviate asymmetries between countries infrastructure and capacity, allowing them to have more access to energy and means of production⁶³. In consequence, this energy intergration agreement not only aims at advancing regional production, transport, and distribution of energy but it also aims to minimize the cost of trading energy to increase and strengthen the sustainable development of the region⁶⁴.

80. The launch of the energy integration initiative between Venezuela, Brazil, and Argentina is not only increasing cooperation and integration in areas of energy and development but it also strengthens the commitment to the economic free trade agreement between MERCOSUR and Andean Community of Nations

⁶² ECLAC (2006) Regional Energy Integration Strategies to Be Analyzed, ECLAC Press Release, <http://www.eclac.cl/cgi-bin/getProd.asp?xml=/prensa/noticias/comunicados/3/27053/P27053.xml&xsl=/prensa/tpl-i/p6f.xsl&base=/prensa/tpl-i/top-bottom.xsl>

⁶³ M. Guedes de Oliveira, J. Monnet & R. Schuman (2005) Mercosur: Political Development and Comparative Issues with the European Union – Paper Series Vol.5 No.19, <http://www.miami.edu/eucenter/guedesfinal.pdf>

⁶⁴ INTAL (2006) MERCOSUR: Regional Energy Complementation Agreement set forth in a Protocol, Monthly Newsletter No. 116 - March 2006, http://www.iadb.org/intal/articulo_carta.asp?tid=5&idioma=eng&aid=45&cid=234&carta_id=173

(CAN), which is the northern trade bloc composed of Venezuela, Ecuador, Peru, Bolivia, and Colombia. These different forms of regional integration and cooperation have been said to potentially become the base of what could be the South American Community of Nations (CSN), a continental free trade zone that would also include Chile, Guyana, and Surinam this is why the launch of this energy integration agreement is so important and symbolic.

81. Although this energy integration has been long needed because of increasing energy shortages, especially in the southern cone, some critics believe it stems from political motives to gain more political support for certain governments and strengthen their global leverage by creating a strong Latin American political and economic integration system. This can explain why this energy integration initiative is solely a state driven initiative, with only state-owned companies despite the fact that the Latin American energy market also includes various private companies, these were not included. According to Marcelo Mezquita, deputy head of UBS's section for Latin American research, "The strong political interests that surround it make it highly vulnerable to political fluctuations"⁶⁵. Therefore the energy integration's continuity and funding greatly depends on the political leadership and interests of the member states.

(iii) UNASUR and Bank of the South

82. During the Energy Integration Summit in 2007 the leaders of all Mercosur member countries and that of other Latin American countries decided to cooperate with each other in their political and economic policies to form the Union of South American Nations (UNASUR). The aim of forming this union is to work together for the development of the continent such as through the initiative launched at the summit. This Union is still in the process of being created and therefore the next step for its formation will be the election of a Permanent Executive Secretary. The headquarters of this new institution has been announced to be located in Quito, Ecuador. This is yet another agreement and formation of a mechanism to encourage integration and cooperation amongst Mercosur member countries and other Latin American countries.

83. Among other topics discussed at the energy summit was the creation of Bank of the South as a development bank to further help fund development projects and combat poverty in the region. The Bank has mainly been Argentina's and Venezuela's initiative as an alternative to the World Bank and the International Monetary Fund. Unlike other international financial organizations, the Bank of the South will be managed and funded by the countries of the region with the intention of funding social and economic development without imposing conditions on the recipient countries. Among the first projects that they

⁶⁵ Nicolas Alvear (2006) An energy driven South American integration, Columbia Political Review, Vol.5, No. 3, <http://www.columbiapoliticalreview.com/issues/5/3/>

will fund is the 8,000 kilometer gas pipeline across South America discussed during the Energy Summit. By creating the Bank of the South, the member states hope to build greater solidarity and cooperation in the region for increased development results⁶⁶.

84. Brazil, who has an estimated 100 billion dollars in reserves, will be a key addition to this multinational fund comprised of Venezuela, Argentina, Bolivia, and Ecuador. Brazil, with 110.5 billion US dollars in currency reserves towers over Venezuela and Argentina, which have \$31.3 billion and \$37.5 billion respectively. Venezuela had initially agreed to inject \$1.4 billion into the bank and Argentina would provide \$350 million, or 10 percent of their total reserves⁶⁷. The incorporation of Brazil will give the fund a significantly larger capacity by almost doubling the total amount of credit available and will therefore help the region to be less dependent on donor funding from the US and the EU.

VIII. Lessons for regional integration from the Mercosur experience

A. Flexibility vs institutionalisation

85. Mercosur did not follow the traditional path for the creation of the structure and institutionalization of an integration mechanism, as for example the EU. Some of the member states who created Mercosur favored flexibility, sovereignty and independence whilst recognizing the need for regional integration and cooperation for their development and relations with other global actors. The other member states would have preferred an earlier institutionalization of the bloc to allow for the creation of a more coherent agenda and to better the distribution of power and decision-making. However, it has been argued that this flexibility and lack of institutionalization of the Mercosur agreement and infrastructure/system was the prime condition that allowed the region to liberalize and create the free trade zone that produced significant economic results quickly after its adoption. Therefore the integration process was facilitated by the lack of "formal and more rigid structures", as inter-governmental mechanisms were favoured over institutionalization.

86. The disadvantage of the flexibility and lack of institutionalization is that it produced a more erratic and politicized process that often lacked coherence and consistency. Past a certain point, the flexibility that enabled economic prosperity began to constrain any further gains they could extract from the partnership. The lack of institutionalization began to threaten Mercosur's expansion and survival

⁶⁶ South Centre (2007) South Bulletin 144 May 2007, <http://www.southcentre.org/info/southbulletin/bulletin144.pdf>

⁶⁷ Nicolas Alvear (2006) An energy driven South American integration, Columbia Political Review, Vol.5, No. 3, <http://www.columbiapoliticalreview.com/issues/5/3/>

and therefore created the acknowledgement and need for more formal and rigid structures to enable the integration process to progress⁶⁸.

87. From Mercosur's experience, one can observe that flexibility upon the creation of an integration mechanism can be a helpful tool to allow the member states to integrate, adapt to and incorporate the integration process into their agenda and daily functioning to produce the desired gains. Their experience also showed that for the integration process to fully function and progress, institutionalization is also needed to guarantee coherent and consistent progression towards effective and unified integration. Importantly one must recognize that any integration process has its learning curve and lengthy implementation, therefore we cannot expect immediate results or institutionalization, as for example the Mercosur Parliament who took over 10 years to be established and is yet to be fully functional.

B. Progression and leadership

88. From Mercosur's creation to its progression and even its stagnation, the leadership of its member states were the driving force behind every policy, decision or change. The president's role replaced and filled the need or function of an institutionalized Mercosur. As has been noted by the above outline of the development of Mercosur as an integration process, this has had both beneficial and prejudicial consequences on the bloc. Very often decisions or reactions of Mercosur stemmed from the perception of threat or possible loss from a situation, by the Presidents of member states. For example: when Uruguay and Paraguay's discontent with Mercosur was at its highest and they were negotiating bilateral trade agreements with the FTAA, Brazil's and Argentina's presidents decided to relaunch Mercosur and allow for some of the changes that Uruguay and Paraguay had previously demanded. Often the disputes and tensions between Mercosur members, especially economic and trade related were resolved via the interaction or intervention of the Presidents rather than through institutionalized channels or the dispute settlement mechanism⁶⁹. Without the commitment and desire of the Presidents for the existence and progression of Mercosur, it would have continued to stagnate and the bloc would have disintegrated.

89. It is also the president's relations and efforts to enhance the block that attracted more countries in the region to join as either associate or full members. It is the Presidents' vision for Mercosur that helped it expand and make more efforts to integrate its member but also cooperate with other blocs and global actors. Importantly, the new members' Presidents have already demonstrated

⁶⁸ P. Paiva & R. Gazel (2003) Mercosur: Past, Present and Future, IADB <http://www.face.ufmg.br/novaeconomia/sumarios/v13n2/Paiva.pdf>

⁶⁹ A. Malamud (2005) Presidentialism and Mercosur: A hidden cause for a successful experience, in Finn Laursen (ed.): Comparative Regional Integration: Theoretical Perspectives, Ashgate, Aldershot

their key role in the progression and development of Mercosur as Venezuela and Bolivia's Presidents have helped expand Mercosur's activities and agenda to a wider context. Their vision and integration in Mercosur is not only to enhance cooperate with Mercosur members but also the South American continent as a whole, expanding Mercosur's possibilities for integration and actions.

90. This power and influence that Presidents have had on Mercosur not only shows the strength of the leadership of the bloc but also shows how essential it is that member state are driven to see the integration mechanism succeed and their commitment is what has kept the process alive. Without a committed leadership and their vision, Mercosur would never have been able to overcome the challenges it faced and change direction towards a more holistic approach to integration. However this does highlight the need for greater involvement from civil society and Mercosur citizens to also be committed to the vision of integration and strengthen its progress. It is the lack of institutionalization that has often been blamed for the exclusion of citizens and civil society in the creation and improvement of Mercosur.

C. Regional integration is more than economic integration

91. There was a very strong focus on economic and trade integration during the creation and implementation of the integration mechanism. Macroeconomic policy harmonization is necessary for the integration process to be successful and credible and to strengthen the process itself. If the member states' are able to converge on a common economic and trade policy this will not only produce a deeper integration but can also promote both national and regional interests and be overall more beneficial. If the member states and their citizens are able to see the beneficial results of economic integration, this would encourage them to believe and help strengthen political and social integration. However this did not occur, as the economic integration was flawed and stagnated. The member states failed to see past the need for economic development and gave less importance to political integration, unless it was in their best interests at the time.

92. The stagnation of Mercosur on various fronts allowed its members to reassess its purpose and direction. The addition of new member states also helped this reassessment and perhaps revealed a different perspective on what integration for Mercosur was and what it could become. After the relaunching, there was a clear shift in Mercosur with more importance and efforts made to give Mercosur another dimension and purpose. It began to not only increase and enhance cooperation and dialogue with its own members but also with other countries and blocs. Mercosur was stagnated because the lack of unity and inconsistency in the vision and commitment to what Mercosur was meant to be. Realizing this, the member states allowed for greater institutionalization and deepening of the integration and has allowed to continue to progress. UNASUR, the Bank of the South, the plans for energy integration are clear indication of the

new unity that has arisen amongst Mercosur members. The establishment of the Parliament and its function also indicate that the leaders of the member states believe there needs to be more a consistent and transparent leadership of the bloc to allow it to progress. Mercosur's integration is finally becoming more holistic, encompassing both economic and political cooperation and actions.

IX. Conclusion

93. Mercosur could be portrayed as integration system, which favoured flexibility and improvisation to adapt to its constantly changing and diverse environment, purpose and membership. The minimal institutionalisation allowed its members to shape and use this integration mechanism for the current situations and needs. Albeit it was not always beneficial and democratic to all its members, it provided more scope to manoeuvre between national, regional and global challenges and opportunities.

94. Overcoming the challenges of the economic integration, solidifying its institutionalisation and functioning and the commitment its members have shown to try and keep Mercosur alive and progress, have allowed for political cooperation and integration to find its place and role in Mercosur. This redirection of integration continues to progress as its members have realised its importance and beneficial potential.

95. Mercosur did not create or follow the conventional and rigid form of integration, however it continues to progress and flourish into a deepened economic and importantly political integration which is also slowly expanding to the rest of the South American region. Mercosur is still "a work in progress", it is still finding its role and structure, however the recent policies and cooperation in the region highlighted in section IIV of this paper shows that it is definitely a maturing process with high potential and already showing results.

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