

**OLD REGIONALISM VERSUS NEW REGIONALISM IN THE
CONTEXT OF THE EU-MERCOSUR AGREEMENT**
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SUMARIO:	I. REGIONALISM FROM A HISTORIC PERSPECTIVE. II. NEW REGIONALISM IN LATIN AMERICA. III. EU- MERCOSUR AGREEMENT. IV. CONCLUSIONS AND PERSPECTIVES.
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This paper is primarily concerned with the actual process of integration between the European Union (EU) and Mercosur¹. The analysis begins with the review of regionalism in an historic perspective which will provide the basis for analysing trade between EU-Mercosur and will give the basis to identify the changes associated with a greater degree of economic integration with Mercosur countries. Ultimately, allowing us to predict the processes and situations that might arise in the near future, with the aim of obtaining greater economic growth and social welfare.

The structure of the paper is organized in four sections:

- Section 1 provides a brief description of the characteristics of “old and new regionalism”.
- Section 2 describes the process of new regionalism in Latin America and presents the introduction of the Mercosur Treaty and its current status.
- Section 3 shows the background of the EU-Mercosur agreement, and the present state of the negotiations from both the European and Mercosur perspective with the aim of exposing the difficulties and differences between both blocs. In order to compare the two scenarios, a close examination of the evolution and structure of their trade flows is made.
- Finally, section 4 presents some conclusions as well as some reflections on the perspective of the EU-Mercosur agreement.

I. REGIONALISM FROM A HISTORIC PERSPECTIVE

Regional integration, while having a long history in world trade, has seen a proliferation of its initiatives especially since the 1990s, with a growing participation of developing countries in Free Trade Agreements (FTAs) or Preferential Trade Agreements (PTAs)² giving preferences to its members, and it has been identified as “new regionalism”, in order to establish the differences with the “old regionalism” inspired by the protectionist and industrializing actions typical of the 1950-1970s.

While economists are unanimous in their support for worldwide free trade, when it comes to the analysis of regionalism against multilateralism the controversy has already been engaged.

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1 Southern Common Market between Brazil, Argentine, Uruguay, Paraguay and Venezuela.

2 The form of integration FTA or PTA are used as a generic descriptor. However, there are extensive forms of integration agreements (RTA, PTA, Customs Union...).

Some agree that regional integration is a previous stage, or a complement, to the extension of a multilateral trade system that is intended to lower trade barriers between participating countries, Ethier (1998^a) and Mistry (1995). For advocates of regionalism the creation of a FTA removes trade barriers and thus, is good for free trade and leaves non member countries indifferent to its creation and member countries better off. This reasoning in International Economics is known as the Kemp-Wan Theorem (1976) and it was applied to explain the benefits of customs unions. Later, Panagariya and Krishna (2002) extended the Kemp-Wan Theorem to the case of FTAs.

A quite different approach is taken by the advocates of multilateralism who argue that regionalism is a substitute for the multilateral paradigm of international trade. Bhagwati and Panagariya (1996) point out that it is easy to demonstrate that preferential trade liberalization discriminates among various trading partners with consequent loss of revenues. Also Krugman (1991a, 1993), Frankel, Stend and Wei (1995), and Bond and Syropoulos (1996a), sustain that regionalism can increase protectionism on an international scale and lead ultimately to the creation of commercial powers with the subsequent negative effects on non-members countries.

Many authors differentiate the old and new regionalism according to the degree of integration between countries, introducing the concepts of "shallow" and "deep" integration. Shallow integration defined as when countries eliminate barriers to trade in goods while deep integration is defined as "open regionalism" because it transcends free trade issues by promoting wide liberalization, which include other areas of national policies, Burfisher, Robinson and Thierfelder (2004).

The 1950-1970s is usually seen as a period of shallow integration, the "old regionalism", inspired by the need of developing countries to reinforce the structural economic reform process. The formation of regional agreements were aimed at lowering conventional trade barriers and enlarging markets in order to achieve the economies of scale that were necessary to favour the import substitution industrialization process, Devlin (1994).

The core theoretical analysis of shallow regional integration is the theory of customs unions that has its origin in the pioneering contribution of Viner (1950), Meade (1955), and Kemp and Wan (1976). Within this framework the welfare effect of regional integration is determined by changes in trade within countries (trade creation and trade deviation effect). The Vinerian standard approach argues that PTAs are welfare enhancing when their trade creation capacity exceeds that of trade diversion. Trade creation refers to the substitution from a high-cost domestic source to a lower cost source in a partner country. Trade diversion results from the substitution away from a lower-cost producer outside the customs area to a higher cost supplier within the customs union area. The concepts of trade creation and trade diversion are widely applied to measure trade liberalization and welfare gains. Panagariya (2000) presents a survey of up to date literature on PTAs with these two concepts.

Viner also laid the foundations for the theory of "second best" referring to situations in which the first best was unachievable. In the specific case of trade, it refers to reduction of barriers among members of a customs union, or FTA, which will increase potential

for protected industries with a large internal market and consequently augment discrimination against non-members as a new deviation from the Most Favored Nation (MFN) principle, while free trade as a first best solution would lead to welfare gains.

Nevertheless, the economic theory of trade arrangements as it was developed in the 1950s offered some ambiguous results, the theory of second best showed that the outcome was indeterminate without analyzing more specific factors. The economic success of the EU members during the 1950s and 1960s contributed to the formation of many regional trading arrangements in Latin America and Africa, for example. Despite occasional rhetoric, none of these had a serious political integration content. For the most part they were formed by countries pursuing economic development strategies based on import-substituting industrialization. The majority were countries with similar economies that traded little with one another, many of the schemes proved economically irrelevant. Member countries looked to their partners as potential markets for their own inefficient protected industries, but were unwilling to accept the products of their partners' inefficient protected industries.

According to Ethier (1998), Viner examines trade creation versus trade diversion in reference to the old regionalism "motivated by a desire to substitute for insufficient multilateral liberalization and/or to facilitate holding aloof from what multilateral liberalization there was".

Already in the 1960s some economists showed certain dissatisfaction with respect to the applicability of the static concepts of trade creation and trade deviation in the developing countries. From a neo-classical perspective, it was argued that in the case of a general equilibrium model, it is possible that a reduction of consumer prices compensates possible inefficiency costs in the production of certain activities.

Some authors have argued that even in the case of FTA, with predominantly static effects of trade deviation, there is still a possible net increase of welfare due to the dynamic effects, Devlin and French-Davis (1998) and Mistry (1995). In fact, the improvement of the terms of trade of the countries that are integrated, the advantage of the economies of scale derived from the integration, the gains associated with greater regional specialization, the effects on the credibility of the national economic authorities or the capacity to carry out investments and shared projects on regional scale (impossible to undertake individually) are some of the effects that might be expected in the medium and long term, Freund (1998) and Behar (1998).

A second wave of regionalism that began in the 1980s was moving toward closer integration and started to take many different forms, each with different implications. In some cases it was motivated by economic, social or political forces. As all regions are political entities, FTAs too, have an unmistakable political perspective, therefore many of their objectives go beyond economic integration and take a political dimension: the degree of concentration of the industries, the role played by the unions, governments' area of manoeuvre, the macroeconomic setting of the region at the moment of the launching of the agreement, its capacity to internalise the gains from trading with the rest of the world, the importance of the penetration of imports, as

well as of the improvements of capital flows, are variables that significantly condition the design of this type of agreement, Helpman (1995), Mansfield and Milner (1999) and Kuwayama (1999).

As the 1980s progressed, there were some propitious circumstances that motivated the resurgence of regional integration throughout the world. US trade policy from committed multilateralism to experiments with bilateralism and regionalism such as the North America Free Trade Agreement (NAFTA), which was built on the US-Canada free trade area of the late 1980s; The Southeast Asian Countries formed a free trade zone (ASEAN) and the recovery of the EU's momentum after its enlargement to twelve members in 1986 and the decision to complete internal market by 1992. However, it was during the 1990s when there was a growing evidence of more regional integration, particularly in Latin America and the Caribbean region with nearly 30 initiatives since 1990, ranging from free trade areas to customs unions with plans of becoming common market. In general, deep integration had made little progress by the end of the decade apart from the EU enlargement.

A distinctive feature of the regionalism of the 1990s was the proliferation of deep integration identified as the "new regionalism" which leads to a richer debate with the convergence of some changes. The agreements of deep integration began to introduce obligations beyond national borders; some institutional and regulatory aspects that had been governed by national policies until then, became a subject of international deliberation. The economic theory began to emphasize the increasing importance of the aspects related to the institutions and the matter of credibility. Particularly economists point out that, in the developing countries, regional integration produces "non traditional" advantages which are important for the political economy to reinforce the modernization of the region, contributing to the transmission of positive signals to investors with regard to liberalization commitments and, reinforcing the power of negotiation in international forums.

The change in nature of regionalism of the 1990s also contributed to mitigate the fears of the negative impact of integration on the dynamics of multilateral negotiations. When regional liberalization is accompanied by a reduction in protection against a third country, the risks of trade deviation are diminished. In addition, the countries that have negotiated liberalization in some areas have an increasing interest in multilateral liberalization to reduce the residual effects of trade deviation that arise from the regional preferences assumed before the liberalization agreement with the bloc. In some cases, the regional process has generated precedents for the multilateral negotiation of certain critical areas. Regionalism and multilateralism appeared increasingly compatible, but the debate continued being centred in the question of the complementarity or substitutability between both processes and the two strategies.

In the middle of the 1990s a change of perspective took place. In effect, Ethier (1998) addressed the terms of the debate identifying the radical difference of the paradigm of development and the reasons why countries have an interest in new regional integration. Unlike the past, the integration initiatives support and are part of the

consolidation of the structural reforms that aim at the fortification of democracy and an improvement of the insertion in the global economy.

In this analysis, Ethier (1998) presents six characteristics of new regionalism with various degrees of regional arrangements:

1. New regionalism typically involves one or more small countries related to a large economy.
2. The small countries make important unilateral reforms prior to the negotiation of the integration agreements.
3. Usually the liberalization process involves more responsibilities for the small countries than for the larger one.
4. The degree of liberalization is usually very modest.
5. The regional agreement often implicates deep integration in as much as it goes beyond eliminating trade barriers to try to harmonise other economic policies.
6. The regional agreements are usually between geographic neighbours.

The concept of new regionalism allows us to appreciate that the FTA is “an endogenous” answer that arises from the progress of the structural reforms, with the goal of active participation in more open and competitive private, market-based economies undertaken at the multilateral level. Thus, in the way that the multilateral trade barriers are reduced by the action of the World Trade Organization (WTO), geographic forces take an increasing importance in the determination of the pattern of trade, creating incentives for governments to promote regional initiatives.

Another defining element of new regionalism was the shift from the traditional intra-regional integration “South-South” to the inter-regional “North-South” integration agreements, that link industrialized economies with less developed countries. In addition, regional firms obtain export experience to diversify their economies and to attract foreign direct investments (FDI), gaining advantages with respect to other countries that do not follow the same strategy. The benefits of the reforms and the integration stimulate interest in greater liberalization, even in the multilateral forum of WTO in which countries can negotiate access to global markets and in such areas as agriculture, which is difficult to handle by the individual country. Therefore, the compatibility between new regionalism and multilateralism are sustained by the similarity of the factors that drive both processes.

The North-South negotiations are characterized by an increasing tendency to include programmes of cooperation in areas related to trade. The combination of trade liberalization with programmes of technical and financial assistance could allow the developing countries a better exploitation of the advantages of the liberalization of regional and global trade.

New regionalism for the less industrialized countries is a part of a development strategy since they use integration with developed countries to compete with the non members through FDI. The effect of this deviation of investment takes them to make a series of external reforms that fundamentally guarantees a greater benefit through an increase in productivity.

Trade has an important role in the stimulation of growth in productivity through various channels: the technological differences between countries, the spillover effect in knowledge, the transmission of ideas and the expansion of the market that allows the advantage of economies of scale, Melo and Robinson, (1992), Helpman and Hoffmaister (1997), Frenkel and Romer (1999), Rodriguez and Rodrik (1999) and Rodrik et al (2002).

On the other hand, Grossman and Helpman (1995) emphasize the role play by certain groups in putting pressure in the formation of the regionalism. In particular, Grossman and Helpman (1994) explain the political formation as a result of a lobby and the contribution of the competition between industries. They describe the negotiations of free trade as a process to provide the sufficient balance between the interests within different groups among countries.

In short, the foundations of old and new regionalism are:

- **Old regionalism**

Based on the Old Trade Theory:

- Improve allocation of resources through exploitation of Comparative Advantage (Ricardo, Heckscher-Ohlin-Samuelson): welfare triangles.
- The Theory of Customs Unions (Viner-Mead).

- **New regionalism**

Based on The New Trade Theory:

- Major integration through economies of scale and productivity.
- Possible impact on economic growth.
- Fragmentation of production processes.

II. NEW REGIONALISM IN LATIN AMERICA

In Latin America, new regionalism and the progress of economic research techniques have stimulated the production of a set of empirical studies on the effects of the PTAs. The IDB, IPES Report (2002)³, highlight the positive elements in the new generation of PTAs:

3 Devlin and Estevadeordal (2002) are the authors of the IDB Report on The New Regionalism in Latin America.

- The simultaneous liberalization of regional trade and with third countries has allowed a reduction in the static effects of trade deviation and promoted exports diversification and intra-industrial trade.
- The opening of their economies and the capacity to attract greater foreign investments are important factors for developing countries to benefit from the dynamic increase of productivity.
- The North-South agreements have produced, in general, results that complement the effort to create common markets in the sub regions, since they have not only induced a consistent specialization with the comparative advantage's structure, but because they have also allowed participants to drive the modernization of their institutions. Although the North-South agreements are limited to free trade zones, they challenge the political commitment of the Latin American countries with respect to their objectives of deep regional integration.
- Another element indicated in the IDB report (2002) is the necessity to facilitate the insertion of the developing countries in a global and competitive economy in order to achieve better performance and to overcome the problems of economic growth and elimination of poverty.

Furthermore, the process of deep integration by creating a larger market and by improving the home structures can facilitate the achievement of numerous goals:

- Harmonization of domestic policies (fiscal and monetary policies). The deepening of the FTA process can allow a greater effectiveness of macroeconomic stabilization policies for those countries with greater difficulties in its implementation. This also favours the creation of organisms or institutions for the execution and pursuit of common policies with a supranational scope. In this sense, the definition of certain common policies plays an important role that can contribute to greater cohesion in the integration scheme, in particular in regional and social policies that help increased employment and the development of common infrastructures.
- Harmonization of legal regulations. FTA itself allows participants to shape the legal framework for the national authorities to commit to the liberalization policies and the financial adjustments that are necessary to achieve the full process of integration.
- Deep integration has also been important in increasing intra-regional levels of competition and improving efficiency in the allocation of the resources available, Winters (1999).
- Creation of more propitious environment for the application of some policies that might be rejected socially in another context, for example, the introduction of structural reforms, privatizations or social cuts, or, the reduction in the Welfare State.
- For small economies, adhesion to FTAs' processes can be imperative. This type of integration called "hubs and spokes", Wonnacott (1997) is one of the main

drivers in the proliferation of FTAs, as are the case of Mercosur and some members of the EU. In addition, there has been evidence that small countries attract more foreign investments when joining blocs than in the case of remaining outside FTA, Ethier (1998b).

However, there is also much literature about regional integration emphasizing the negative effects of regionalism on the process of multilateral liberalization in world trade. It has been argued that the proliferation of regional negotiations diminishes the limited resources that the countries can mobilize to carry out the multilateral negotiations of the WTO. Some specific instruments of commercial policy included in the integration agreements, modify the avenues of interests against a broad trade liberalization. The proliferation of regional agreements, each one with its own policy, creates a set of rules that produces transaction costs and reduces the transparency of world trade, and creates a virtual "spaghetti bowl" of narrow systems for trade, Wonnacott-Wonnacott (1995).

The IDB reports also cited some risks associated with the development of regional agreements:

- Trade and foreign investment diversion may occur when PTAs enforce trade from less efficient locations.
- Redistributive effects from lost of tariff revenues.
- Vulnerability to specific goods from the regional area.
- Trade imbalances between partner countries.
- The formation of large regional blocs can create market power and shift the terms of trade with the rest of the world.

Given the multiple positive and negative effects it is difficult to establish a real balance of the debate currently. Regionalism is a worldwide event and the fact that many countries are interested in joining regional trade zones is clear proof that they are expecting some gains. Nevertheless, FTA can undoubtedly be seen as an economic initiative that has created some welfare for the members of the Western Hemisphere as well as the world in general. Notably, affecting their terms of trade and their capacity to realize economies of scale, greater specialization, fomenting increased competition in regional markets and influencing, therefore, the relocation of industries. This process has been achieved despite their different levels of economic development and their social and political backgrounds. The probability of success of the integration process depends on the characteristic of the country and the preferences of the economic agents, and in particular to the interests of economic policy (national and regional), and to the power of interest groups affected by this process.

New regionalism in Latin America was inevitable given that the old process of integration had stagnated mainly because participant country blocs were not willing to sacrifice their own position. Participation within the zone was used for import substitution industrialization process rather than for increasing exports. As a result,

protectionism was used to favor the new industries for a long period causing a reduction in efficiency.

In Latin America the shifting to deep integration was seen as a strategic policy to reinforce the economic reforms necessary to overcome the economic collapse of the 1980s. Regional trade liberalization has become the final goal to encourage trade and to increase competitiveness. Another factor that propelled a new integration scheme was the debt crisis of the 1980s that prolonged the economic depression in the zone. In the 1990s, Latin American countries began moving towards various forms of integration, from bilateral concessions, sub-regional pacts, to inter-regional agreements with industrialized countries, as part of the structural reform process. During the 1990s there were many initiatives between US and Latin America countries, developments such as NAFTA with domestic economies, and the strengthening of the existing Andean Community and the Central American Common Market (CARICOM) and the establishment of the Southern Common Market (Mercosur).

The formation of Mercosur in 1991 was based on a series of bilateral FTAs between Argentina and Brazil that led to the foundation of the Treaty of Asunción with the incorporation of Paraguay and Uruguay in 1992. Venezuela signed up in December 2006. There were many economic factors that contributed to consolidate the Mercosur agreement: structural reforms, the increase of investments and capital flows, followed by privatization measures to enlarge domestic markets. Mercosur is run by a Common Market Council and an executive body supported by various commissions. One of the strengths of Mercosur is the possibility of extending its membership to other associated trade partners. For example, the 1996 agreement which led to Chile and Bolivia's admission as associate members and the agreement with the EU, aimed to create a space for political dialogue regarding trade and economic matters and to establish co-operation in a number of subjects including industrial standards, certification, customs, statistics and intellectual property. It is hoped that this agreement will help to increase the trade between Mercosur and the EU.

Mercosur member countries adopted the Protocol of Montevideo on Trade in Services in 1997, aiming to achieve full liberalization of trade in services and an open regional market for services through periodic rounds of negotiations. This Protocol was ratified by Argentina, Brazil and Uruguay in December 2005. However the lists of commitments for all three countries are relatively limited since they date back to the late 1990s, either as commitments included at the time of the Protocol's adoption (Argentina and Uruguay) or in the first round of negotiations (Brazil).

Mercosur is seen as a strategic bloc to strengthen cooperation within the area and the rest of the world. The best examples are The Union of South American Nations (Unasur), a supranational and intergovernmental union between Mercosur and the Andean community that expects ratification in December 2007; the treaties with members of NAFTA and the formation of a trading bloc with the EU.

Currently Latin America and the Caribbean are negotiating various preferential agreements within and outside the region. Up to September 2006 they have subscribed 70 PTAs and there are more in the process of negotiation. See Table 1 for the

Latin American Agreements. All these undertakings have generated centrifugal and centripetal forces that respectively tend to unify and to divide the process of regional integration. Thus, a political consequence of the negotiations of free trade agreements between three Andean countries and the United States, and specifically the conclusion of the process in the cases of Peru (November of the 2005) and Colombia (April of the 2006), has been the decision of Venezuela to retire formally from the Andean Community. The process of integration in Latin America has never been easy and more recently it has been aggravated by the political tensions between Venezuela and the US.

TABLA 1. LATIN AMERICAN INTEGRATION AGREEMENTS

Inter Regional Free Trade/ Customs Unions	Signatura Date
Central American Common Market (CACM)	1960
Andean Community (AC)	1969
Caribbean Community (CARICOM)	1973
Southern Common Market (MERCOSUR)	1991
Chile-Venezuela	1993
Colombia-Chile	1994
Costa Rica-Mexico	1994
Group of Three (G3): Colombia, Mexico and Venezuela	1994
Bolivia-Mexico	1994
Chile-Mercosur	1996
Bolivia- Mercosur	1996
Mexico- Nicaragua	1997
CAMC-Dominican Republic	1998
Chile-Peru	1998
Chile-CAMC	1999
Chile-Mexico	1999
Mexico-Northern Triangle of Central America	2000
CARICOM-Dominican Republic	2000
Costa Rica-Trinidad and Tobago	2002
El Salvador-Panama	2002

North- South agreements	
Mercosur-EU	1995
Chile-Canada	1996
Mexico-EU	1999
Mexico-EFTA	2000
Mexico-Israel	2000
Costa Rica-Canada	2001
Chile-EU	2002
Chile-Republic of Korea	2003
Chile-USA	2003
Chile-EFTA	2003
Panama-Taiwan	2003
Mexico-Uruguay	2003
CARICOM-Costa Rica	2004
Mexico-Japan	2005
Chile-New Zealand, Singapore, Brunei	2005
Peru-Thailand	2005
Chile-China	2006
Panama-Singapore	2006
Chile-India	
Negotiations in progress	
Peru-Singapore	
Argentina-New Zealand	
Panama-Costa Rica	
Honduras-Panama	
Guatemala-Colombia	
Nicaragua-CARICOM	

Source: CEPAL, ALADI.

Most of the Latin American agreements aimed at creating common markets, but so far, none is close to being a real customs union. The internal and external enlargement process faced many important obstacles to further advance. The recent failure of the US Congress to approve FTAs with Latin America is just one crucial stumbling factor in the improvement of the treaties in the zone.

MERCOSUR

Mercosur was created in 1991 with the signature of the Treaty of Asunción (Paraguay) by four Latin American countries (Argentina, Brazil, Paraguay and Uruguay), although it was with the Protocol of Ouro Preto (Brazil) in December of 1994, when it was defined as customs union and reinforces its institutional frame that not yet has supranational character. The main objective is to constitute a customs union once the transitory period is settled which concluded in 2001, liberalizing some goods since the States members have already established some non preferential products. This is an integration process that tries to follow the steps taken by the EU. It proposes the coordination of macroeconomic policies and other policies in diverse areas, where sectors such as agriculture and industry as well as the fiscal, monetary and foreign trade policies constitute the most important challenges for the internal enlargement process.

The complete operation of Mercosur, under a pre-determined set of external tariffs, started in January 1995. The tariffs consisted of eleven tariff levels of up to 20% plus a list of exceptional items to which there were tariffs larger than 20%, although they could not go beyond 35%.

Mercosur has also the position to help each member country to attract foreign investment as well as to develop joint projects in energy, especially in relation to natural gas and transmission lines, in transport and telecommunications. Mercosur has strengthened the position of its member states regarding their participation in the WTO. Mercosur's task is not restricted to trade, also facilitates the co-operation in many cultural and political aspects, and helps member countries to overcome their internal problems such as those linked with public administration and the control of inflation.

Since 1996 Mercosur has signed preferential agreements in the context of the new regionalism inside Latin America and beyond, as is shown in table 2. The maintenance of commercial relations with certain privileged areas allows Mercosur to diminish the possible trade deviations. Recently, Mercosur has also concluded PTAs with developing countries from other regions, such as India and South Africa, but these agreements only include some trade flows between members. In the case of Spain their special historical and cultural links with Latin America give a special platform for achieving a better insertion into the area through a major integration.

TABLA 2. TRADE AGREEMENTS NEGOTIATED BY MERCOSUR

Members	Signature Date
Mercosur-EU	1991
Free Trade Area of the Americas (FTAA)	1992
Mercosur-Chile	1996
Mercosur-Bolivia	1996
Mercosur-Mexico	2002
Mercosur-Mexico	2002
Mercosur-Andean Community	2003
Mercosur-India	2004
Mercosur-South African Customs Union	2004
Mercosur-Peru	2005

Source: ALADI.

Mercosur has been considered as “open regionalism”, which means that countries regionally integrated reject stable industrial policies and aim for the development of complementary industrial structures within the region and to protect those structures against foreign competition. Integration within the world market is an imperative for welfare in the long run, even for a great integrated area, and the specialization according to the comparative advantages is crucial for all the members.

In Mercosur, the concept of open regionalism means various non discriminatory economic incentives within the region and to a relative low margin of preferences against third countries. In this interpretation of open regionalism, Mercosur differs from all the previous regional agreements in Latin America. The Mercosur formation can be interpreted as the third column of the concept of free trade and international economic integration in the early 1990s.

Apart from the impulse given to major development, trade and investment, other important effects of Mercosur are:

- Credibility of the conception of Mercosur was remarkably high from the beginning of the process.
- Within a more reliable economic and political structure, the old nationalism in Latin America begins to wear away and to open doors to more international activities between partner countries (education, infrastructures, energy, etc.).
- With the formation of Mercosur a relatively great political and economic organization has been created in the South Cone. The new regional organization

can allow its members to act with more power in the international forums and at the same time attract capital flows and technology.

Mercosur Economic Indicators

Tables 3 and 4 present the main economic and social indicators of Mercosur: trade flows, GDP, GDP per capita, external debt, population, external debt, population and social conditions, during 1990-2006.

TABLA 3. ECONOMIC INDICATORS OF MERCOSUR

Years	Exports global FOB (million €)	Imports global CIF (million €)	Real GDP (million €) (2000)	Real GDP / per capita-2000	GDP anual growth (%)	External debt (million €)
1990	36,463	23,010	723,729	3,818	-3.2	150,628
1991	37,050	27,651	751,235	3,898	3.8	-
1992	38,894	31,314	771,679	3,942	2.7	156,654
1993	46,155	41,080	811,240	4,081	5.1	190,462
1994	52,233	52,317	858,926	4,256	5.9	201,293
1995	53,894	61,056	882,089	4,306	2.7	207,131
1996	59,065	68,454	913,720	4,395	3.6	242,374
1997	73,440	88,843	957,802	4,539	4.8	303,669
1998	72,553	88,367	971,361	4,537	1.4	345,326
1999	69,711	77,478	964,597	4,440	-0.7	365,107
2000	91,595	97,305	988,804	4,540	2.5	415,385
2001	92,865	88,910	983,188	4,452	-0.6	410,105
2002	93,934	65,949	961,543	4,295	-2.2	402,820
2003	94,122	61,080	989,056	4,360	2.9	348,137
2004	109,019	76,278	1,050,566	4,570	6.2	311,098
2005	131,309	91,504	1,097,100	4,711	4.4	238,863
2006	151,124	112,087	1,148,359	4,869	4.7	-

Source: ALADI. Calculations by the author.

TABLA 4. POPULATION AND SOCIAL CONDITIONS OF MERCOSUR

Years	Total population (million)	Urban population (% total)	Demographic growth (%)	Birth (average annual growth per 1000 hab.	Mortality (average annual growth per 1000 vhab.)	Illiteracy (% of total)
1990	189,596	76.3	1.7	22.6	7.1	84.8
1991	192,721	76.2	1.6	22.6	7.1	84.8
1992	195,773	76.2	1.6	22.6	7.1	84.8
1993	198,787	76.2	1.5	22.6	7.1	84.8
1994	201.800	76.2	1.5	22.6	7.1	84.8
1995	204.844	79.1	1.5	21.4	6.8	87.0
1996	207.929	79.1	1.5	21.4	6.8	87.0
1997	211,022	79.1	1.5	21.5	6.8	87.0
1998	214,126	79.1	1.5	21.5	6.8	87.0
1999	217,233	79.0	1.5	21.5	6.8	87.0
2000	217,788	82.4	0.3	20.3	6.7	88.8
2001	220,812	82.4	1.4	20.3	6.7	88.8
2002	223,840	82.4	1.4	20.3	6.7	88.8
2003	226,864	82.4	1.4	20.3	6.7	88.8
2004	229,878	82.4	1.3	20.3	6.7	88.8
2005	232,872	84.6	1.3	19.0	6.7	90.5
2006	235,860	84.6	1.3	19.0	6.7	90.5

Source: ALADI. Calculations by the author.

Overview of Mercosur Members

The economic indicators for Mercosur partner countries are presented in table 5. From the Mercosur countries, Brazil shows the largest economy (GDP 725,879 million € in 2005), followed by Argentina (GDP 339,739 million € in 2005), and Paraguay has the smallest economy with a GDP 8,724 million € in 2005. The trends in the trade flows and population also show Brazil as the largest country of the region, while Argentina has a better performance in urban population and illiteracy figures.

TABLA 5. ECONOMIC INDICATORS OF MERCOSUR MEMBERS

ARGENTINA

Years	Import (million €)	Exports (million €)	GDP (million €)	GDP per inhabitant (€)	Population (million)	Percentage of urban population	Percentage of illiteracy population
1995	24,762	24,739	271,094	7,795	34,779	87.40	
2000	35,464	33,512	307,867	8,370	36,784	89.60	3.20
2001					37,156		
2002	15,241	35,496	262,232	6,990	37,516		
2003	20,966	37,624	285,405	7,536	37,870		
2004	29,378	40,677	311,176	8,140	38,226		
2005	35,275	46,170	339,739	8,803	38,592	91.80	2.80
2006					38,971		

Source: ALADI. Calculations by the author.

BRAZIL

Years	Import (million €)	Exports (million €)	GDP (million €)	GDP per inhabitant (€)	Population (million)	Percentage of urban population	Percentage of illiteracy population
1995	67,869	49,568	583,648	3,602	162,019	77.90	
2000	79,322	69,468	651,508	3,729	174,719	81.20	13.10
2001					177,291		
2002	70,407	83,381	672,782	3,740	179,879		
2003	69,224	90,844	676,414	3,707	182,470		
2004	79,123	107,196	709,559	3,834	185,048		
2005	86,640	119,631	725,879	3,869	187,597	83.40	11.10
2006					190,127		

Source: ALADI. Calculations by the author.

PARAGUAY

Years	Import (million €)	Exports (million €)	GDP (million €)	GDP per inhabitant (€)	Population (million)	Percentage of urban population	Percentage of illiteracy population
1995	5,810	4,268	7,757	1,607	4,828	52.10	
2000	3,749	2,927	7,682	1,398	5,496	55.30	6.70
2001					5,636		
2002	3,302	3,065	7,837	1,356	5,778		
2003	3,420	3,200	8,138	1,374	5,922		
2004	3,631	3,256	8,474	1,397	6,068		
2005	7,046	3,344	8,724	1,403	6,216	58.40	5.60
2006					6,365		

Source: ALADI. Calculations by the author.

URUGUAY

Years	Import (million €)	Exports (million €)	GDP (million €)	GDP per inhabitant (€)	Population (million)	Percentage of urban population	Percentage of illiteracy population
1995	3,567	3,407	19,589	6,087	3,218	90.50	
2000	4,563	4,198	21,747	6,517	3,337	91.30	2.40
2001					3,361		
2002	3,057	3,420	18,693	5,522	3,385		
2003	3,234	3,564	19,100	5,604	3,408		
2004	4,091	4,546	21,357	6,223	3,432		
2005	4,449	5,309	22,759	6,587	3,455	91.90	2.00
2006					3,478		

Source: ALADI. Calculations by the author.

VENEZUELA

Years	Import (million €)	Exports (million €)	GDP (million €)	GDP per inhabitant (€)	Population (million)	Percentage of urban population	Percentage of illiteracy population
1995	17,058	32,877	122,186	5,543	22,043	87.40	
2000	22,974	37,727	126,838	5,217	24,311	90.87	7.50
2001					24,764		
2002	19,605	34,947	119,530	4,740	25,218		
2003	15,754	31,492	110,306	4,297	25,672		
2004	25,201	35,216	130,000	4,976	26,125		
2005	32,770	37,049	142,128	5,348	26,577	92.80	6.00
2006					27,031		

Source: ALADI. Calculations by the author.

Table 6 and graph 1 illustrate total Mercosur exports and imports of member countries in 2005. The graph figures show in both cases the predominance of Brazil in Mercosur trade flows. Considering the size of the Brazilian economy, it is not surprising that it is accountable for 52% and 56% of total Mercosur imports and exports respectively, while Argentina represents 21% of the total trade, Venezuela 20% and 18% respectively, Uruguay 3% of the total trade and Paraguay is the only country with a negative trade balance in 2005.

Mercosur Tariff rates and Non-Tariff barriers

Mercosur countries adopted a common external tariff (CET) in 1995, and as a result the four countries share the same level of tariffs with few exceptions (2% of the tariff lines). Table 7 presents some selected products with the tariffs level in EU and Mercosur markets which give an indication of the protectionist trade between the two zones, with the existence of non-tariff barriers for some goods, such as the use of technical standards and labels.

TABLA 6. MERCOSUR TRADE FLOWS BY MEMBERS (2005)

Country	Imports million €	Exports million €	Balance million€
Argentina	35,275	46,170	10,895
Brazil	86,640	119,631	32,991
Paraguay	7,046	3,344	-3,702
Uruguay	4,449	5,309	860
Venezuela	32,770	37,049	4,279
Total Mercosur	166,180	211,503	45,323

Source: ALADI. Calculations by the author.

GRAPH 1. MERCOSUR IMPORTS AND EXPORTS BY MEMBERS

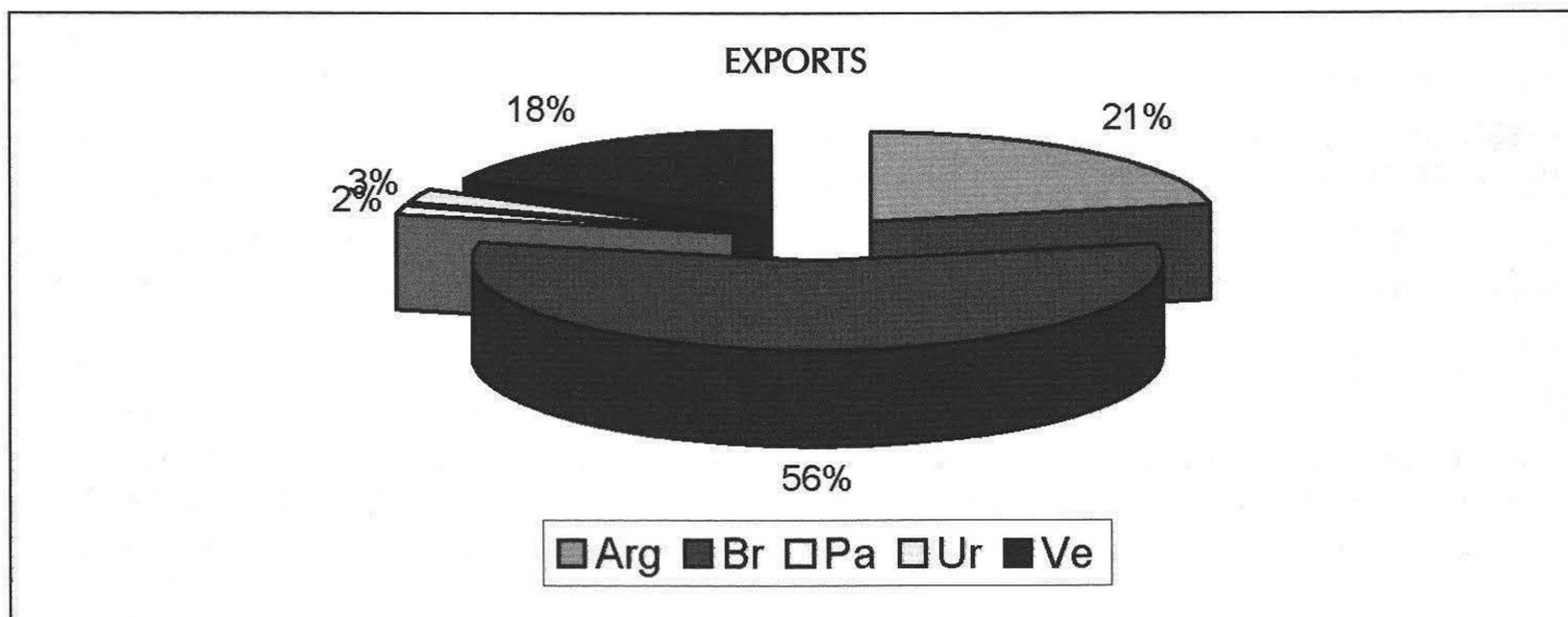
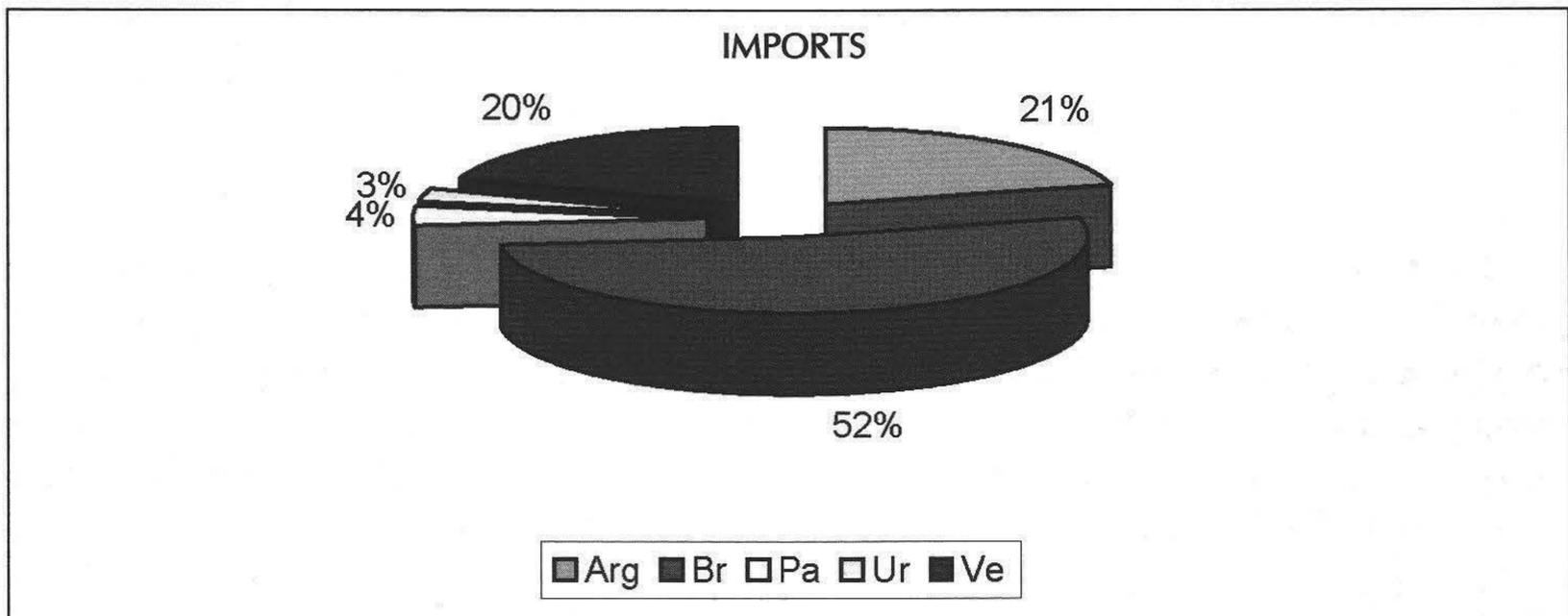


TABLA 7. EU-MERCOSUR TRADE RESTRICTIONS ON SELECTED MANUFACTURED PRODUCTS

Products	EU tariffs (10%)	Exported tax by Mercosur (%)	Mercosur tariff (%)	Non-tariff barriers
Motor vehicles	10			
Untanned leather		9 Brazil		
5 Argentina		Yes		
Processed bovine leather	6.5			Yes
Other processed leather	3.5			Yes
Footwear	3.5		17.7	Yes
Other leather good	3.0		17.7	Yes
Metal products	1.2		18.4	Yes
Electric machinery			17.3	Yes
Other machinery			16.3	Yes

Source: UN COMTRADE.

Foreign Direct Investment in Mercosur (FDI)

Soon after the formation of Mercosur many foreign enterprises invested in the region. The EU has been the largest investor and Brazil the main recipient of the FDI. Most of the EU funds come from Spain, followed by France, the Netherlands, the United Kingdom and Italy, and their area of interest are telecommunication, energy, financial services, automotive industry, agro-industry and retailing sector. Table 2.8 exhibits the net income gain from FDI in Mercosur during 1990-2006, with the year 1999 showing the largest inflows (46,416 million €), with high levels during the following years, except 2006 which shows a negative net income from FDI (-3,748 million €).

TABLA 8. MERCOSUR NET INCOME FROM FOREIGN DIRECT INVESTMENT

Years	Net Income from Foreign Direct Investment (Million €)
1990	2,278
1991	2,108
1992	4,052
1993	2,617
1994	4,161
1995	5,995
1996	13,622
1997	21,567
1998	30,906
1999	46,416
2000	43,728
2001	28,647
2002	18,058
2003	9,897
2004	10,068
2005	13,586
2006	-3,748

Source: ALADI. Calculations by the author.

III. EU- MERCOSUR AGREEMENT

The relations between the EU-Mercosur began in 1992 one year after the conclusion of the Asunción Treaty, by signing an international agreement which served as a vehicle for technical assistance, personal training and international support for the recently founded Mercosur. The EU–Mercosur free trade agreement is based on a Macro Interregional Agreement signed in Madrid in December 1995, which fully entered into force in July 1999. The main objective has been the preparation of negotiations for the liberalization of trade in goods and services, aiming at free trade, in conformity with WTO rules. The Agreement consists of three basic elements: political dialogue, co-operational dialogue and trade negotiations.

- The political dialogue: The Regional Association Agreement is an instrument aiming for a model of deep regional integration that may provide the foundations of a multilateral governance system targeting political cooperation. Since 1996 there have been eleven ministerial meetings (Luxembourg 1996, Noordwijk 1997, Panama 1998, Vilamoura-Portugal 2000, Santiago de Chile 2001, Madrid 2002, Athens 2003, Lisbon 2004, Luxembourg 2005, Brussels 2005, Vienna 2006); several ministerial meetings with the General Assembly of the United Nations and thirteen rounds in the Mercosur country members.
- The co-operation: In 1995 the EU-Mercosur agreement reinforced its foundations introduced in 1992 aiming to consolidate the integration process in order to achieve a high degree of coordination between the EU-Mercosur countries. Some reforms will be necessary for macroeconomic and monetary coordination, with support from the diverse administrative bodies of the Mercosur: Rules of origin, sanitary and veterinary norms, macroeconomic harmonization, and statistics standards.
- Trade negotiations: From 1999 the EU under the Generalized System of Preferences grants preferential access to all manufactured products of the zone and to some agricultural products, with privileged benefits if the fight against drugs is guaranteed. This agreement includes, in addition, environmental clauses and special treatments for developing countries. In relation to the investment flows between the two regions, the agreement aims to favour the cooperation in technology and other services.

The negotiations for the development of trade and investment are governed through three basic principles:

- A region-to-region approach that constitutes the bases of the regulation in all the negotiations.
- The agreement must be balanced and comprehensive within the WTO rules, without excluding any sector and respecting the most sensitive goods.
- Any initiatives taken by the EU-Mercosur agreement must be coherent and with a clear signal of unity and stability at the international level.

To fulfil the commitment made in Rio de Janeiro, since the year 2000 there have been many forums for negotiations with the purpose of re-engaging the process and arranging similar cooperation to those signed with Mexico and Chile. During 2004, substantial progress in trade allowed the bloc to meet the deadline October 31st for the completion of the negotiations. Between 2005 and 2006 the parties met several times and they were unable to unlock the discussions. The main pending problems to solve come from the issues presented by the EU that, in opinion of Mercosur representatives, they barely reduce protectionism in the agricultural products (the main exports for Mercosur to the EU are sugar, cereals, meats, dairy products, tobacco, ...) while the EU is hoping to obtain a greater access for services.

It is evident that in the process of integration between EU-Mercosur there is a great asymmetry but nevertheless there is hope that if the conversations are reactivated to fulfil the agreement, the trade flows and the investments will boost growth. For Mercosur this has special significance as the EU is their primary trading partner and accounted for 27% of their exports in 2006 and is, in addition, their main source of investment, whereas the Mercosur occupies the ninth position within the EU trade partners, representing only 2.3% of the total EU trade in 2006.

In spite of the progress in recent years, many efforts are still needed to re-launch the discussions. Many obstacles need to be overcome before a new impulse is felt in the current situation:

1. Certain core negotiation topics such as agriculture are still the most sensitive area for the EU and precisely this is the main export sector in Mercosur.
2. The services sector, where EU has many interests, leaves Mercosur in a defensive position.
3. The paralysis in the multilateral Doha Ronda Agenda, key to ensure continued progress on a system of open regionalism, is a continuing stumbling bloc.
4. The EU enlargement faces new threats and priorities for Mercosur in the negotiations.
5. Difficulties of internal consensus within the Mercosur members, often political in nature existed prior to the negotiations with the EU.
6. Participating governments responsible for trying to harness the forces of trade and integration often have more pressing political and social priorities.

The Importance of the Agriculture Sector for Mercosur

In Mercosur agriculture sector, sugar and rice, until now are not part of the reciprocal liberalization process neither part of the common external tariff. However, many agricultural products exported by Mercosur to the EU are agro-food products and face a high level of protection, with the exception of soybeans and soy products which enter duty free in the EU. As developing countries, Mercosur members are allowed to benefit from the Generalised System of Preferences (GSP), but still many products are classified as sensitive and the tariff preferences are therefore very low.

Mercosur members of The Cairns Group⁴ have maintained the necessity to eliminate the measures that distort trade of agricultural goods. Mercosur countries are highly competitive in different agricultural goods and they are aiming to reduce the protection in the primary sector in the principal world markets (EU, USA and Japan), as well as other smaller member states of the WTO.

The Ronda Round gave a false step in September 2003. The EU refused to reduce their protection beyond the level established in their own reform of the CAP, while USA and Japan did not offer an equivalent reduction of their own measures of protection and cooperation. On the other hand, Mercosur countries did not present a common strategy. Brazil, India, China and South Africa led a new group (G-20), in

which Argentina and Paraguay were also integrated. Later, Uruguay also joined this group after the change of government in March 2005.

In the Ministerial Meeting of Hong Kong in the end of 2005, some advances were obtained in the WTO negotiations, in particular in the subject of the agricultural subsidies a chronogram was settled down to reach their total elimination in 2013.

The Evolution and Structure of recent EU-Mercosur Trade

Table 9 shows the evolution of the EU trade with Mercosur between 2000 and 2006. During all these period imports of goods grew at an annual average of 5.9% and the exports at 0.9%, as a result trade balance was negative and much greater since 2002. For EU the average share of imports coming from Mercosur was 2.3% and 1.9% on the exports side.

Table 10 presents Mercosur trade flows with the EU from 1998 to 2006. It shows a negative balance during 1998-2001 and an increasing surplus from 2002-2006 with an average annual growth of 4.6% in imports and 11.5% in exports flows. For Mercosur the average share of imports coming from EU was 25.9% while the exports show and average share of 23.9%.

TABLA 9. EU TRADE FLOWS WITH MERCOSUR

Years	Imports			Exports			Balance million €
	Million €	Yearly % change	EU share in Mercosur Trade	Million €	Yearly % change	EU share in Mercosur exports	
2000	24,567		2.5	24,215		2.8	-352
2001	25,772	4.9	2.6	24,628	1.7	2.8	-1,144
2002	25,149	-2.4	2.7	18,529	-24.8	2.1	-6,620
2003	25,992	3.2	2.8	15,585	-15.9	1.8	-10,407
2004	28,363	9.1	2.8	18,367	17.8	1.9	-9,996
2005	30,717	8.3	2.5	20,676	12.6	1.7	-10,041
2006	34,545	12.5	2.5	23,524	13.8	1.8	-11,021
Average annual growth and share		5.9	2.3		0.9	1.9	

Source: EUROSTAT (Comext, Statistical, regime 4). Calculations by the author.

TABLA 10. MERCOSUR TRADE FLOWS WITH THE EU

Years	Imports			Exports			Balance million €
	Million €	Yearly % change	EU share in Mercosur Trade	Million €	Yearly % change	EU share in Mercosur exports	
1998	24,553			18,119			-6,434
1999	21,640	-0.1	29.2	18,727	3.4	24.0	-6,927
2000	24,823	14.7	25.0	20,456	9.2	21.3	-4,368
2001	24,585	-0.1	25.6	20,806	1.7	21.1	-3,779
2002	17,872	-27.3	26.2	20,520	-1.4	21.9	2,648
2003	15,062	-15.7	24.2	20,636	0.6	22,1	5,573
2004	20,654	37.1	27.1	30,466	47.6	27.9	9,812
2005	23,506	13.8	25.7	34,465	13.1	26.2	10,959
2006	26,945	14.6	24.0	40,487	17.5	26.8	13,542
Average annual growth and share		4.6	25.9		11.5	23.9	

Source: EUROSTAT (Comext, Statistical, regime 4). Calculations by the author.

In table 11 we can observe the EU and Mercosur trade partners during 1998-2006. In the first part of the table within the partners of the EU there are five countries that account with almost 50% of the total EU trade, USA (19.7%), China (8.8%), Switzerland (6.9%), Russia (6.3%) and Japan (5.9%), while in the second part of the table showing Mercosur trade partners, EU appears as the main foreign trading partner (22.9%) and in second place the USA (19.0%), followed in importance by Brazil (6.5%), Argentina (6.2%) and China (6.0%).

TABLA 11. EU AND MERCOSUR MAIN TRADE PARTNERS IN 2004

EU			Mercosur		
Partners	Million €	%	Partners	Million €	%
World	1,990,541	100.0	World	155,886	100.0
USA	391,355	19.7	EU	35,698	22.9
China	174,776	8.8	USA	29,650	19.0
Switzerland	136,369	6.9	Brazil	10,071	6.5
Russia	126,203	6.3	Argentina	9,669	6.2
Japan	116,603	5.9	China	9,329	6.0
Norway	86,642	4.4	Chile	5,963	3.8
Turkey	68,931	3.5	Japan	5,252	3.4
Korea	47,997	2.4	Mexico	3,967	2.5
Canada	38,148	1.9	Korea	2,757	1.8
Taiwan	36,422	1.8	Russia	2,387	1.5
Brazil	35,207	1.8	Nigeria	1,996	1.3
India	33,236	1.7	Canada	1,954	1.3
Singapore	33,016	1.7	Paraguay	1,793	1.1
Romania	32,051	1.6	Uruguay	1,778	1.1
South Africa	31,848	1.6	India	1,609	1.0
Hong Kong	29,066	1.5	Saudi Arabia	1,598	1.0
Saudi Arabia	28,659	1.4	Switzerland	1,547	1.0
Australia	28,520	1.4	Algeria	1,425	0.9
Algeria	24,580	1.2	South Africa	1,207	0.8
Malaysia	24,471	1.2	Thailand	1,112	0.7
Mercosur	46,604	2.3			

Source: EUROSTAT (Comext, Statistical, regime 4). Calculations by the author.

The structure of the EU 's trade flows with Mercosur responds to the typical pattern of trade between zones of dissimilar level of development, with Mercosur imports from EU consisting predominantly of manufactured goods: machinery and transport equipment, chemicals and diverse manufactures (82.5% of the total of imports), while the EU's imports from Mercosur, though more diversified, show a predominance of primary products such as food and live animals and crude materials (62.9% of the total imports), see tables 12 and 13.

TABLA 12. EU EXPORTS TO MERCOSUR IN 2004

Products by order of importance	Million €	%	Share of total EU exports
TOTAL	18,340	100.0	1.9
Machinery and transport equipment	9,198	50.1	2.1
Chemicals and related prod., n.e.s.	4,125	22.5	2.7
Manuf .goods classif. chiefly by material	1,818	9.9	1.5
Miscell. Manuf. Articles	1,293	7.0	1.1
Commodities and transactions n.e.c.	382	2.1	1.7
Food and live animals	246	1.3	0.7
Mineral fuels, lubricants and rel. Materials	234	1.3	0.8
Crude materials inedible, except fuels	179	1.0	1.1
Beverages and tobacco	159	0.9	1.1
Animal and vegetable oils, fats and waxes	74	0.4	3.1

Source: EUROSTAT (Comext, Statistical, regime 4). Calculations by the author.

TABLA 13. EU IMPORTS TO MERCOSUR IN 2004

Products by order of importance	Million €	%	Share of total EU exports
TOTAL	28,264	100,0	2,7
Food and live animals	10,515	37.2	20.2
Crude materials inedible, except fuels	7,255	25.7	17.1
Manuf. Goods classif. Chiefly by material	3,242	11.5	3.0
Machinery and transport equipment	3,229	11.4	0.9
Miscell. Manuf. Articles	977	3.5	0.6
Chemicals and related products, n.e.s.	930	3.3	1.1
Beverages and tobacco	536	1.9	9.5
Mineral fuels, lubricants and rel. Materials	486	1.7	0.3
Animal and vegetable oils, fats and waxes	219	0.8	6.0
Commodities and transactions n.e.c.	156	0.6	0.5

Source: EUROSTAT (Comext, Statistical, regime 4). Calculations by the author.

As tables 14 and 15 reveal during the years 2000, 2002 and 2004 the EU's exports and imports by product groups maintain the same pattern, where more than the 80% of its exports are manufactured goods and more than 60% of its imports are primary products. In this line, Benavente (2001) points out how the sub-regional evolution of trade in manufactures in the 90s in Latin America countries was explained more by the existence of PTAs in the region than by the unilateral effort of liberalization. The latter was able to boost imports but did not seem to be enough to boost exports of manufactures outside the region.

TABLA 14. EU EXPORTS TO MERCOSUR BY PRODUCT GROUPING

Product Groups	2000	%	2002	%	2004	%	Share of total EU exports
TOTAL	24,215	100.0	18,529	100.0	18,340	100.0	1.91
Primary products	1,700	7.0	1,262	6.8	1,164	6.3	1.09
Of which:							
Agricultural prod.	993	4.1	648	3.5	557	3.0	0.95
Energy	219	0.9	261	1.4	234	1.3	0.84
Manufactured products	21,657	89.4	16,633	89.8	16,161	88.1	1.99
Of which:							
Machinery	7,775	32.1	5,478	29.6	5,819	31.7	2.11
Transport equipment	4,987	20.6	4,254	23.0	3,364	18.3	2.14
Of which:							
Automotive products	2,905	12.0	2,092	11.3	2,253	12.3	2.23
Chemicals	4,316	17.8	3,801	20.5	4,125	22.5	2.72
Textiles and clothing	402	1.7	236	1.3	226	1.2	0.66

Source: EUROSTAT (Comext, Statistical, regime 4). Calculations by the author.

TABLA 15. EU IMPORTS TO MERCOSUR BY PRODUCT GROUPING

Product Groups	2000	%	2002	%	2004	%	Share of total EU exports
TOTAL	24,567	100.0	25,149	100.0	28,264	100.0	2.75
Primary products	15,998	65.1	17,571	69.9	19,669	69.6	6.39
Of which:							
Agricultural prod.	12,104	49.3	13,856	55.1	14,904	52.7	18.82
Energy	103	0.4	340	1.4	486	1.7	0.27
Manufactured products	8,341	34.0	7,256	28.9	7,720	27.3	1.14
Of which:							
Machinery	1,041	4.2	967	3.8	1,571	5.6	0.62
Transport equipment	3,046	12.4	1,699	6.8	1,658	5.9	1.69
Of which:							
Automotive products	997	4.1	781	3.1	732	2.6	1.74
Chemicals	838	3.4	968	3.8	930	3.3	1.08
Textiles and clothing	193	0.8	219	0.9	251	0.9	0.36

Source: EUROSTAT (Comext, Statistical, regime 4). Calculations by the author.

The positive balance of Mercosur trade by product groups in 2006 amounts a total of 13,542 million €, due to a surplus of 26,237 million € in primary products and a deficit in manufactured products of 9,896 million €. This relates to the weight of the primary sector in the Mercosur bilateral relation with the EU. (See table 16).

TABLA 16. MERCOSUR TRADE WITH EU BY PRODUCT GROUPING IN 2006

Product Groups	Mercosur Exports		Mercosur Imports		Balance
	Million €	%	Million €	%	Million €
TOTAL	40,487	100.0	26,945	100.0	13,542
Primary products	28,524	70.0	2,287	8.0	26,237
Of which:					
Agricultural prod.	15,576	38.0	1,156	4.0	14,420
Energy	5,829	14.0	484	2.0	5,345
Manufactured products	9,245	23.0	19,141	71.0	-9,896
Of which:					
Machinery	950	2.0	6,366	24.0	-5,416
Transport equipment	2001	5.0	3,664	14.0	-1,663
Of which:					
Automotive products	1,459	4.0	3,047	11.0	-1,588
Chemicals	1,765	4.0	5,261	20.0	-3,496
Textiles and clothing	180	0.0	323	1.0	-143
Others	2,718	7.0	5,517	20.0	-2,799

Source: EUROSTAT (Comext, Statistical, regime 4). Calculations by the author.

IV. CONCLUSIONS AND PERSPECTIVES

This paper aims to provide an overall view of the actual situation of EU-Mercosur agreement in order to draw some understanding of the regionalisation process in these countries and to measure the consequences of an increase in the bilateral trade flows.

In this context, we introduced the historical transition from old to new regionalism, providing a summary of the related literature in the integration process between countries focusing on new regionalism in Latin America and Mercosur.

The regional initiatives that emerged in the 1990s have been characterized as new regionalism showing some dramatic changes in the structural policy in Latin America and Mercosur. There has been an important shift towards more open economies operating in a democratic scenery and Mercosur is seen as a strategic bloc to strengthen cooperation in the area and the rest of the world.

This article also identified some changes in the evolution of EU-Mercosur trade flows between 2000 and 2006. With imports of goods growing at an annual average of 6% and the export at almost 1%, while Mercosur's trade flows with the EU from 1998 to 2006 showed an annual growth of 4.6% in imports and 11.5% in exports flows. For Mercosur, the EU is the primary trading partner and accounts for an average of 26% of their imports and 24% of their exports between 1998 and 2006. On balance the EU-Mercosur agreement has created trade and contributed to attract FDI. Measured by these two important effects regional preferences in these two zones has a positive balance.

For Mercosur, the negotiations with the EU accomplish a strategic function not only in reference to the FTA but also in a wider presence such as political, economic, financial, social and cultural fields. However, the immediate effects depend on what happens in the trade negotiations; especially in the agriculture sector where there are still many obstacles to overcome towards a greater interregional association. Although there is a basic disposition in the zone, other priorities assumed by both blocs, or the emphases imposed by some Mercosur countries could slow down the closeness between the blocs.

The present state of negotiations EU-Mercosur raises an uncertainty on the consolidation of the agreements, given the actual difficulties to settle the dispute in the gradual processes of the Doha Round towards the concretion of the preferential agreements. The importance of agricultural products in the Mercosur trade relations and the EU resistance to allow more market access has caused the negotiations process to last more than expected. This circumstance enforces the necessity to coordinate policies within the deepening of the process in order to achieve a common market and obliges Mercosur to improve and modernize the quality and competitiveness of the products in order to re-direct exports to external markets.

The future of Mercosur itself remains uncertain. The messages are confusing. Across the continent there is disillusionment with the neoliberal reforms and the "Washington Consensus". This has been stimulated by the IMF response to the crisis in Latin America. There are indications that Mercosur members intend on moving the project forward and to continue a political dialogue among its members and the EU.

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Carmen Rosa Rueda Castañón y Carlos Villán Durán (editores), *La Declaración de Luarca sobre el derecho humano a la paz*, Ediciones Madú, Siero [Asturias], 2007, 529 páginas

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La Asociación Española para el Desarrollo y la Aplicación del Derecho Internacional de los Derechos Humanos (AEDIDH), que agrupa desde 2004 a casi un centenar de profesores y expertos en derechos humanos del ámbito hispanoamericano, realizó entre 2005 y 2006 ocho seminarios regionales en otras tantas ciudades españolas en torno al nuevo derecho humano a la paz. Como resultado de este ejercicio académico, en el último encuentro de la serie, celebrado en el Principado de Asturias a fines de octubre de 2006, fue adoptada la Declaración de Luarca sobre el derecho humano a la paz, que constituye una extraordinaria contribución al avance y al fortalecimiento del derecho internacional público en general y del derecho internacional de los derechos humanos en particular.

El presente volumen, editado por el presidente y la directora ejecutiva de la AEDIDH, y publicado por Ediciones Madú con el patrocinio de la propia Asociación, la Fundación Cultura de Paz, la Generalitat de Cataluña y la Agencia Catalana de Cooperación al Desarrollo, consta de cinco partes: la primera recoge no sólo el texto de la Declaración de Luarca en español, catalán, inglés y francés, sino también un amplio estudio preliminar del instrumento, que aparece en los cuatro idiomas mencionados y que firman los editores; la segunda se refiere a los antecedentes e incluye un examen del proyecto de la UNESCO y el Acuerdo del Seminario de Expertos de Gernika; la tercera alude a los presupuestos filosóficos y educativos, y reúne cuatro ensayos de otros tantos expertos; la cuarta analiza la dimensión individual del nuevo derecho a través de ocho artículos; y la quinta parte, por fin, se ocupa de la dimensión colectiva de la garantía en seis contribuciones. De esta suerte, si se suman los aportes de los cuatro prologuistas y los dos editores a los de los diecinueve articulistas, *La Declaración de Luarca sobre el derecho humano a la paz* recopila veinticinco textos relevantes acerca de la legítima aspiración de los humanos y de la humanidad a la paz. En tal sentido, el libro en comento es un verdadero *reader*, es decir, un manual universitario que contiene el “abc” de la cuestión y que apela tanto a legos como a expertos en la presentación sistemática de uno de los temas centrales de nuestro tiempo.

Como advierte el profesor Carlos Villán Durán, principal promotor de la Declaración de Luarca, este novísimo instrumento “representa el sentir genuino de

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la sociedad y los pueblos de España a la hora de establecer las bases de una nueva sociedad inspirada en el valor universal de paz”, en una coyuntura internacional marcada por el recorte de garantías y el asalto contra el derecho de gentes resultantes del nuevo orden o desorden “postseptembrino”. Por ello, la AEDIDH se propone realizar un proceso internacional de consulta a lo largo de los años 2007, 2008 y 2009, hasta culminar en 2010 ó 2011 con una conferencia mundial de organizaciones y personalidades de la sociedad civil encargada de adoptar el texto definitivo de un proyecto de Declaración Universal sobre el Derecho Humano a la Paz, que recoja la obra de codificación privada formalizada en Luarca y la traslade a las Naciones Unidas para su ulterior tramitación y promulgación como nueva norma fundamental del derecho internacional de los derechos humanos.

Este ambicioso horizonte normativo, que sirve de marco de referencia a todo el volumen, se pone de manifiesto en la Declaración misma y hace de ella una contribución de primer orden a la reflexión académica, a la gestión pública y a la acción ciudadana en el campo de los derechos humanos y las libertades fundamentales. El texto adoptado en Luarca en octubre de 2006 fue redactado por un comité de quince juristas y académicos españoles, y está compuesto de un preámbulo de veintiún considerandos, un cuerpo central de dieciocho artículos y tres disposiciones finales. En sus aspectos esenciales, la Declaración proclama que la paz justa, sostenible y duradera es un derecho inalienable de las personas, los grupos y los pueblos, e incluye los siguientes derechos específicos: a la educación en la paz y los derechos humanos; a la seguridad humana; a vivir en un entorno seguro y sano; a la desobediencia y a la objeción de conciencia; a resistir y oponerse a la barbarie; al refugio; a emigrar, a establecerse pacíficamente y a emigrar; a las libertades de pensamiento, conciencia y religión; a un recurso efectivo [ante la justicia]; al desarme; al desarrollo; y al medio ambiente sostenible. Adicionalmente, el proyecto consagra las obligaciones de todos los actores relevantes en la promoción y protección del derecho a la paz, y propone la creación de un Grupo de Trabajo encargado de la vigilancia de la nueva garantía en el ámbito de las Naciones Unidas.

Por su rico contenido académico, por su decidida voluntad civilizadora y por su alto valor ético, *La Declaración de Luarca sobre el derecho humano a la paz* es una publicación valiosa y valerosa, que contribuye de manera muy significativa al debate público, así como a la acción gubernamental y ciudadana, nacional e internacional, en torno al más preciado de los bienes sociales del hombre y de la humanidad.