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The Interregional Relations Between The European Union and the Southern Common Market (MERCOSUR)

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Abbreviations

ACP	African, Caribbean and Pacific Group of States
AG	Andean Group
ASEAN	Association of Southeast Asian Nations
APEC	Asia-Pacific Economic Cooperation
ASEM	Asia-Europe Meeting
BNC	Biregional Negotiations Committee
BRIC	Brazil, Russia, India, and China
CACM	Central American Common Market
CMC	Common Market Council
CMG	Common Market Group
EESC	European Economic and Social Committee
FDI	Foreign direct investment
FTA	Free trade agreement
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
IFCA	Inter-Regional Framework Co-operation Agreement
LAC	Latin America and the Caribbean
LAFTA	Latin American Free Trade Area
MERCOSUR	Southern Common Market
NAFTA	North American Free Trade Agreement
PARLASUR	MERCOSUR Parliament
SACU	Southern African Customs Union

SCC

Sub Committee on Cooperation

TA

Treaty of Asunción

WTO

World Trade Organization

1 Introduction

This document constitutes the bachelor thesis in partial fulfillment of the requirements of the double-bachelor program “Public Administration/European Studies” the University of Münster, Germany, and of the University of Twente, Enschede, the Netherlands.

1.1 Scope and Structure of the Thesis

Since its inception in 1991, the European Union (EU) has sought to establish strong ties with the Southern Common Market (MERCOSUR), a process that has culminated in the proposition of an interregional association agreement. Since the proposal was made in 1995, both parties are negotiating the terms of the agreement but have yet failed to reach consensus.

This thesis constitutes an inclusive analysis that assesses the relations between the EU and MERCOSUR. It will predominantly focus on the EU but also take note of the role of MERCOSUR in the interregional dialogue.

The recent accession of Venezuela (as well as the preceding suspension of Paraguay’s membership) to MERCOSUR will be addressed as well and assumptions will be put forward about how this will affect the political and economic dynamics within the trade bloc and, moreover, what this could mean for the prospects of the EU-MERCOSUR association agreement.

The overall structure of the thesis is the following: the subsequent subchapters will present the research questions and explain which sources were used for the analysis. The final introductory subchapter describes the historical evolution of MERCOSUR, its institutional structure, and its current challenges. Chapter 2 provides the theoretical framework for the analysis. Chapter 3 analyzes the relations between the EU and MERCOSUR by giving an overview of the interregional dialogue since MERCOSUR’s inception and by applying a functional theoretical approach in order to explore the underlying goals of the EU and, to a lesser extent, of MERCOSUR. Chapter 4 draws a conclusion and attempts to provide a further outlook for the EU-MERCOSUR relations.

In order to avoid ambiguity, several key concepts have to be clarified. Since each of the terms is subject to academic debate, it is important to agree on certain ontological premises.

First and foremost, a 'region' will be defined by adhering to the definition used by Hänggi et al. (2006b, p. 25): "By "region" we mean a geographical area consisting of independent states which pursue shared economic, social and political values and objectives (Yalem 1965). We thus leave behind older definitions which perceived regions as natural entities, with geographical contiguity as the chief or even only criteria".

Furthermore the processes of 'regionalization' and 'regionalism' have to be differentiated: Doctor (2007) states that whereas "regionalization is a trade-driven, often bottom-up process of intensifying interaction led by non-state actors, regionalism is the conscious policy of states, a top-down process, seeking greater regional co-operation on a range of issues from security to the economy" (pp. 286-287). In the context of this thesis, the process of regionalism constitutes the focal point of interest.

The further differentiation between old and new regionalism will be put forward in subchapter 2.1.1 and 2.1.3, respectively. Moreover, the theory of interregionalism will be outlined in subchapter 2.2.

The complementary concepts of regionness and actorness are relevant in order to describe the ability of the EU and MERCOSUR to act coherently on the international stage and will thus be shortly defined in subchapter 2.3.

After these key concepts have been clarified, the following subchapter will present the research questions of this thesis.

1.2 Research Question

The dialogue between the EU and MERCOSUR exists since the founding of the latter. As a result, the first question will aim to retrace the development of the relation between both regions:

1. What is the historical evolution of the relations between the EU and MERCOSUR since its inception in 1991?

The first question will be addressed in subchapter 3.1. Moreover, it is also of interest why both regions engage in a dialogue with the ambitious goal to conclude an association agreement:

2. What are the main goals and ambitions of the interregional dialogue between the EU and MERCOSUR?

The analysis of this question will be based on the theory of interregionalism described in subchapter 3.2. In addition to that, the most recent developments of the Southern Common Market cannot be excluded from the analysis, which leads to the third research question:

3. What are possible repercussions of Venezuela's accession to MERCOSUR on the interregional dialogue between the EU and MERCOSUR?

The last question will not be addressed separately because the formal accession of Venezuela occurred on June 29, 2012. Consequently, there is yet little concrete evidence of how this changes the dynamics within the bloc. However, the analysis of the second question provides several points of reference regarding how Venezuela could affect the bloc as well as its dialogue with the EU. Where possible, the analysis will point out brief assumptions regarding this new development.

1.3 Methodology and the Use of Sources

Albeit an increasing number of regions develop external relations, research on interregionalism "is still in its infancy" (Hänggi et al., 2006b, p. 6). Hence, there are only few empirical studies on the subject. Most of the academic contributions appear as short articles in scientific journals. Moreover, most of the studies are confined to the relations between the states of the 'Triad'¹ (Hänggi et al., 2006b, p. 6).

As of today, there is still no singular streamlined theoretical approach to interregionalism.

¹ The term 'Triad' was used to describe the emerging world order after the end of the Cold War in which the United States, the European Union, and Japan were the major economic forces. Hänggi (1999, p. 56) argues that because of the rapid economic development of East Asia in conjunction with new regionalist agreements within the region, a "new Triad" (Hänggi, 1999, p. 57) has to be defined, which encompasses the US, the EU, and East Asia. In the course of the thesis, the term 'Triad' will refer to the extended concept as described by Hänggi (1999) and Hettne (2006, p. 563).

This thesis draws from the most recent scholarly contributions and captures a snapshot from the current state of research on the subject of interregionalism. There are still loose ends, such as integrating interregionalism into the concept of global governance or more comprehensive "research [...] on non-triadic dialogues (Rüland, 2006, p. 312).

Moreover, due to the lack of empirical models for the analysis of interregional relations, the thesis deduces its findings from a comprehensive literature review. Consequently, chapter 2 puts forward a detailed elaboration on the theoretical approaches of old, new, and interregionalism. In the view of the author, it is imperative for the understanding of interregionalism to first review the theoretical underpinnings of old and new regionalism, as both are closely linked to the study of interregional relations.

Chapter 2 thus provides the background for chapter 3, which analyzes the relation between the EU and MERCOSUR by applying a functional approach to interregionalism.

Next to the most recent academic sources on the subject, primary sources from both the EU and MERCOSUR have been used in the analysis. All translations of documents not available in English are the author's except where otherwise noted.

Finally, statistical data was compiled from online databases provided by the World Bank and the World Trade Organization (WTO).

1.4 The Southern Common Market (MERCOSUR)

This subchapter will put forward a brief introduction into the Southern Common Market and its historical evolution.

After the abolishment of most military regimes in South America at the end of the 1980s, Argentina and Brazil began their rapprochement by the launch of negotiations for a common market². Due to Paraguay's and Uruguay's interest in becoming part of this economic sphere, a short period of parallel bilateral and quadrilateral negotiations for a future common economic space ensued. Eventually, the

² The common market between Argentina and Brazil was formalized in the so-called Economic Complementation Agreement No. 14 (ACE-14)

deliberations culminated in the Treaty of Asunción (TA), signed on March 26, 1991. The Treaty of Asunción was the founding treaty of the Common Market of the South, or, in Spanish, *Mercado Común del Sur*, abbreviated MERCOSUR.

The Treaty of Asunción abolished the sectoral approach of previous agreements in favor of a “gradual, automatic and linear reduction of tariffs and non-tariff barriers” (Esteradeordal, Goto, & Saez, 2001, p. 12) with the ultimate goal to establish a common market between the member states by the end of the year 1994. Next to the reduction of tariffs and barriers to trade, two additional pillars of MERCOSUR were the creation of a common external tariff (CET) and the coordination of macroeconomic policies (Gardini, 2010, pp. 95-96).

By the end of the transitional period in 1994, the Ouro Preto Protocol formalized and amended the provisional institutional structure despite the fact that the common market was not yet achieved to this date. In general, the institutional framework of MERCOSUR consists of rather loose coordination mechanisms with an intergovernmental decision-making approach. As a result, the integration process and the decisions regarding its future direction remain in the realm of the incumbent national governments. After a short period of internal and external crisis from 1999 to 2003, during which Argentina’s default in 2001/2002 and its unilateral devaluation of Brazil’s national currency substantially undermined the regional commitments, the MERCOSUR project gained new momentum. Fueled by reformist and progressive administrations taking office,³ regional integration and solidarity were brought back on the agenda, juxtaposed with the adoption of a rather critical stance towards neoliberalism, which was the dominant political doctrine of the preceding decade (Gardini, 2011, pp. 687-689).

These new dynamics eventually culminated in two decisive documents: the Consenso de Buenos Aires of 2003 and the Olivos Protocol of 2004.

³ These presidents were: Lula da Silva (Brazil) and Kirchner (Argentina), both elected in 2003, and Vazquez (Uruguay) and Lugo (Paraguay), who were elected in 2004 and 2008, respectively. The election of those leftist presidents was part of a large political shift in Latin America, also called the ‘Pink Tide’. For more information compare the article of Castañeda (2006)

The Consenso de Buenos Aires between Brazil and Argentina stood in sharp contrast to the Washington Consensus of 1990⁴ and cemented the countries' abolishment of the neoliberal dogma. As a result, the MERCOSUR bloc broadened its scope by adding the social development of the region and the role of civil society to its agenda, which previously focused on economic integration and trade liberalization.

The Olivos Protocol, on the other hand, amended the institutional structure of MERCOSUR by establishing a dispute settlement system (the Permanent Review Court), the Structural Convergence Fund (FOCEM), and the MERCOSUR Parliament (PARLASUR) (Gardini, 2011, p. 689).

As a result, the current institutional setup of MERCOSUR looks like the following:

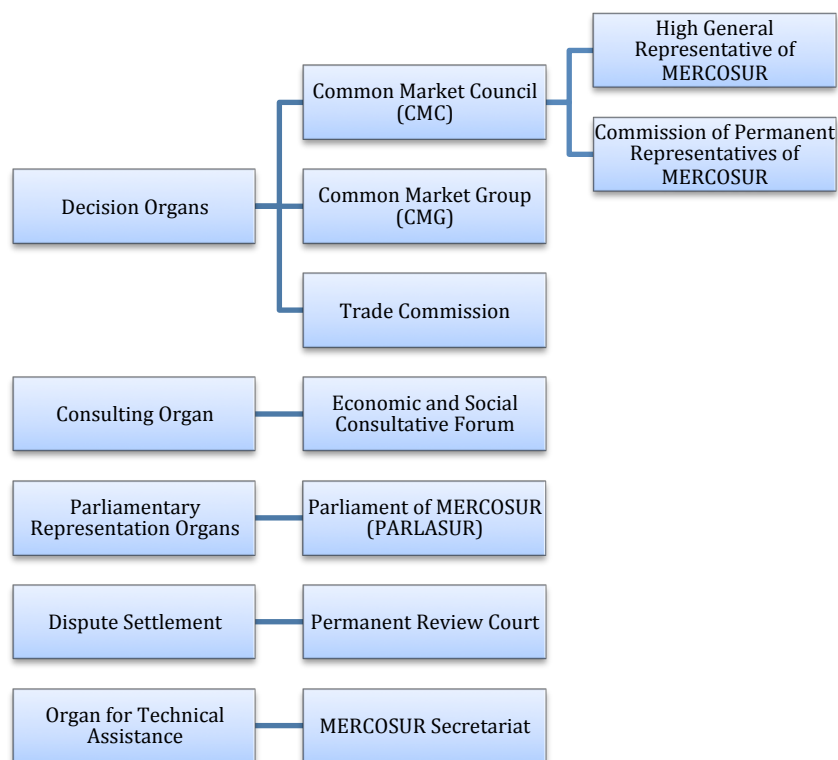


Figure 1: Institutional Setup of MERCOSUR

Source: own illustration based on MERCOSUR (n.d.)

⁴ The term was coined by John Williamson, who championed a set of ten mostly neoliberal principles that was meant to serve as a normative guideline for the economic policies of the Latin American states. The Washington Consensus proposed, *inter alia*, trade liberalization, open markets, privatization, and deregulation (Mecham, 2003, pp. 370-372).

The Common Market Council (CMC) comprises the ministers of foreign affairs and of the economy of the four Member States. It is the highest-level body responsible for decision-making and the compliance with the objectives of the Treaties. The Common Market Group (CMG) is an executive body in charge of the implementation of the decisions made by the Council. The MERCOSUR Trade Commission provides technical expertise with regard to trade issues and prepares the proceedings for the resolution of conflicts between the Member States. The Economic and Social Consultative Forum serves as consulting organ for civil society organizations (Pena & Rozenberg, 2005, pp. 3-4). The MERCOSUR Parliament (PARLASUR) was designed as regional parliamentary body that should promote deeper integration, inter-parliamentary cooperation, and harmonization of national legislation (Consejo Del Mercado Común, 2005, p. 47). However, the PARLASUR remains incomplete as it has no real power and its composition has not yet been fully determined (Gardini, 2011, p. 693). With regard to dispute settlement, the Permanent Review Court serves two purposes: First, it constitutes an appellate court for disputes between member states that have not been resolved to the full satisfaction of the parties. Second, it provides the member states with the opportunity to skip the arbitration process in order to quickly receive a definitive ruling (Ruiz-Dana, Goldschagg, Claro, & Blanco, 2007, p. 23).

The Secretariat manages the administrative issues ranging from the organization of meetings to the proper documentation and publication of decisions (Pena & Rozenberg, 2005, p. 4).

Taking its institutional structure into account, it becomes apparent that the scope of the MERCOSUR project extensively exceeds those of previous trade agreements, as it constitutes a genuine integration project containing both features of an economic and a political community.

However, the persisting importance of the Argentine-Brazilian axis, the underlying intergovernmental approach to integration, the lack of supranational institutions (Gardini, 2010, p. 13), and the missing implementation of the new social agenda currently reveal an inclination towards economic objectives rather than political ones.

At present, MERCOSUR faces two major challenges: the accession of Venezuela to the bloc and the final realization of the customs union.

On the basis of Article 20 TA that contains provisions for future accessions of members to the bloc (de Alhadeff, 1991, pp. 1049, translated version of the TA), Venezuela and the MERCOSUR Member States already signed an enlargement agreement in 2006. However, the formal accession depended on a unanimous national ratification by all Member States. Since Paraguay's senate refused to ratify the protocol, Venezuela's membership remained pending until June 2012.

After the long-boiling conflict between landless peasants and large-scale landowners in Paraguay had escalated on June 15, 2012, leading to the death of 11 peasants and six policemen, President Lugo was removed from office on June 22 by an impeachment vote in both houses. As a result, former vice-president Frederico Franco from the Liberal Party succeeded Lugo in office. Lugo's impeachment started a vicious debate whether the opposition had acted in accordance with the constitution or committed a coup d'état. The MERCOSUR Member States argued for the latter and thus suspended Paraguay's membership for one year. Simultaneously, the Southern Common Market admitted Venezuela as new member, since Paraguay's ratification was no longer necessary.

The accession of Venezuela, especially under consideration of the circumstances under which it happened, leads to a problematic situation for the trade bloc.

First, the country's initial initiative to seek for accession was mostly based on political motives. After Hugo Chavez was inaugurated as president in 1998, he commenced a leftist political campaign characterized by belligerent rhetoric towards the US, rejection of the neoliberalist tenet, and an emphasis on the social development of a self-determined Latin America.⁵ As a result, Venezuela considered joining the MERCOSUR as convenient means to gain influence in the Southern Cone. Moreover, Venezuela's aggressive foreign policy, the authoritarian traits of Chavez' presidency, and the administration's tight grip on the national economy raises doubts whether Venezuela will be able to meet the two crucial principles of MERCOSUR, namely democracy and trade liberalization (Gardini, 2011, p. 691).

⁵ For more information on the leftist movement of Hugo Chavez ('The Bolivarian Revolution') compare the relevant chapter of Keen's book (Keen, 2009, pp. 490-497) on the history of Latin America.

The resulting conflictive situation, especially with regard to Paraguay and other South American nations, needs to be resolved in order to enable MERCOSUR to focus on its second major contemporary challenge: the realization of the common market.

Thus far, MERCOSUR cannot be considered a common market but rather “an incomplete free trade area struggling to turn into a customs union” (Gardini, 2011, p. 695). The persisting impediments to complete the customs union and, at a later stage, a common market are remaining non-tariff barriers, exceptions from internal free trade, e.g., for sugar, and the limitation of the free trade agreements to products produced within the bloc. As there is no common customs code, products imported from third countries are bound to pay a double duty, i.e., when the products enter the free trade area and when they are crossing a border within the bloc (Gardini, 2011, p. 695).

MERCOSUR has, however, started to address these issues. At the Summit of Foz do Iguazu in 2010, the member states agreed on a timeframe to remove exceptions from the free trade regime. Furthermore, during the San Juan Summit in August 2010, consensus was found to gradually abolish the double duty until 2019, to find a mechanism for the redistribution of the customs revenue (although no clear guidelines were established), and to adopt a Common Customs Code (although it awaits incorporation into national law, which will be a lengthy procedure) (Gardini, 2011, p. 696; Kegel & Amal, 2012, p. 9).

Taking everything into account, the realization of the customs union is a matter of utmost importance for MERCOSUR.

First, it will help the trading bloc to redress the substantial asymmetries between the smaller (Uruguay and Paraguay) and the larger (Argentina and Brazil) member states by facilitating their access to both the internal and external market. An equitable distribution of the customs revenue will be especially beneficial for Paraguay (depending on its readmission), which is the only landlocked member state of the bloc (Gardini, 2011, p. 696).

Second, MERCOSUR is actively seeking to establish free trade agreements with other nations and blocs, e.g., the European Union. The establishment of a common

market will make MERCOSUR an attractive partner, which will facilitate the negotiations.

To conclude, a deficient or not fully operational customs union will create substantial impediments to the progress of those negotiations and will undermine the chances for all Member States to equally benefit from such agreements.

2 Theories of (Inter-) Regionalism

The following chapter will outline the theoretical approaches used for the assessment of the EU-MERCOSUR relations in this thesis.

The theories of old and new regionalism not only describe the intra-regional cooperation of states, they also laid the foundations for the theories of interregionalism, which is a body of literature dedicated to the assessment of dialogues and cooperation amongst regions.

Since the thesis analyzes the external engagement of regions, it is imperative to briefly outline what enables a region to act in a coherent manner, i.e., the concept of actorness. For the sake of brevity, however, the concept of actorness will not be fully explained. In the context of this thesis, it is sufficient to state what constitutes actorness and to assume that MERCOSUR has 'less actorness' than the European Union.

In the final subchapter, the theoretical approaches will be conceptualized order to establish a framework that can be applied in the analysis of the EU-MERCOSUR relations in chapter 3.

2.1 From Old Regionalism to New Regionalism

This subchapter describes the theories of old regionalism that describes regional trade agreements (RTAs) that emerged from the 1950s on and how the changes in the international environment facilitated the conclusion of so-called new regionalist agreements.

2.1.1 Old Regionalism

During the 1950s and 1960s, several regional blocs began to emerge. In the case of Latin America, the most notable were the Latin American Free Trade Area

(LAFTA), the Central American Common Market (CACM), and the Andean Group (AG). However, the most prominent example was the European Economic Community, established by the Treaty of Rome in 1957.

The emergence of these regional blocs sparked academic interest from scholars of both economics and political science.

In the field of economics, the study of these regional trade agreements concentrated on the welfare effects of RTAs and their impact on multilateral trade liberalization.

With regard to the welfare effects, economic scholars mainly relied on classic international trade theory, especially the Viner-Meade framework, which focused on three main variables: Trade creation, trade diversion, and terms-of-trade effects. Trade creation signifies the (positive) effects of an RTA on trade patterns and volumes amongst the participating countries. Trade diversion, on the other hand, analyzes how an RTA affects non-member states and to what extent a newly-formed RTA and the essentially discriminatory tariff liberalization inherent to it diverts trade from states outside the agreement to regional partners, even if they are less efficient in the production of the traded commodities. Finally, terms-of-trade effects are related to changes in international prices (Burfisher, Robinson, & Thierfelder, 2004, p. 3; Freund, 2010, pp. 1589-1590).

According to this paradigm, RTAs had the following effects on a nation's welfare: Trade creation was welfare enhancing. Trade diversion had welfare-reducing effects on both members (that would trade with less efficient, thus high-cost producers from within the RTA rather than with low-cost producers from outside the RTA) and non-members (that would lose trading partners due to the formation of an RTA). Depending on whether the RTA created terms-of-trade gains or losses, the welfare effects were either positive or negative, respectively (Burfisher et al., 2004, p. 3).

In the field of political science, the regionalist processes were commonly labeled 'regional integration' and as such predominantly focused on Europe. The three relevant theories during that time were federalism, functionalism, and neofunctionalism (Hettne, 2006, p. 546).

The federalist school of thought reemerged in the aftermath of the Second World War as a visionary program for the future of the European continent. The experience of political and diplomatic failure before and during the two World Wars fueled skepticism amongst scholars towards the nation state regarding its ability to provide effective, peaceful, and sustainable means of governance. The 'postwar catharsis' (O'Neill, 1996, p. 8) helped to formulate the idea of Europe as a "grand project that would be built by a cooperative compact between enlightened elites and their peoples" (O'Neill, 1996, p. 21). It becomes evident that federalism was rooted in classical liberalism, which entailed strong idealistic traits. The assumption that rational discourse was the main device to achieve their European vision and the overlooking of practical requirements rendered the movement unable to mobilize sufficient political support (O'Neill, 1996, p. 24). In the end, federalism gave little impetus to the European integration process during that time but retained its place in the scientific discourse about the European integration process (e.g., through the works of Burgress (2006, pp. 226-247) and Pinder (1985)).

The second supranational approach, functionalism, shared the skeptic attitude towards the nation state with federalism but did not advocate the creation of a transnational federalist entity. Functionalists, with David Mitrany as the most prominent contributor, sought to alleviate the shortcomings of nation states by assigning certain functions (e.g., transportation, communication, or trade) to international agencies. This process would gradually decrease national sovereignty with the ultimate goal to delegate security issues to a supranational agency. According to Mitrany, this would be the final step to overcome the Westphalian nation state and to replace the 'protected peace' with the 'working peace' (Senghaas-Knobloch, 2007, pp. 294-296). Albeit being labeled "technocratic and therefore unrealistic" (Hettne, 2006, p. 546), Mitrany's functionalism generated valuable contributions to debates about the importance of knowledge for the formulation of political strategies regarding international cooperation and provided the theoretical basis for neofunctionalism, as formulated, *inter alia*, by Ernst B. Haas.

The common ground the theory of neofunctionalism shared with preceding supranationalist approaches included the critical stance towards the role of the nation state and the predominant realist paradigm in the study of international relations during that time. Due to its emphasis on methodological rigor and the self-

prescribed scientific mandate, however, neofunctionalists regarded the nation state as merely obsolete than evil (O'Neill, 1996, p. 35). As a result, economic transactions and the pursuit of welfare-enhancing measures were seen to be at the heart of cooperation and integration processes. The key concept regarding the dynamics of regional integration, termed 'spillover', was the gradual expansion of cooperation from 'low politics' to 'high politics' based on a learning process by governing and technocratic elites.

Despite its initially high explanatory value for the assessment of the European integration process, the 'Eurosclerosis' of the 1960's and 1970' led to a decline of neofunctionalism in the debate (Malamud, 2001, p. 3). Due to the fact that neofunctionalists were committed to empiricist methods, i.e., their hypotheses were open to refutability, they had to face the empirical reality that began to contradict their theoretical prescriptions. As a result, the emphasis on methodological rigor inevitably led to the confutation of this approach, or, as O'Neill (1996, p. 36) framed it, to "death by detail". This was even acknowledged by Haas himself, who eventually declared the "obsolescence"⁶ of neofunctionalist theory.

Subsequently, the theoretical debate was dominated by a state-centric, i.e., intergovernmental approach that stood in stark contrast to its predecessor. These approaches were roughly in vogue for one decade until they faced similar problems as the supranationalist approaches before them: the paradigm of the primacy of the nation state and the emphasis on national sovereignty was refuted by the resurrection of the European integration process through the Single European Act in 1986 (O'Neill, 1996, p. 49).

To conclude, Europe was in the center of debate about old regionalism (Hettne, 2006, p. 547). The early European integration remained the prime example of old regionalism and, accordingly, received the major share of scholarly attention. As the integration dynamics began to slow down, i.e., the EEC suffered from 'Eurosclerosis', the central theoretical focus shifted from supranationalist to intergovernmentalist approaches and international relations scholars reinvigorated the realist school of thought. Simultaneously with Europe, old regionalist agreements

⁶ First formulated in: Haas, E. B. (1975). The obsolescence of regional integration theory. Berkeley: Institute of International Studies, University of California.

in other parts of the world began to falter, which eventually led to an end of an era that is retrospectively called 'old regionalism'.

2.1.2 Setting The Scene: The New International Environment

After the end of the first wave of regionalism in the mid-1970s, the international environment gradually began to transform, a process that culminated in the end of the Cold War and the concomitant bipolar world order. The end of the bloc confrontation left a legacy of newly independent states that were left in "political uncertainty and instability" (Söderbaum & Van Langenhove, 2005, p. 255). Moreover, the end of the bloc confrontation had further implications that affected the Westphalian nation system. While prior regional cooperation was frequently hegemonically imposed, the accelerating pace of economic globalization created intrinsic motivations to engage in regional agreements in order to counterbalance the wide-ranging effects of worldwide economic interdependence (Söderbaum & Van Langenhove, 2005, p. 256). The qualitative differences of the emerging regional projects in comparison to the 'old' regionalist agreements will be outlined in the following subchapter.

Both factors, the end of the Cold War and the rise of globalization, accompanied by regionalist movements, contributed to the increasing complexity of international relations and, simultaneously to a process of gradual dissolution of the traditional Westphalian nation state.

According to Roloff (2006, pp. 19-20), the international system that evolved since the end of the Cold War has four characteristics:

- The supremacy of the United States (p. 19);
- The process of globalization, which includes the processes of transnationalization and transnational threats and challenges such as international terrorism, organized crime, trafficking of small arms, proliferation of weapons of mass destruction, irregular migration, etc. (to name but a few) (pp. 19-20);
- The process of regionalization (p. 20);
- And the fragmentation of political order and the failure of states. (p. 20).

However, Doidge (2011, p. 39) correctly points out that in the contemporary international system, the hegemonic position of the United States no longer remains

uncontested. Nowadays, several other rising powers have emerged that increasingly aim to establish and fortify their influence in the international system, namely Brazil, Russia, India, and China (BRIC countries). In addition to that, the European Union also endeavors to play a pivotal role in international politics (Doidge, 2011, p. 39).

2.1.3 Characteristics of New Regionalism

Remarkably, the history of the European integration does not only constitute a prototypical example of old regionalism. After the period of 'Eurosclerosis' was concluded in 1985 by the European Council meeting that paved the way for the Single European Act, Europe became also the prime example of a qualitatively new type of regionalism to which contemporary scholars refer to as new regionalism, second generation regionalism, or the second wave of regionalism.

Further examples of these new regionalist agreements next to the EC/EU are the North American Free Trade Agreement (NAFTA), MERCOSUR, the Association of Southeast Asian Nations (ASEAN), and the Asia Pacific Economic Cooperation (APEC) (Breslin & Higgott, 2000, p. 333).

The emergence of new regionalist agreements was induced by the changing international environment and further propelled by the accelerating pace of worldwide globalization. These agreements sparked substantial scholarly interest from both economics and political science. Within the latter, new regionalism in Europe was assessed by academics from EU Studies. With regard to new regionalism outside the European context, scholars applied approaches from international relations (IR) and/or international political-economy (IPE) (Warleigh-Lack & Rosamond, 2010, p. 994).

According to Ethier (Ethier, 1998, pp. 1150-1152), who is following an economic approach, new regionalist agreements typically possess the following characteristics:

- They are concluded between one or more small countries and one (economically) powerful country (p. 1150).
- On the side of the smaller countries, substantive domestic reforms (especially in the organization of their economies) have preceded the agreement (p. 1151).

- The degree of liberalization enshrined in the agreements is typically small, especially since the bulk of reforms were undertaken unilaterally by the smaller partner in advance of the agreement (p. 1151).
- In conjunction with the preceding point, the arrangements are one-sided and rely on concessions by the smaller party, whereas the larger partner is able to exercise more leverage due to the asymmetrical nature of the relationship (p. 1151).
- The agreements encompass elements of 'deep integration', i.e., the scope usually exceeds the mere liberalization of trade and includes issues of harmonization and broader economic policies (p. 1152).
- Finally, new regionalism is confined to neighboring states. (p. 1152)

From an epistemological perspective, the study of new regionalism in economists developed a 'new trade theory' that superseded the Vinerian paradigm of trade creation vs. trade diversion. This rather eclectic approach considers aspects that go beyond mere efficiency gains and comparative advantages by taking, inter alia, "rent-seeking, political economy, [and] game theory" (Burfisher et al., 2004, p. 4) into account. During the evolution of the study of new regionalism in economics, one major debate has been revolving around the fact that many scholars continue to use the well-established classical paradigms for the assessment of new regionalist agreements, i.e., they are studying the 'new' with the 'old' (Burfisher et al., 2004, p. 10).

In the realm of political science, the foundering integration theories were succeeded by intergovernmental approaches (e.g., by Moravcsik) and the study of regionalist dynamics were absorbed by international relations theories (Breslin & Higgott, 2000, p. 335). With regard to the European context, the inauguration of the European Union with the Common Market as its major constituent reinvigorated the study of European integration and attracted scholars from various disciplines.⁷ Amongst them were comparativists, such as Simon Hix, who considered the EU a

⁷ For a detailed account of the history of European Studies and an elaboration whether it represents an independent field of study or a conglomerate of different approaches derived from international relations and comparative politics, refer to Rosamond's introductory chapter in the "Handbook of European Politics" (Rosamond, 2006).

state-like entity, which allowed the application of comparative politics (Warleigh-Lack & Rosamond, 2010, p. 994). On the other hand, the 'new governance' perspective conceptualized the European Union as unique new polity by emphasizing its sui generis character (Hix, 1998, p. 39).

Finally, the assessment of new regionalist dynamics outside the European context was undertaken by applying international relations or international political-economy frameworks (Warleigh-Lack & Rosamond, 2010, p. 994).

While old regionalism was a result of Cold War power dynamics and produced agreements that were rather limited in scope by emphasizing either security or economic issues, new regionalism is chiefly determined by the new multipolar and complex international environment. New regionalist agreements "resulted from [...] more comprehensive, multidimensional societal process[es]" (Hettne, 2006, p. 549). At the same time, the formation of regional blocs was embedded within the processes of globalization that led to the creation of multilateral networks and, simultaneously, to regional blocs, which are both processes that contribute to the erosion of the Westphalian nation state.

As these blocs began to develop a 'regionness' and, subsequently, varying degrees of 'actorness' (both terms will be briefly outlined in chapter 2.3), they began to reach out towards other economic blocs and nations. The most notable example for this process can be found within the European Union, which developed a strong preference for negotiating trade issues with regions rather than with individual states. Along with this foreign trade policy the EU developed a normative paradigm in its external relations that promoted regional integration in juxtaposition with democratic principles worldwide.

This emerging interregionalism will be outlined in the following subchapter.

2.2 Interregionalism

Notwithstanding the fact that old regionalist agreements, most notably the European Economic Community (EEC), also engaged in group-to-group dialogues, there was little scholarly interest in this phenomenon. As outlined by Zimmerling (as cited in Roloff, 2006), international relation scholars predominantly treated this

process “as a byproduct or a special case of regionalism and of integration theory” (p. 19).

However, in the light of the new international environment, new regionalist agreements burgeoned and, subsequently, began to develop an outward orientation that eventually led to dialogues between regions and other actors of the international system.

As outlined in the preceding subchapter, studies of new regionalism typically assumed that geographic proximity is a prerequisite for these agreements. However, since the new trade blocs did not only integrate intra-regionally, but also developed an outward orientation towards other countries and blocs, the predominantly economic approaches to new regionalism intended to adapt their analytical frameworks. For example, Das (2004) asserts that “it is no longer a necessary condition” (p. 2) for regional trade agreements to be formed between neighboring countries and that “the use of the term ‘regional’ could be a complete misnomer” (p. 3).

However, although negotiations between regional blocs mostly revolve around economic cooperation, it is evident that they are also politically motivated, especially in the case of the European Union as will be outlined in the course of this thesis. As a result, the analysis of interregionalism requires political science approaches that bear the economic ambitions in mind but predominantly assess the underlying political motives.

In the last two decades, several theoretical approaches have been developed by international relation scholars, of which the most notable are the following (Hänggi et al., 2006b, pp. 11-12):

- Ralf Roloff (2001) assumes a systemic perspective in his analysis of the Triad and derives his insights from the juxtaposition of neorealism based on Kenneth Waltz (1979) and the interdependence theory of Keohane and Nye (1977) (p. 11).
- Julie Gilson has applied the constructivist school of thought in her analysis of interregional dialogues (Hänggi et al., 2006b, p. 11). Following this train of thought, Gilson (2005) emphasizes the interaction and identity-forming effects

of the ASEM meetings by stating that interregionalism “may be regarded as a process whereby, through their mutual interaction, the regions of East Asia and Europe come to recognize themselves as such” (p. 310) and that as “interaction continue[s], ideas and understandings of self and other are constantly formed and reformed, to the extent that, without the other, the self would be incomprehensible” (p. 310).

- Furthermore, Jürgen Rüländ (2001a; 2001b) has developed an analytical framework of analysis that concentrates on the functions of interregional relation that will be applied in this thesis. The author develops five functions of interregionalism (balancing, institution-building, rationalizing, agenda-setting, and identity formation), of which each corresponds with one of the major theories in international relations (including constructivism). As a result of this eclectic approach, Rüländ is able to bridge the gap between neorealists and neoliberalists.
- In addition, there are some scholars of global governance and globalization studies seeking to locate the phenomenon of interregionalism in the concept of global governance and its multi-tiered structure. Hänggi et al. (2006b, p. 12) point out the work of Reinecke (1998) that depicts a rather complex arrangement that not only includes horizontal (sector-specific regimes) and vertical (forums and arrangements from the multilateral to the local level) elements, but also “ cross-cutting networks of non-state actors which increasingly become part of global, regional and interregional dialogue forums” (Hänggi et al., 2006b, p. 12).

In the following subchapters, Rüländ’s approach and the extensions formulated by Doidge (Doidge, 2011) will be outlined in order to apply them to the EU-MERCOSUR dialogue in chapter 3.

2.2.1 Balancing

The balancing function utilizes the realist theoretical approach and its emphasis on power as the decisive element for the behavior of states in the international arena.

In the new international environment, power is predominantly determined economically rather than militarily. Due to the reduced utility of military means to control the actions of other actors, institutional arrangements have gained importance in global politics. This has important implications for the concept of power itself: whereas the exertion of 'compulsory power' yields less satisfying results, 'institutional power', i.e. the indirect control through formal and informal institutions,⁸ has become today's relevant power resource for nations and blocs (Rüland, 2010, p. 1274). In addition to that, Rüland (2010) further argues that the United States' military supremacy forecloses *a priori* any balancing attempt with military means (p. 1274). As a result, weaker states are more likely to engage in interregional dialogues in order to create a counterweight against the hegemonic position of the US.

From realist perspective, interregionalism, then, can be considered as a means of states to create and maintain an equilibrium amongst them, especially with regard to the Triad of economically powerful states (Doidge, 2007, p. 232). For states outside the Triad, interregional agreements serve the purpose to avoid marginalization and to regain influence and power in the international arena (Rüland, 2010, p. 1274).

Doidge (2011, p. 35) further elaborates on the balancing function by differentiating between self-focused and externally-focused balancing. The self-focused balancing refers to regional actors that aim to use interregionalism as a means to defend and/or fortify their position in the international (trade) environment. As a result, these regions see interregional ties as a chance to enhance their regional competitiveness and to reduce their dependence on certain markets by diversifying their trade relationships (Doidge, 2011, p. 35). Moreover, interregional agreements can help avoid future exclusion from other regional groupings as it consolidates ties between them.

On the other hand, regions pursuing externally-focused balancing, consider interregional dialogues as a way to constrain the actions of other actors. The constraints imposed by interregional agreements can either achieve that regional actors keep committed to the open participation in the global multilateral framework,

⁸ The distinction between compulsory and institutional power stems from the seminal work by Michael Barnett and Raymond Duvall (2005): "Power in International Politics", in which the authors distinguish between compulsory, institutional, structural, and productive power.

which hinders them to act unilaterally, or by forging alliances versus third parties (Doidge, 2011, pp. 35-36).

2.2.2 Institution-Building

From neoliberal institutionalist perspective, on the other hand, one important function of interregional dialogues is institution-building. Neoliberal institutionalism is based on the assumption that the anarchy in international politics is characterized by 'complex interdependence', a term first coined by Robert Keohane and Joseph Nye (1977). The authors developed three central claims that challenged the traditional realist approach: 1) In the international arena, states are no longer the only relevant actors, as transnational relations encompass multiple channels of interaction, in which multinational corporations, NGOs, and IGOs participate; 2) (military) force is an ineffective policy instrument in international relations; 3) there is no hierarchy of political issues or goals in international politics, i.e., security does not necessarily take precedence over welfare (Spindler, 2007, p. 207).

The concept of complex interdependence constitutes the analytical concept that laid out the foundations for the subsequently emerging regime theories and the theory of neoliberal institutionalism. Albeit the often-discussed realism-liberalism divide, neoliberal institutionalism shares several premises with realist approaches, namely the assumption of anarchy in the international system, the importance of the sovereign nation state in international relations, and the underlying epistemology, i.e., positivist and empiricist methods (Sutch & Elias, 2007, p. 74).

Since agreements as well as dialogues on interregional level are formal in nature, they become part of the foreign policy of the participating parties. The result is a stable framework that facilitates cooperation and dialogue on policy matters, which can range from trade over political to social and cultural matters, depending on the depth of the particular agreement (Doidge, 2011, p. 36).

In addition to the institutionalization of interregional dialogues, agreements between regions can create subsidiary institutions that oversee the implementation of the decisions or deal with a particular policy matter contained in the agreement. Moreover, the integration of agreements in the legislative body of the regional

organization and/or the implementation in the national legislations may also be considered an institution (Doidge, 2011, pp. 36-37).

Moreover, according to Rüländ (2001a, p. 7), the integration of nations and regional blocs in interregional dialogues facilitates the containing of hegemonic ambitions of great powers by embedding them into structures of global governance. In a broader sense, interregionalism socializes strong and weak states alike into cooperative structures based on dialogue, rules, and norms, which essentially leads to an institutionalization of international politics.

As a result, the cooperation between regions contributes to the creation of institutions in the form of structures and norms (Doidge, 2007, p. 232). These institutions can be high-level structures, such as summits of the heads of states or ministerial conferences, as well as low-level relations between NGOs or economic actors.

Lastly, the institution-building function of interregionalism promotes regional integration within the participating regions. In a setting of institutionalized cooperation between regions, the dialogue partners are required to coordinate their positions intra-regionally in advance in order to be able to present common positions during the interregional meetings and negotiations. This “increasing demand for internal coordination” (Rüländ, 2001a, p. 7) enhances the institutional cohesion of regional organizations (Hänggi 2006) and reinforces the intra-regional institution-building, a process Hänggi (1999) describes as “regionalism through interregionalism” (p. 73).

According to Doidge (2011, p. 37) intra-regional institution building can be either endogenous or exogenous. In the former case, the external region only exerts minor influence, whereas in the latter scenario, the interregional partner actively contributes to the integration endeavors of its partner.

2.2.3 Rationalizing

The third function of interregionalism, rationalizing, is also rooted in the institutionalist school of thought and its emphasis on rules, norms, and common decisions that facilitate communication and cooperation between states (Doidge, 2007, p. 233).

The core assumption is that interregionalism rationalizes the negotiations and decision-making processes at the multilateral level by creating fora for debate on a level between nation-states and global institutions (Doidge, 2007, p. 233), which are able to alleviate the difficulties of multilateral negotiations, such as the role of great powers, large participant numbers, and the difficulties to reach universal, binding, and adequate solutions to global problems.

Notwithstanding the fact that multilateralism embraces the sovereign equality of members, large participant numbers, and the universality of membership (Kahler, 1992, p. 681), these principles inadvertently create pitfalls for the decision-making processes.

One major drawback of multilateralism is the influence of great powers on the decision-making process, which undermines the equality of membership if it manifests itself in either abdication or domination.

According to Doidge (2011, p. 39), abdication denotes the decision of a great power to opt out of multilateral fora in favor of engaging in bilateral negotiations if it has reason to believe that this would better serve its national interests. As a result, a great power can utilize its strong bargaining position bilaterally to its advantage without having to adhere to institutional settings and majority decisions that might yield unfavorable results.⁹ Additionally, abdication may occur if a multilateral forum proves to be incapable of delivering any results, i.e., the achievement of consensus is impossible due to a lack of effectiveness.

Domination, on the other hand, signifies a situation in which a superpower dominates multilateral fora or the persistence of obsolete decision-making structures that still reflect the power constellations of the Cold War period (Doidge, 2011, p. 40).

As outlined in subchapter 2.1.2, the end of the bloc confrontation ended the era of bipolarity and, concomitant with the accelerating pace of globalization, gave rise to new actors, such as Brazil, Russia, India, and China (the BRIC countries) as well as the European Union, which increasingly engage in international politics. As a result,

⁹ Kahler (1992) refers to this problem, which originates from realist scholars and their critical appraisal of multilateralism, as “domination by the many” (1992, p. 682)

the problems of abdication and domination are further exacerbated for there are more 'great powers' adopting these strategies on the one hand, and stronger opponents against them on the other hand, making an institutional gridlock on multilateral level more probable.

The second drawback of multilateralism, paradoxically, is the high number of parties involved. Although large-*n* membership institutions are more inclusive and consequently more legitimate, rising participant numbers equally lead to rising transaction and information costs, and rising recognition and control problems. As a result, the negotiating parties are less able to identify common interest or to predict the actions of partner states. Moreover, the increasing complexity has adverse effects on the transparency of decision-making processes (Doidge, 2011, pp. 40-41).

In addition to these above-outlined problems, Rüländ (2001a, p. 7) mentions the often extremely diverse interests of the participating actors, which further contribute to the agonizingly slow pace of multilateral negotiations.

In order to alleviate these drawbacks of multilateralism, group disaggregation in the form of interregional agreements may serve as a remedy.

With regard to the influence of great powers undermining the equality principle of multilateralism, interregional dialogues help to create alternative levels of government that are more effective and in which domination by the many is less probable, which consequently reduces the likelihood of abdication. Furthermore, the (inter-)regional cooperation on multilateral issues contributes to the formation of coalitions between regional actors, which are then able to create a counterweight to the more powerful actors in multilateral negotiations (Doidge, 2011, p. 40).

Moreover, negotiations between regional actors are more effective due to the smaller number and the greater coherence of participants. The underlying processes of regionalism have equipped regional actors with two distinct advantages that make them "natural units for cooperation in multilateral fora" (Doidge, 2011, p. 43).

First, regional actors have more congruent interests, constitute more cohesive aggregates in terms of social, cultural, and economic characteristics, and are therefore more likely to pursue similar objectives in international negotiations. Second, they share a collective identity, which implies a stronger bond that

consequently exceeds the single-issue focus of interest coalitions. As a result, they demonstrate a higher willingness to cooperate and to make concessions due to the long-term nature of the underlying regionalist processes (Doidge, 2011, p. 43). The regional partners have created a sense of 'common fate' and possess mechanisms to compensate members intra-regionally for concessions made on interregional or even multilateral level. The collective identity function of interregionalism will be further elaborated in subchapter 2.2.5.

Furthermore, the institutionalization of regional actors contributes to the ability to rationalize negotiations. The existence of some form of institutional framework within the regional groups enables them to create possible "intra-regional trade-offs between policy actors" (Doidge, 2011, p. 44), which facilitates cooperation and thus the formation of common positions for higher-level negotiations.

With regard to the persistent diversity of interests and the increasing technical complexity of issues that may have a paralyzing effect on multilateral fora, interregionalism facilitates the disaggregation of decision-making processes and, consequently "streamline[s] the overburdened agenda of global organizations" (Hänggi, Roloff, & Rüländ, 2006a, pp. 11-12).

In conclusion, interregionalism serves as a "clearing house" (Doidge, 2011, p. 45) for multilateral debates by rationalizing the global discourse. The resulting process is more time-efficient, more legitimate and constitutes a bottom-up process that allows a discourse to be held on regional, interregional, and, eventually, on multilateral level (Rüländ, 2010, p. 1277). However, it is important to bear in mind that a decisive factor influencing the extent to which the rationalizing function takes effect is the level of actorness of the involved regions.

2.2.4 Agenda-Setting

The agenda-setting function of interregionalism is closely related to the rationalizing function outlined above due to its emphasis on the smaller numbers, the greater sense of consensus, and the common interests of interregional fora (Doidge, 2007, p. 233).

By interacting on a regional level, the participating regions and their constituents are able to form coalitions in favor of (or against) certain issues and/or policies that

are to be negotiated on a global level. As a result, interregional dialogues can serve as a mechanism to first create consensus on a lower level of the global governance structure before introducing these common positions to the agendas of multilateral fora in a concerted manner (Doidge, 2011, p. 45).

Furthermore, interregional dialogues can provide a forum in which existing or newly emerging global problems can be pointed out and preliminary ideas on how to tackle these problems can be formulated. As a result, the interregional level would serve as a starting point that prepares the multilateral debate and influences the global discourse (Rüland, 2010, p. 1277).

This function of interregionalism, however, has not yet been empirically sustained. Additionally, the contemporary international system in which the prevailing US unilateralism stands in conflict with emancipating middle powers (e.g., the BRIC states), which have adopted a rather critical stance towards international organizations, let the chances of a successful agenda-setting through interregionalism appear rather slim (Rüland, 2010, pp. 1277-1278).

2.2.5 Collective Identity Formation

The final function of interregionalism, collective identity-building, roots in the school of thought of constructivism, which has become increasingly popular in the study of international relations over the last two decades.

The underlying epistemological approach of constructivism challenges to some extent the positivist methods of the grand theories of international relations by positing that “the world is socially ‘constructed’” (Sutch & Elias, 2007, p. 125) and by emphasizing how inter-subjective beliefs of actors shape their interests and, ultimately, their actions. According to Wendt (1992), these inter-subjective beliefs “constitute the structures which organize our actions” (1992, p. 397).

For example, Hugo Chavez’ perception of the US foreign policy being “imperialist madness” (Mercopress, 2012a), determines Venezuela’s hostile attitude towards the United States and chiefly influences its own foreign policy, such as the choice of trading partners, military alliances, et cetera. As a result, the enmity between the US and Venezuela is a social structure in which the intersubjective understanding prevails that the United States’ foreign policy pursues a hegemonic and imperialist

agenda, which stands in stark contrast to Venezuela's leading principle of *bolivarianismo*.¹⁰ These intersubjective beliefs constitute collective meanings (for both Venezuela and the United States) that determine the structure in which the involved actors organize their actions. Moreover, by participating in these collective meanings, the actors of the international system are able to shape their identities (Wendt, 1992, p. 397).

Following this approach, identities are "relatively stable, role-specific understandings and expectations about self" (Wendt, 1992, p. 397) that may change with the institutional context and the different roles assumed in these contexts (1992, p. 398).

With respect to interregionalism, the concept of identity is crucial for the understanding of regional actors (Doidge, 2011, p. 46) because in this context, each respective region participating in the negotiations can be understood as a 'self' that engages with an identifiable 'other' (Gilson, 2005, p. 309). Within this process the 'self', i.e., the regional identity, can be formed through differentiation from the 'other' and/or through the interaction and the mutual exchange with the partner, which contributes to the recognition of the 'self' and its identity (Gilson, 2005, p. 310).

According to Doidge (2011, p. 46), this process of collective identity formation is mainly influenced by three factors: the participation of an external integrator, the negotiation of operational elements, and the reaction to external stimuli.

If one participant of the interregional dialogue assumes the role of an external integrator, the remaining actors are bound to consolidate their position by forming a regional grouping, which, consequently, induces the formation of a group identity. The European Union, for example, has demonstrated a strong preference for negotiating with larger entities rather than addressing potential partners bilaterally. Albeit it cannot artificially generate an identity from the outside, its emphasis on interregional dialogue provides a momentum for the process of collective identity formation (Doidge, 2011, pp. 46-47).

¹⁰ Viewed from this angle, *bolivarianismo* constitutes an intersubjective belief that is postulated as "the idea of a Latin American Liberation Movement against U.S. economic and political imperialism" (Manwaring, 2007, p. iii).

Moreover, the negotiation of operational elements of an interregional agreement may spur collective identity formation. By establishing prerequisites for membership, on the one hand, the participating parties adhering to the established criteria are equipped with identity-shaping points of reference that enable a demarcation between the 'self' and the 'other'. On the other hand, operational norms adopted by participating actors serve as guidelines for their mode of interaction and the association of these norms with the respective actor generates identity-building effects (Doidge, 2011, p. 47). For the latter point, the so-called 'Asian Way' during ASEM negotiations is a suitable example (Doidge, 2011, p. 47) (Higgott, 2007, p. 79).

The final aspect outlined by Doidge (2011, p. 47) refers to unintentional identity formation processes that result from an actor's response to external stimuli provided by another participant of the negotiations, which can be either reactive or adoptive. The former reaction entails the adoption of the proposition or statement, whereas the latter leads to the formulation of an alternative position.

2.3 Actorness

After having outlined the different functions of interregionalism, it is important to note that the performance of these functions fundamentally depends on the level of actorness of the participating regions.

According to Hettne (Hettne, 2006, p. 555), actorness refers to an actor's (which can be a nation as well as a region) "capacity to act", i.e., its "scope of action and room for manoeuvre, in some cases even a legal personality." (p. 555).

In order to differentiate actorness from regionness, Hettne (2006) states that "the latter [implies] an endogenous process of increasing cohesiveness, the former a growing capacity to act that follows from the strengthened 'presence' of the regional unit in different contexts, as well as the actions that follow from the interaction between the actor and its external environment." (p. 556).

Since interregionalism basically constitutes an instrument of foreign policy, it is intrinsically linked with the capability of a region to apply it in its external relations. Moreover, Söderbaum (2005, pp. 251-252) asserts that after a region assumes actorness, it develops a need for a more organized exchange with other regions, i.e.,

an interregional dialogue. Following this train of thought, interregionalism only occurs after a region has achieved actorness.

Consequently, as Doidge (Doidge, 2011) argues, "actorness is a key variable moderating the performance of the functions of interregionalism." (p. 48). As a result, the functions of interregionalism as outlined in the preceding subchapter depend on the actorness of the involved regions.

With regard to the actorness of the European Union, this thesis will not elaborate on the question whether the EU constitutes an actor 'sui generis' or if it should be considered a state-like entity with Laswellian characteristics (Warleigh-Lack & Rosamond, 2010, p. 994) as this would exceed the scope of the topic at hand.

For the purpose of this thesis it is sufficient to assume that the European Union has achieved a level of actorness (Wunderlich, 2012; Söderbaum, Stålgren, & Van Langenhove, 2005) that is higher than the one achieved by MERCOSUR, *inter alia* due to the latter's intergovernmental integration approach.

This, in conclusion leads to an asymmetric relationship, which has repercussions for the dynamics of the relations between EU and MERCOSUR and, consequently, for the extent to which the different functions of the interregional dialogue can take effect.

2.4 Conceptualization

The previous subchapters have outlined the theories of old regionalism, new regionalism, and the more recent academic concept of interregionalism. This subchapter will briefly outline how these phenomena and their respective theoretical frameworks are connected.

The processes of old regionalism during the 1950s and 1960s were analyzed by economic and political science scholars separately. In the realm of economic research, the most important framework for analysis was the Viner-Meade paradigm of trade creation, trade diversion, and terms of trade effects. On the other hand, political scientists were predominantly concerned with the emerging regionalism in Europe. The study of early European integration consisted of the integration theories, which were limited in their transferability to other regions. Economists, on

the other hand, claimed that their approach was of universal utility. As a result, there was little inter-scholarly communication.

During the wave of new regionalism that began in the 1970s, "the lack of correspondence in this respect between economics and political science" (Hettne, 2006, p. 547) persisted. While economic research on the subject burgeoned, "only few introductions to IR, IPE or development studies contained sections on regionalism" (Hettne, 2006, p. 547). The new regionalism approach in economics, on the other hand, further developed the old framework, criticized the Viner-Meade paradigm and extended the analysis with "trade-productivity links and other essential elements of new trade theory" (Burfisher et al., 2004, p. 10).

Moreover, the new regionalism approach in economics was further extended by examining the relationship between regional trade agreements and multilateral trade. The pivotal question was whether regional arrangements constituted a building bloc or a stumbling bloc towards global trade liberalization.

With regard to political science, the growing academic interest created a divide between scholars studying the new regionalism in Europe (the EU studies approach) and those who explored regionalist processes outside the European context. The latter applied international relations and international political economy approaches. Just recently, Warleigh-Lack (2010) published an article that aimed to close the gap between both schools of thought.

Nevertheless, the persisting fragmentation of the study of new regionalism in political science leads to epistemological differences and also to an ontological problem since "regionalism means different things to different people" (Hettne, 2006, p. 543).

The relatively new phenomenon of interregionalism is inextricably linked to new regionalism as outlined in the final paragraphs of subchapter 2.1.3. Moreover, it is almost exclusively studied by political scientists. Albeit new regionalist scholars from economics have tried to adapt their frameworks (cf. subchapter 2.2), those approaches have yet failed to provide a satisfying answer for the question why new regionalist blocs developed an outward orientation and began to enter the international stage.

The following table summarizes the theories of old, new, and interregionalism:

	Old Regionalism	New Regionalism	Interregionalism
Economics	Viner-Meade Framework	New Regionalism Approach (NRA)/New Trade Theory	Attempts to adapt the NRA
Political Science	Integration Theories	EU Studies: <ul style="list-style-type: none"> • Comparative Politics (used by comparativists) • International Relations (new governance approach) 	International Relations: <ul style="list-style-type: none"> • Grand Theories • Post-structuralist theories
		International Political Economy (based on methodological individualism)	

Table 1: Theories of Old, New, and Interregionalism

The intellectual legacy of old regionalism (Breslin & Higgott, 2000, p. 335) describes the underlying integration dynamics of the regional blocs during that time and, moreover, it serves the purpose to demarcate them from the qualitatively new regional integration dynamics of the 1970s.

Furthermore, both economic and political science approaches to new regionalism also yield important descriptive insights into the qualitative differences of new regionalist agreements vis-à-vis old regionalist agreements. These insights contribute to the understanding of both the EU and MERCOSUR, which are new regionalist agreements.

Finally, the increased actorness and external orientation is a product of their continuous integration that, according to new regionalism, entails 'deep integration'. As a result, interregionalism can be considered a corollary to new regionalism (Santander, 2005, p. 302).

With regard to this thesis, it is important to note that there are two relevant levels of analysis: MERCOSUR and the EU are institutional arrangements of new regionalism with different integration processes and levels of actorness. In the moment they begin to interact, however, the process becomes interregional (a higher level of analysis). Nevertheless, both levels cannot be considered independently

from each other: interregional interaction has repercussions on regionalist dynamics within each respective trading bloc and *vice versa*.

To conclude, new regionalism and interregionalism are “joined at the hip” (Doidge, 2007) and can therefore be best understood in conjunction rather than in separation.

3 The Interregional Relations Between the EU and MERCOSUR

This chapter analyzes the relationship between the European Union and the Southern Common Market. The first subchapter retraces the evolution of the dialogue that began shortly after MERCOSUR’s inception. Subsequently, the functional approach to interregionalism, which was outlined in subchapter 2.2, will be applied to the EU-MERCOSUR relations in order to gain insights into the underlying motivations of both partners.

3.1 The EU and MERCOSUR: 20 years of cooperation

Since the creation of the European Economic Community in 1957, Europe has sought to establish ties with developing countries and regions. Over time, the links have gradually evolved from the provision of foreign aid to extensive, multilayered, and often institutionalized partnerships focusing on development, trade, and political and cultural exchange.

Initially, the focus of the EEC’s outward orientation was focused on the former colonies of its member states. Channeling the foreign aid through the institutional framework of the EEC enabled the member states that were former colonial powers to retain their influence without being exposed to accusations of pursuing imperialist policies (Freres, 2000, p. 68). As a result, the EEC’s initial external engagement was mainly focused on sub-Saharan Africa. The accession of the United Kingdom in 1971 broadened the scope and led to the establishment of the Africa, Caribbean, and Pacific (ACP) group. Moreover, it created the general consensus that the accession of new members to the EEC should also entail the integration of their historical ties to developing countries into the foreign relation of the community (Freres, 2000, p. 68)

As a result, Latin America was not a priority until Portugal and Spain entered the EEC in 1986. This “fresh boost” (Vasconcelos, 2007, p. 176) gave new momentum to the relations between the EEC and Latin America that, alongside with the democratization and liberalization processes of the 1980s, also evoked a growing commercial interest for the region.

The evolution of the EU-MERCOSUR relations can best be retraced by looking at three core documents that represent important milestones on the way from a rather informal exchange of information to the negotiations for an association agreement.

These documents are:

- The Inter-institutional Cooperation Agreement signed on May 29, 1992,
- The Inter-Regional Framework Co-operation Agreement (IFCA), signed on December 15, 1995 (which went into force in 1999), and
- The 2007 Regional Strategy Paper (RSP) for MERCOSUR for the timeframe from 2007 to 2013.

There are other important documents, such as the Regional Strategy paper 2002-2006, statements by the Biregional Negotiations Committee (BNC), etc. Those documents will not be specifically outlined, but referenced where appropriate.

The Inter-institutional Cooperation Agreement between MERCOSUR and the European Commission was signed on May 29, 1992, *circa* one year after the Treaty of Asunción that founded the Southern Common Market.

The agreement (Commission of the European Communities, 1992) established a dialogue between the newly founded MERCOSUR bloc and the European Community, which itself had undergone a profound change in the form of the Maastricht Treaty that was signed on February 7, 1992. The nature of the cooperation agreement is one-sided, i.e., it exclusively contains provisions concerning the support for the Southern Common Market by the EC.

There are four areas of cooperation between the EC and MERCOSUR: exchange of information, training of personnel, technical assistance, and institutional support.

The exchange of information refers to "all general, technical, economic, legal, or other informations that are of mutual interest" (Commission of the European

Communities, 1992, p. 2) and was meant to let MERCOSUR benefit from the "extensive experience in all areas of European integration" (p. 1), the Commission had acquired up to this point. The personnel training encompassed "courses, seminars, conferences, workshops or exchanges" (p. 3) and was aimed at the professionalization of the MERCOSUR employees in order to qualify them for the administrative tasks of a multinational organization. The third area, technical assistance, was intended to facilitate MERCOSUR's endeavors to "achieve the objectives of the integration between the Member States" (p. 3) by means of studies and analyses. Finally, the institutional support was a capacity-building measure that was to be achieved by assigning specialized European staff (p. 3) to support MERCOSUR and by improving the physical infrastructure of the organization.

In addition to these areas of support, the agreement also established a Joint Consultative Committee with the goal to "promote and intensify the interinstitutional dialogue" (p. 4) and to ensure the coherence of the agreed measures. The Committee should meet at least twice a year, alternatively chaired by both partners.

It becomes evident that this first agreement between both blocs can be considered to have a rather symbolic character as it does not formulate any proposals for closer economic or political cooperation and is confined to information exchange and general assistance.

However, albeit lacking such extensive provisions, the Inter-institutional Cooperation Agreement from 1992 was an important step by the EC towards MERCOSUR that clearly demonstrates its early interest in the trade bloc. This is most remarkably illustrated by the fact that the agreement was concluded just one year after the MERCOSUR's inception. Moreover, the mutual interest of both parties was signaled through a meeting of MERCOSUR's foreign ministers who visited the European Commission merely three days after having signed the TA (Faust, 2002, p. 5).

In the following years, relations between both blocs gradually intensified, a process that eventually led to the Inter-Regional Framework Co-operation Agreement (IFCA), which was signed on December 15, 1995. This agreement laid the foundations for the negotiations for an even more extensive pact, the EU-MERCOSUR association agreement. The IFCA consists of three pillars: political

dialogue, other areas of cooperation, and trade cooperation in "compatibility with GATT and WTO rules (European Community, 1996, p.8).

Based on the emphasis on democratic principles and human rights, the agreement unequivocally clarifies that it aims to "prepare the conditions enabling an interregional association to be created" (European Community, 1996, p. 7). Overall, the IFCA encompasses the areas of Trade (Title II), Economic Cooperation (Title III), Encouraging Integration (Title IV), Interinstitutional Cooperation (Title V), and Other areas of cooperation (Title VI), such as education, culture, and efforts against drug-trafficking. It also provides an Institutional Framework (Title VIII) by establishing a Cooperation Council and a Joint Committee. Whereas the former was designed to be an overarching body responsible for the implementation of the provisions laid down in the agreement, the latter was to assume an assistive role with the tasks to "stimulate trade relations, [...] exchange views on any matter of common interest which relates to trade liberalization and cooperation, [...] and make proposals to the Cooperation Council" (p. 13). Moreover, Article 28 also installed a special Joint Subcommittee on Trade.

In comparison to the Interinstitutional Cooperation Agreement from 1992, the IFCA constitutes a substantially broader agreement that exceeds the mere exchange of information and administrative support by including the objective to establish an interregional association and to foster regional integration amongst the MERCOSUR members. The emphasis on trade and economic cooperation is clearly demonstrated by the establishment of the Joint Subcommittee on Trade and by the extensive provisions, which cover reciprocal liberalization, approximation of standards, custom matters, and even issues of intellectual property and statistics.

Furthermore, the European Union increasingly recognizes the MERCOSUR bloc as important partner by acknowledging "that both the Community and Mercosur have specific experience of regional integration which could be of mutual benefit" (European Community, 1996, p. 5). Additionally, the agreement emphasizes the shared values of both regions that stem from "the deep historical, cultural, political and economic links which unite them" (p. 5). As a result, it becomes apparent that the IFCA is no longer one-sided but underlines the importance of mutual exchange.

In addition, the agreement further articulates the capacity-building nature of the relations between both blocs through the Titles IV to VI.

According to Doidge (2011, p. 157) these provisions make up the largest part of the document, which is otherwise an 'empty shell'. After having a closer look, however, it becomes evident that this is not the case. There are considerably more provisions pertaining to economic and trade issues than to capacity-building. Moreover, whereas the IFCA does not constitute a comprehensive trade liberalization agreement, which could not have been achieved in this context, the articles on interinstitutional cooperation and support are merely replicated from the 1992 agreement.

Finally, the IFCA refers in its preambular clauses to open regionalism, which asserts that this is the guiding principle for the cooperation between both blocs in order to assure a firm commitment to multilateral trade. This clause indicates that the EU considers interregionalism as stepping stone towards multilateralism or as additional level embedded in the global governance structure.

To conclude, the IFCA adumbrated the emerging interregional strategy of the EU, which until today relies on capacity- or region-building and which strives to transfer the European integration dynamics to other world regions.

Due to the fact that the IFCA encompasses a large array of issues that substantially exceeds the mere trade in goods and laid down the explicit (political) goal of an interregional association between both parties, it constitutes a mixed agreement that had to be ratified not only by the European Parliament but also by the national parliaments of the EC (Faust, 2002, p. 6). The delay was caused by the reluctance of several EU Member States, especially France, Ireland, and the Netherlands, to include 'sensitive' sectors, such as agriculture and fisheries. However, after almost four years, the IFCA was ratified as interregional agreement between the EU and MERCOSUR by the Council Decision L 112/65 of March 22, 1999 (Council of the European Union, 1999).

After the IFCA was ratified, the Commission required a negotiation mandate, which was established on September 13, 1999 by the Council. Due to the persisting resistance among some EU members against the full liberalization of trade, the negotiation mandate was limited to non-tariff barriers at first and, moreover, the

overall aim was not to establish a free-trade area anymore, but to liberalize trade between both partners.

Shortly after the establishment of the negotiation mandate, official negotiations began in November 1999 (Faust, 2002, p. 7) that were conducted by the Biregional Negotiations Committee (BNC)¹¹. As mentioned above, the talks did not include tariff barriers and therefore primarily focused on the structure and timetable of the talks, the exchange of data, and the identification of obstacles to trade (Faust, 2002, p. 7).

It was not until July 2001 that both parties formulated offers concerning trade liberalization. Whereas the EU's offer encompassed 90% of all imports of goods and services, MERCOSUR introduced a proposal that covered merely 68% of EU imports (Kegel & Amal, 2012, p. 20). These initial offers foreshadowed the divergent interests between both partners that existed from the onset of the trade talks. While the EU was reluctant to expose its agricultural sector to imports from third countries, MERCOSUR on the other hand was unwilling to open its industrial sector. As a result of the exclusion of these sectors, which are both of major interest to the respective partner, the negotiations reached a stalemate that continues to hold back the conclusion of an interregional association until today.

Consequently, the BNC's negotiations continued in a slow pace until both parties offered reciprocal trade liberalizations of 90% in May 2004 (Kegel & Amal, 2012, p. 22), which still included exceptions in the above-mentioned sectors. However, the EU's concessions regarding the agricultural sector were negligible, and thus unacceptable for MERCOSUR and in particular for Brazil.

Due to these conflictive interests, the negotiations stalled and were eventually suspended in 2004.

During the halt of the negotiations, the EU did not fully renounce the vision of an interregional agreement with MERCOSUR. This is most evident by the second Regional Strategy Paper (RSP) published by the EU (European Commission, 2007),

¹¹ The BNC was established by the Cooperation Council (cf. above) and consists of Council Members, members of the EC's general directorates of Commerce and Foreign Relations, and the foreign ministers of MERCOSUR (Faust, 2002, p. 7).

which laid out the general direction of its policy towards MERCOSUR for the time period from 2007 till 2013.

According to the RSP, there are three main priorities for the EU's policy towards MERCOSUR:

- 1) Support for MERCOSUR institutionalization (p. 24),
- 2) Support for the deepening of Mercosur and the implementation of the future EU-Mercosur Association Agreement (p. 24),
- 3) Support measures to strengthen and enhance civil society participation (p. 25).

The RSP continues the EU's strategy to foster integration processes of its partner regions, which it regards as essential in order to facilitate negotiations over economic cooperation and political partnerships. Albeit being the second priority, it is important to note that the EU continued to envision an association agreement with MERCOSUR regardless of the standstill of negotiations during that time. Moreover, the EU reintroduced the goal of establishing a free trade agreement that should, according to this RSP, even exceed the trade in goods in services but also encompass "market access and rules on government procurement, investment, intellectual property rights, competition policies, [...] business facilitation, trade defence instruments, a dispute settlement mechanism", etc (European Commission, 2007, p. 21). Finally, the third priority to enhance civil society participation (which was already mentioned in preceding RSP for the years 2002-2006) demonstrates the EU's commitment to pursue a comprehensive approach to regional integration that includes a strong political pillar and an emphasis on the diffusion of democratic values.

In the year 2010, the gradual rapprochement of both blocs during the suspension of the talks culminated in the official announcement during the VI EU-Latin America and Caribbean (LAC) Summit in Madrid to relaunch the negotiations. In their Joint Communiqué (Council of the European Union, 2010), both parties asserted to be willing to reach "an ambitious and balanced agreement between the two regions, which would deepen relations and offer great political and economic benefits to both sides" (p. 2).

Since the relaunch, the BNC has met for eight negotiation rounds. The latest was held from March 12 to 16, 2012, while the ninth round will be held in July 2012.

One decisive factor for the relaunch of the talks was the global financial crisis that did affect Latin America to a lesser extent than the European states. Kegel (Kegel & Amal, 2012, p. 25) claims that "Latin America was not responsible for the crisis and has not been its main victim." The same is true for the MERCOSUR Member States, which were hit by the major impact of the world financial crisis in 2009, but quickly recovered in the following year. This development went not unnoticed by the EU and thus rekindled commercial interest in the region.

	2007	2008	2009	2010	2012
EU	3.19	0.26	-4.41	2.19	1.52
World	3.94	1.33	-2.25	4.34	2.71
Argentina	8.65	6.76	0.85	9.16	8.87
Brazil	6.09	5.17	-0.33	7.53	2.73
Paraguay	6.76	5.83	-3.85	15.05	4.04
Uruguay	6.54	7.18	2.42	8.89	5.70

Table 2 GDP growth rates of the EU, World, and MERCOSUR

Table 2 clearly demonstrates that the negative repercussions of the global financial crisis were quickly offset by strong growth rates in the MERCOSUR Member States in the years 2010 and 2011.

However, the main obstacles to achieving a consensus remained basically the same as prior to the suspension of the talks: MERCOSUR's opposition towards a complete market opening of its industrial sector and, simultaneously, the Union's reluctance to open its agricultural sector, which is particularly upheld by France (Kegel & Amal, 2012, p. 24).

As a result, the negotiations regarding the trade pillar of the association agreement make little progress, which leads to the current situation of substantially lowered tariffs for both parties with quotas remaining for agricultural products from MERCOSUR and industrial goods from the EU.

Taking everything into account, the relations between the EU and MERCOSUR can be divided into the following stages

Stages	Important Documents	Description/Goals
1 st stage: 1992-1994	Interinstitutional Cooperation Agreement	Assisting the integration process of MERCOSUR
2 nd stage: 1994-1995	Inter-Regional Framework Co-operation Agreement (IFCA)	First institutionalization of the interregional relations; basis for the association agreement between both blocs
3 rd stage: 1995-1999	Council Decision L 112/65: Ratification of the IFCA	Preparation of negotiations; establishment of a negotiation mandate
4 th stage: 1999-2001		Institutionalization of negotiations; establishment of the BNC; negotiations on non-tariff issues
5 th stage: 2001-2004	RSP 2002-2007	Negotiations on tariff reductions and two other pillars: political dialogue and cooperation
6 th stage: 2004-2010	RSP 2007-2013	Suspension of negotiations
7 th stage: 2010-today	IV EU-Mercosur Summit Joint Communiqué (9870/10)	Resumption of negotiations

Table 3: The stages of the EU-MERCOSUR relationship

Source: based on (Faust, 2002, p. 8), extended by the author

Whereas the first stage was primarily focused on fostering MERCOSUR's integration process, the second stage constituted a qualitative shift in the EU-MERCOSUR relations through the conclusion of the IFCA, which emphasized mutual exchange and laid the foundations for a future association agreement. Due to internal differences regarding the opening of the agricultural market, it took the EU almost four years to establish a negotiation mandate, which was established by the Council Decision L 112/65. The beginning of the negotiations during the fourth stage mainly revolved around the structure and form of institutionalization. It was not until 2001 the BNC actually began to negotiate over tariff reductions. It is this fifth stage in which the diverging interests clearly materialize in the talks. Due to these conflicts, the negotiations were suspended during the sixth stage for six years until they were relaunched in 2010. The current seventh stage began with the relaunch of the talks.

It is characterized by little progress and dissent over the same issues as in the year 2001.

However, Söderbaum et. al. assert that "the EU–Mercosur partnership is one of the most developed cases of interregionalism that exists anywhere in the world" (Söderbaum et al., 2005, p. 366).

The ensuing question is why Söderbaum, amongst others, comes to the conclusion that the interregional dialogue between the EU and MERCOSUR matters. This question aims at exploring what motivates the participating regions to engage in an interregional dialogue, i.e. what their expectations and goals are. Does the EU forge closer ties with MERCOSUR to establish a counterbalance against other economic powers? Does the EU aspire to establish itself as normative power in the world arena? Or do the MERCOSUR Member States utilize the dialogue to create a collective identity, i.e., to become a distinguishable actor in the international environment?

These questions will be assessed in the following subchapters that analyze the functions of the interregional dialogue between the European Union and MERCOSUR.

3.2 The EU-MERCOSUR relations from interregionalist perspective

3.2.1 Balancing

This subchapter assess to which extent the balancing function of Rüdland's approach to interregionalism determines the relationship between the EU and MERCOSUR.

Bearing the realist' premise of anarchy in the international system in mind, the European Union finds itself in a constant struggle over influence and power with other relevant actors in the international arena. In order to maintain and/or strengthen its position, the EU needs to rely on non-military means for it does not (yet) possess a sufficient agency to secure strategic influence under the umbrella of its Common Security and Defense Policy.

As a result, the EU's power resources have to be conceptualized mainly in economic terms and through the diffusion of values and democratic principles. Both

channels are suitable to retain and extend its influence in the global sphere. This line of reasoning is also in accordance with Rüländ's (2010, p. 1274) notion that in the contemporary multipolar international environment an actor's institutional power is the most important instrument to exert influence (cf. subchapter 2.2.1).

Bearing these assumptions in mind, the EU's interregional approach towards MERCOSUR functions as means to enhance its own position in the international arena (self-focused balancing) and, on the other hand, to constrain the scope of action of other relevant powers (externally-focused balancing).

This becomes apparent through the fact that the EU demonstrates substantial interest in MERCOSUR.

Already in 1994, in a communication to the Council entitled "The European Community and MERCOSUR: An Enhanced Policy" (European Commission, 1994), the Commission asserted that MERCOSUR's "current economic dynamism prefigures the development in the medium term of a regional market of worldwide significance" (p. 8). Most recently, the Mid-Term Review and Regional Indicative Programme (European Commission, 2011) for 2011-2013 highlighted the economic potential of the Southern Cone by stating that "its combined GDP is higher than India's" (p. 6).

Due to the economic potential of MERCOSUR, the EU considers it as strategically important to maintain a close relationship with the bloc in order to avoid marginalization at the Southern Cone. This interest is further fueled by the growing attention MERCOSUR receives from China and the remaining Triad nations.

Albeit the EU has managed to retain its leading position as main trading partner, other regions and economies are increasingly catching up as illustrated in the following figures.

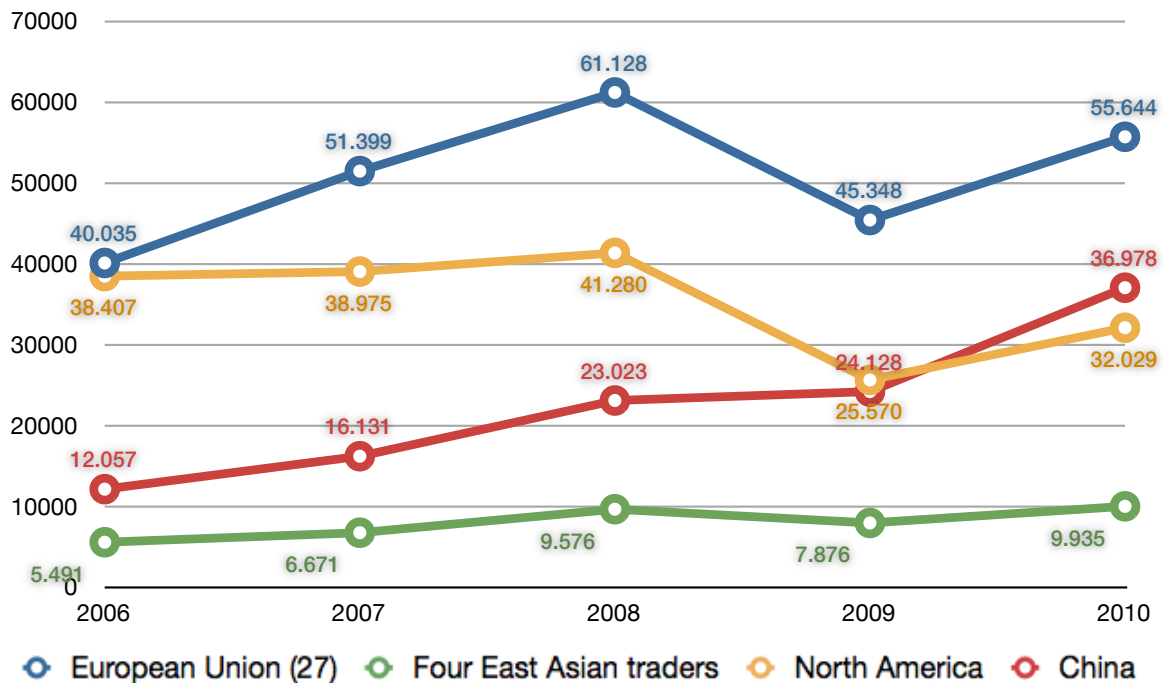


Figure 2: Merchandise exports of MERCOSUR

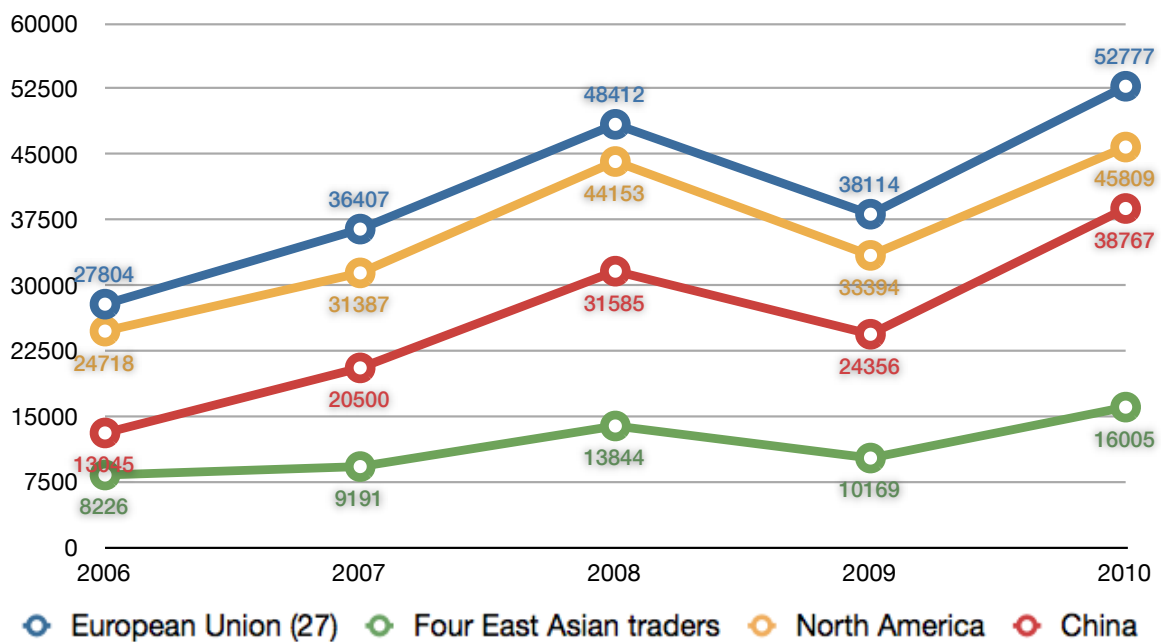


Figure 3: Merchandise imports of MERCOSUR

Source: Compiled from the WTO statistics database:

<http://stat.wto.org/StatisticalProgram/WSDStatProgramHome.aspx>

Figure 2 shows that the merchandise exports to China surpassed those to the United States in 2010 and that they have tripled in total from 2006 to 2010. On the other hand, merchandise imports from the East Asian economies have risen in the

pre-crisis year 2008 and one year after the major impact of the crisis, 2010, by over 50%. This clearly demonstrates the importance for the EU to maintain close relations with MERCOSUR in order to avoid losing its strong position on the Southern Cone, and, with regard to self-focused balancing, the leading position relative to other major economies.

Moreover, MERCOSUR itself pursues self-focused balancing by trying to diversify its economic ties. Currently, two preferential trade agreements have been ratified, namely with the Southern Africa Customs Union (SACU) and India. In addition, the bloc is reaching out towards ASEAN, which has led to the conclusion of a memorandum of understanding, followed by ministerial meetings. Since December 2007, there is an FTA between Israel and MERCOSUR in place and talks are held with Russia, the Gulf Cooperation Council, and Jordan.

This in turn exacerbates concerns amongst the EU to be excluded from these processes, a risk that has been already acknowledged in the Enhanced Policy Document in 1994 (Commission of the European Communities, 1994): “There is therefore a risk that closed regional blocs may emerge [...]. It is in the Community's interest to ensure that moves towards integration and regionalization are outward-looking” (p. 3).

As a result, the European Union constantly emphasizes the importance of multilateralism and, simultaneously, endeavors to keep MERCOSUR as close partner through a comprehensive strategy in which the fostering of economic relations is juxtaposed with political dialogue, foreign aid, and support for regional integration.

The second major objective of the EU's interregional cooperation with MERCOSUR consists in constraining the room for maneuver of other actors in the international arena.

In this context, the United States' presence in Latin America was and continues to be the major influencing factor for the EU.

Since the Monroe Doctrine from 1823, the US has constantly sought to maintain a hegemonic position on the American continent. Especially during the Cold War, when “ideological considerations acquired a primacy over US policy in the region

that they had lacked at earlier moments" (Dominguez, 1999, p. 33), Latin America was predominantly under US influence. As a result, Latin America was not a priority for Europe, which predominantly focused its attention on the former colonies of its Member States.

During the 1980s, several factors opened a window of opportunity for the EC to increase its presence on the continent: most importantly the end of the Cold War, the preceding waves of democratization in South America, and, finally, the accession of Spain and Portugal to the EC (as previously outlined in subchapter 3.1).

Nevertheless, the United States retained their ambitions to be the "hub of the world" (Vasconcelos, 2007, p. 175), i.e., to promote a global strategic framework under the auspices of the US that is inspired by its norms and values, which, eventually, would absorb the new regionalist agreements in South America (Santander, 2005, p. 292). Consequently, the EU sought to constrain these ambitions by creating a counterbalance to the United States' rapprochement in the form of the Free Trade Area of the Americas (FTAA).¹²

In contrast to the US, the European Union opted for an interregional strategy to forge a strong alliance with MERCOSUR (in the broader Latin American context, the EU is also engaged with other nations and blocs, with the recently signed association agreement with Central America as the most notable example).

There are only few explicit mentions of the EU's balancing motivation. However, a communication of the Commission from March 1995 summarizes the strategic value of free trade agreements for the EC. In this document, the Commission (Commission of the European Communities, 1995a) states that FTAs are important for "strategic considerations" (p. 6) that entail the "need to reinforce [the EU's] presence in particular markets [...] to attenuate the potential threat of others establishing privileged relations with countries which are economically important" (p. 6).

¹² The FTAA was a hemispheric free trade project that was supposed to encompass the whole American continent except Cuba. It was introduced in 1994 by US President Clinton. As of today, the negotiations have stalled. As a result, the US now pursues bilateral trade agreements with Latin American nations.

With regard to the relations to MERCOSUR, the communication from the Commission to the Council from 1994 (Commission of the European Communities, 1994) recognizes the Community's political "interest in the consolidation of [...] the desire of these countries to maintain a balance in their relations with the United States and Europe" (p.4).

Finally, the opinion of the European Economic and Social Committee (EESC) from August 25, 2011 (European Economic and Social Committee, 2011) reiterates the importance of the association agreement as it "would enable the EU to strengthen its economic and geopolitical ties with a strategic partner. By means of a bi-regional agreement, the EU would move ahead of other international competitors such as the USA and China." (p. 56).

To sum up, the EU endeavors to forge an alliance with MERCOSUR against third parties, which is one major rationale for externally-focused balancing (Doidge, 2011, p. 37). Santander (Santander, 2005, p. 293) confirms this by stating that "the fear of being squeezed out of South America stimulated the EU to react" which made "Mercosur [...] a leading partner of the EU in the Latin American sub-continent".

The Southern Common Market, on the other hand, primarily focuses on self-focused balancing, which consists of the diversification of ties and region-building (Doidge, 2011, pp. 31,51) in order to enhance its own competitiveness and to reduce the dependence on one particular partner.

As previously mentioned, MERCOSUR has sought to diversify its partnerships since its inception and continues to pursue an open and outward-oriented trade policy.¹³ Moreover, the progressive liberalization of the member states' economies is clearly an effort to be more competitive with other emerging economies. Moreover, the paradigm change within Latin American and MERCOSUR in particular regarding the role and importance of FDI further supports this assumption.

Before the US had loosened its tight grip on the continent, the United States' FDI strategy predominantly focused on the horizontal expansion of US manufacturing firms to developed countries or on the vertical integration by extractive firms (Ethier,

¹³ Most recently, China proposed to launch talks about the establishment of a free trade agreement with MERCOSUR.

1998, p. 1150). This in turn fueled the fear of Latin American nations of becoming dependent on the investing firms' home countries.

Today, the MERCOSUR Member States have abandoned "the old '*dependencial*' doctrine" (Das, 2004, pp. 183, italicized by the author), which have acknowledged foreign direct investment as inevitable for enhancing their markets' international competitiveness and for gaining access to export markets (Devlin & Estevadeordal, 2001, p. 8).

Furthermore, MERCOSUR's self-focused balancing strategy becomes evident in its outward orientation that, next to the diversification of its relations, also serves the purpose of region-building. The interest in an interregional agreement with the EU and the above-mentioned dialogues with other nations are in essence countermeasures against the marginalization on the world market. There have been early concerns amongst MERCOSUR members that the European Common Market could lead to a protectionist "European fortress" (Vasconcelos, 2007, p. 167). Additionally, the EU's engagement in the dialogue with ASEAN and the conclusion of FTAs with Mexico and Chile (which, according to Vasconcelos (2007, p. 169) have already generated adverse effects on MERCOSUR's share of EU exports) have further fueled the bloc's ambitions to engage in region-building efforts with the EU and other partners.

To conclude, for the EU, the balancing function has played a pivotal role in the dialogue since MERCOSUR's inception. It is evident that the EU's ambition rose and fell with the prospects of the FTAA (Doctor, 2007, p. 290). As a result, the externally-focused balancing goal provides the background for both the IFCA and the RSP 2002-2006. Since the FTAA talks have stalled, balancing efforts against the United States are less relevant albeit not irrelevant. However, since the Southern Cone increasingly attracts other economic powers, it remains a high priority for the EU to maintain close ties with MERCOSUR. In general, the EU pursues a mixed strategy of self-focused and externally-focused balancing with an emphasis on the latter, i.e., it sees the relationship with MERCOSUR predominantly as an instrument to constrain the scope of action of other economies within the Triad.

For MERCOSUR, the goal of internally-focused balancing, i.e., to increase its competitiveness and to avoid marginalization on the world market, was propelled by

the inauguration of NAFTA in 1994 and remains a key factor for the bloc's ambitions to conclude an association agreement. The accession of Venezuela could shift the emphasis from self-focused to externally-focused balancing. However, this depends on the influence the Chavez administration will be able to secure within the bloc and to what extent its rhetoric will transform into policy changes.

Overall, it is important to note that the realist perspective on interregionalism yields important insights into the underlying reasons why regions interact. Since competition over global resources intensifies, they become increasingly strategically relevant. As a result from the global trend of regionalism, these resources become aggregated in regional blocs, which, due to their size, constitute attractive trading partners and simultaneously achieve greater bargaining power. As a result, actors in the international system are required to gain leverage over others in order to gain access to these enlarged markets. These dynamics entail the pursuit of either self-focused balancing (aggregating market power and enhance competitiveness) or external-focused balancing (constraining other actors).

Moreover, the realist description of power dynamics as 'zero-sum-game' is very well applicable to interregionalism in a twofold way: first, the general influence of one region over another reduces the partner's abilities to interact with third countries. Second, more specifically, the governance of trade relations naturally entails the allocation of a fixed trade volume,¹⁴ which consequently implies that the increase of the trade volume with one partner due to more favorable trade conditions (e.g., through free trade agreements) reduces the trade volume that can be allocated to another trade partner.

Finally, following the realist train of thought in the analysis of interregionalism provides ample new impulses for the study of the EU as an international security actor (Santander, 2005, p. 288). Due to the fact that this field of research has yet

¹⁴ A country's trade volume is only relatively fixed as it depends on manifold variables, such as infrastructure, stage of development, production methods as well as domestic variables, such as redistribution through social systems, and, finally, political variables, such as liberalization efforts, trade policies etc. However, a country's trade volume is not subject to strong volatility and thus changes only incrementally over time.

failed to produce a coherent theoretical framework,¹⁵ the realist perspective on interregionalism may provide an opportunity to broaden the focus of the debate, which is mostly confined to traditional understandings of military or ‘hard balancing’, by including the growing importance of a broader notion of security that comprises issues such as resource and energy security¹⁶ and by providing the missing example of ‘soft balancing’, which, according to Howorth and Menon (Howorth & Menon, 2009) has yet to be found.

3.2.2 Institution-Building

This subchapter assesses the function of institution-building that bases on the theoretical approach of neoliberal institutionalism.

This function is considered to be perceptible both interregionally and intra-regionally. The former leads to the creation of a new layer of interaction in the international system while the latter promotes internal coordination and thus regional cohesion.

With regard to the interregional level, the EU-MERCOSUR relationship is substantially institutionalized. The IFCA has laid down a stable framework that accommodates all aspects of the interregional dialogue. The three-pillared structure of political cooperation, trade, and cooperation and technical assistance, covers a broad array of issues. As a result, it facilitates cooperation since there is an identifiable structure that also allows the incorporation of new issues into the dialogue. For example, the IFCA did not contain provisions for the inclusion of civil society actors into the dialogue. However, in the Memorandum of Understanding of 2001 (European Community, 2001) the EC introduced its ambitions to support the civil society in MERCOSUR, which was further elaborated in the RSP for 2002-2006. Subsequently, cooperation on this issue was incorporated into the dialogue under

¹⁵ Refer to Bickerton et.al. (Bickerton, Irondele, & Menon, 2011) for an excellent introduction to the study of the EU’s Common Security and Defense Policy and, for a more comprehensive overview, to the other articles in the same issue.

¹⁶ As provided by the EESC document (European Economic and Social Committee, 2011), which describes Latin America as “a continent with crucial reserves of energy, food and water, three resources which will be vital in the 21st century.” (p. 56).

the political cooperation pillar of the IFCA and remains a point of focal interest for the EU.

The institutionalization of the interregional dialogue between the EU and MERCOSUR has further led to the establishment of subsidiary institutions. The main forum for negotiations is the Bi-regional Negotiations Committee, which meets three times a year for the discussion of trade issues. The BNC met 15 times until the suspension of the dialogue in 2004 (Doctor, 2007, p. 285). Since the relaunch of the talks, the BNC has convened eight times with the last round of negotiations in March 2012 (cf. subchapter 3.1). The work of the BNC is supplemented by the Sub Committee on Cooperation (SCC) and three Technical Groups that deal with more specific issues of the envisaged trade agreement. The dialogue is further institutionalized through the establishment of the Cooperation Council, which is responsible for the implementation of the agreement. The Cooperation Council is composed of members of the Council of the EU and members of the Commission on the one hand and members of the MERCOSUR Common Market Council and the Common Market group on the other hand (European Community, 1996, p. 13). Additionally, the Joint Cooperation Committee, which is composed in a similar fashion as the Cooperation Council, meets once a year in order to "provide continuity between the meetings of the Cooperation Council." (p. 13).

Faust (2002) asserts that albeit the organization of the interregional dialogue does not include a secretariat, the "organizational structure [...] still has to be considered as relatively strong because of its well-defined working structures in all relevant policy issues included in EMIFCA."¹⁷ (p. 12).

Finally, it has to be noted that the interregional institutionalization is mostly aimed at facilitating cooperation and at providing an institutionalized framework for negotiations in order to avoid an *ad-hoc* nature of the dialogue. There are, however, plans to further institutionalize the relationship. Naturally, the conclusion of the association agreement would constitute an immense step towards permanently institutionalized relations between both regions. Moreover, according to the Commission (European Commission, 2002, p. 16), there are further institutions

¹⁷ Faust utilizes the abbreviation EMIFCA for the EU-MERCOSUR Interregional Framework for Cooperation Agreement (IFCA).

envisioned after the agreement will have been concluded, such as a binding trade dispute settlement mechanism.

Notwithstanding that the EU-MERCOSUR relationship constitutes an increasingly institutionalized dialogue that has already created subsidiary institutions, it remains questionable whether the partnership has contributed to the institutionalization of international politics as proposed by Doidge (2011, p. 37).

Following this train of thought, interregional dialogues allow the incorporation of states and groups of states into the global governance architecture by socializing them into a system "of rules, norms and values" (2011, p. 37).

However, in the case of the EU and MERCOSUR, both parties are already committed to multilateralism and neither one has indicated that the interregional relationship is meant as an alternative to global multilateralism. In fact, there have been several occasions on which the advancement of the negotiations depended on the progress made during the global WTO rounds. Moreover, both regions share a common ground of values and norms, partly due to the historical linkages but mostly due to the fact that MERCOSUR was modeled after the European Union. As a result, the interregional dialogue is structured in a way to complement the global governance system, not to create an isolated alternative. Moreover, since the EU is strongly committed to multilateralism and the WTO rules, there is little need to socialize it into the system.

With regard to intra-regional institution-building, the relations have had only little effects on the institutional structure of the EU. Since agreements between the EU and other economies universally affect all member states, the EU has already established negotiating structures and has accommodated the external economic relations into its institutional structure.

For MERCOSUR, on the other hand, the function of intra-regional institution-building is far more relevant. Since its inception, it has aimed to base its structure on the European Union, which in turn provided substantial technical assistance for this endeavor. As Bajo (1999, p. 935) shows, the working groups assigned with the task to harmonize technical norms among MERCOSUR Member States frequently adopted them from Europe. The EU willingly supported these efforts since it benefited from harmonized norms that were modeled after its own, especially with

regard to the car sector because “European firms utilise Mercosur as a production and export platform geared towards Europe” (Bajo, 1999, p. 935).

Next to the harmonization of norms, the EU has constantly emphasized the importance of the regional integration of MERCOSUR. Especially the political dialogue and cooperation pillars were designed as means to promote regional integration and further institutionalization of MERCOSUR.

According to Dri (2010, p. 58) the EU has promoted intra-regional institution-building through active and passive behavior. In a more passive role, the EU merely served as example for successful regional integration, which has received worldwide recognition. By incorporating technical assistance, political goals, and cooperation on broader issues than free trade, the EU also actively promotes regionalist processes among the MERCOSUR members. The RSP for the years 2007-2013 allocates € 50 million for the support of the three goals included in the document (support for MERCOSUR institutionalization, support for the deepening of MERCOSUR in preparation of the association agreement, and support for civil society participation).

Moreover, Dri (2010) examines in her article how the establishment of PARLASUR¹⁸ was influenced by the European Union, which provided financial assistance and the transfer of know-how.

As a result, the EU-MERCOSUR dialogue can serve as an example of "regionalism through interregionalism" (Hänggi, 1999, p. 73), which predominantly depends on the exogenous influence of the EU. The results presented here are also in line with Santander's (2005) findings: "The hope of gaining access to the European market after the signing of a trade agreement with the Union boosted the development of Mercosur [...]. Thus there was confirmation of the theory that the EU has a role as an “external federator” (Rüland 2002a, 11) for new regional experiences, through its interregionalist projects." (p. 294).

It is important to note that this process of intra-regional institution-building strongly depends on the different levels of actorness of the involved parties. According to Doidge (2007, p. 239) the constellation of a strong actor interacting with

¹⁸ PARLASUR is the parliamentary body of MERCOSUR that replaced the Joint Parliamentary Committee in 2007 (cf. subchapter 1.4).

a weak actor even constitutes a prerequisite for the effect of intra-regional institution-building. In the case of the EU-MERCOSUR relations, the asymmetries between both blocs and, correspondingly, the different levels of actorness have strongly facilitated the intra-regional institution-building of MERCOSUR.

Nevertheless, MERCOSUR's institution-building has not produced any supranational bodies. Due to the presidential systems of the member states and the fear of Brazil and Argentina to lose their dominant position within the bloc, there is little willingness to transfer sovereignty to the regional level.

This has also had adverse effects on the Member States' ability to internally coordinate positions in advance of negotiation rounds, which, according to Reiter (2003, pp. 96-97) is one of the reasons why the dialogue progresses at such a slow pace.

To conclude, the EU mostly pursues the goal to institutionalize the interregional dialogue with MERCOSUR. By establishing a close partnership with binding institutionalized structures, it reduces the probability of defection among its partners. As already shown in the analysis of the balancing function, the EU is interested in establishing a strong presence in South America and, on a global level, present itself as powerful actor in the international arena. The chosen strategy differs from the one pursued by the US because it promotes development and regional integration (whereas the US aims at undermining regional integration efforts). The institutionalization of comprehensive partnerships with regional groupings such as MERCOSUR achieves a firm foundation in which the EU can consolidate its international presence.

For MERCOSUR, the institution-building function of the interregional dialogue with the EU showed most tangible effects on intra-regional level. The EU substantially influences the regional integration of the Southern Common Market by serving as model and by actively supporting its further institutionalization.

3.2.3 Rationalizing

The rationalizing function of interregional dialogues assumes that the smaller participant numbers and the greater coherence of the participating parties rationalize the negotiations on the multilateral level.

This 'clearing-house' effect, however, is hard to trace in the EU-MERCOSUR dialogue.

Nevertheless, according to the EU, both parties have repeatedly stated their willingness to cooperate multilaterally. For example in 2009, the Commission (European Commission, 2009a) asserted that "successfully concluding the Doha Development Agenda in the framework of the WTO remains high on the list of priorities" (p. 13). Moreover, the EU stated on the EU-MERCOSUR summit in Madrid in 2010: "the EU and Mercosur leaders expressed their commitment to rapidly reach an ambitious, comprehensive and balanced conclusion of the Doha Development Round, and keeping in mind the crucial role of international trade as an engine of economic growth and development, reaffirmed their commitment to avoid protectionism in all its forms." (Council of the European Union, 2010, p. 2).

The interregional negotiations could be considered a suitable forum for achieving the above-mentioned goals they constitute a group disaggregation in which the EU negotiates with a bloc of four nations. This could serve as remedy to the problem of large participant numbers found in multilateral institutions.

However, the assumption that interregional dialogues are more effective due to the coherent interests and a stronger collective identity can not be verified in the case of MERCOSUR. Furthermore, MERCOSUR's formulation of positions exclusively relies on intergovernmental bargaining, which consequently yields little prospects for intra-regional compensation between member states for concessions made on higher levels as outlined by Doidge (2011, p. 43).

The underlying problem that inhibits the rationalizing function to take effect in the EU-MERCOSUR relationship consists in the asymmetry between the partners.

Doidge (Doidge, 2007) points out that the rationalizing function is contingent upon "strength of the regional actors involved" (p. 237) and that there seems to be a certain threshold of actorness each dialogue partner has to pass before the interregional dialogue can rationalize the international agenda. Consequently, the rationalizing function is mostly confined to a situation in which two strong regional actors interact with each other (Doidge, 2007, p. 242).

This is definitely not the case for the EU-MERCOSUR relationship in which the MERCOSUR bloc has yet failed to pass the actorness threshold postulated by Doidge.

In addition to that, it becomes evident that the main conflicts in multilateral fora are mirrored in the interregional relationship between the EU and MERCOSUR. As both parties have yet failed to conclude the interregional association agreement, the dialogue cannot contribute to a rationalization of the global discourse.

Taking everything into account, the rationalizing function can merely be discerned on the side of the EU, since interregional dialogues have "a rationalizing effect on its own external relations because it enables Brussels to negotiate policy frameworks with entire groups of countries where previously it had to deal with them individually." (Rüland, 2001a, pp. 8-9). This is also confirmed by the Commission document outlining an 'Enhanced Policy' (Commission of the European Communities, 1994) towards MERCOSUR. On the one hand, the Commission states that "regional integration is an opportunity to rationalize external relations and international cooperation." (p. 3) and, on the other hand, concludes that "the development of a regional framework for relations with Mercosur's member countries [...] would help rationalize the Union's external relations system and improve its efficiency." (p. 13).

To conclude, the rationalizing function remains controversial (Rüland, 2006, p. 312) and needs further empirical evidence. In any case, it has not (yet) materialized in the interregional relations between the EU and MERCOSUR.

3.2.4 Agenda-Setting

Albeit the EU and MERCOSUR mutually agree on utilizing the interregional dialogue as means to formulate common positions on the multilateral level, there are no examples of such cooperation between both blocs.

Nevertheless, the EU has articulated this intention in several of its publications concerning the interregional dialogue with MERCOSUR:

In the document "The EC and MERCOSUR: An Enhanced Policy" the Commission asserts that the objective of an interregional association would also include the objective to "to strengthen political cooperation at international level, in particular by seeking to reach joint positions in international fora on issues of mutual

interest, including world peace and security" (Commission of the European Communities, 1994, p. 14). Moreover, the Commission sees many issues of mutual interest over which a dialogue could "culminate in the coordination of positions in some multilateral organizations." (p.10).

This goal was incorporated into the IFCA, which, in the appended "Joint Declaration on political dialogue between the European Union and Mercosur" asserts that the "dialogue is also intended to ensure closer consultation on issues affecting both regions and on multilateral issues, in particular by allowing the positions of the respective parties to be coordinated in the relevant multilateral organizations" (European Community, 1996, p. 21).

In the RSP for the years 2002-2006 (European Commission, 2002), the Commission states that it strives for "widening [its] political dialogue with Mercosur on matters of mutual interest on the international agenda" (p. 12).

Finally, in 2011, the EESC (European Economic and Social Committee, 2011) goes even further as it envisions a "strategic alliance" (p. 58) between the EU Member States and all Latin American nations. It argues that after the association agreement would be concluded, the resulting bloc would attract the remaining nations of the continent. As a result, the EU, in partnership with the Latin American countries, could gain significant influence on multilateral bodies, such as the G20 forum (p. 58).

Nevertheless, these ambitious intentions have yet failed to translate into reality, i.e., there is no clear example of joint agenda-setting in multilateral fora by the EU and MERCOSUR.

As outlined in the description of the agenda-setting function in subchapter 2.2.4, there needs to be a sense of consensus between the participants of interregional dialogues in order to facilitate agenda-setting in global fora. The agreement achieved on interregional level could then be transferred to the global level, on which both parties could jointly advocate for global implementation.

However, the EU and MERCOSUR have not yet been able to achieve a consensus on key aspects of the envisioned association agreement. With the EU's reluctance to open its agricultural markets, there is little common ground for global

trade liberalization negotiations. In fact, it seems as if the dissent between both regions is being perpetuated on a larger scale during the WTO rounds. The EU's "intransigence has been singled out by many participants as the main stumbling block" (The Economist, 2003) during the Doha Round, which faltered over the issue of liberalization of the agricultural sector.

To conclude, there is currently only little scope for coordinated action on multilateral level due to the persisting interest conflicts between both parties.

3.2.5 Collective Identity-Formation

Finally, the function of collective identity formation remains to be analyzed. The assessment comprises the following steps: first, the influence of the interregional dialogue on the identity-construction of each respective actor will be outlined, followed by the assessment whether a common EU-MERCOSUR identity is in the making. Finally, the effects of Venezuela's accession will be considered.

Similar to the function of institution-building, the level of actorness of the participating parties is a crucial variable.

With regard to the European Union, it has to be noted that the EU itself has undertaken considerable efforts to enhance its actorness¹⁹ and, consequently, to establish an identity of its own. As it remains questionable whether there is a common Europe identity shared by all citizens of its Member States, the EU's external orientation as manifested, *inter alia*, in its interregional relationships, demonstrates a relatively coherent idea of 'self' that the EU wants to be associated with in the international arena and which it aims to project on its partners.

The academic debate about the EU as international actor revolves around the question whether the Union can be considered a 'civilian power' or if it pursues 'soft imperialism' in its external relations. This debate is summarized in Hettne's (2005) article, which also takes the role of interregionalism into account.

¹⁹ Within this process of enhancing its actorness, the establishment of a "High Representative of the Union for Foreign Affairs and Security Policy" constitutes the most notable achievement. The demands for increasing its international presence were fueled by the historic quote of Henry Kissinger: "Who do I call if I want to call Europe?"

In any case, the EU pursues a normative approach in its relations with MERCOSUR that is not limited to trade agreements. As pointed out by the Commission (Commission of the European Communities, 1995b) this is achieved by "the introduction of the "democratic principles" clause [that] safeguards the fundamental principles derived from a heritage of common values. Similarly, the "future developments" clause enables the contracting parties to expand and step up their cooperation." (p. 5). Both clauses are also included in the IFCA from 1995.

As outlined in subchapter 2.2.5 Doidge (Doidge, 2011, p. 46) assumes that collective identity formation through interregional dialogues depends on the presence of an external integrator, the negotiation of operational elements, and/or the reaction to external stimuli.

Due to the asymmetrical nature of the EU-MERCOSUR dialogue, the EU itself constitutes the external integrator.

The operational elements, on the other hand, are more likely to contribute to the EU's self-perception as normative actor. The inclusion of the democracy and future developments clauses establish prerequisites for participating in the dialogue and create points of reference for the involved parties that structure the nature of the dialogue. Through an emphasis on democracy and the establishment of mixed agreements that also contain provisions for political dialogue, the EU enshrines its normative approach into binding frameworks. As a result, it manifests its intersubjective belief that interregional dialogues may not be confined to trade talks and, consequently, creates identity-shaping points of reference that enable a demarcation between the 'self' and the 'other' (Doidge, 2011, p. 47). As a result, the EU establishes itself as distinctive international actor and can thus differentiate itself from other actors such as the US or China that follow different approaches in their external relations. This is also confirmed by Rüländ (Rüländ, 2010, p. 1278) who states that "the export of the EU-model and its self-perception as comparator and normative power strengthens its own identity."

Finally, there is little evidence for a reactive or adoptive response to external stimuli provided by the MERCOSUR Member States. On the contrary, the EU dominates the talks by negotiating "on the basis of 'single undertaking' (nothing is agreed until all is agreed)" (Doctor, 2007, p. 286) and by asserting that "if Mercosur

breaks down, the EU will not sign a trade agreement with individual countries" (Santander, 2005, p. 298). This is another example for the asymmetry in the relations between both blocs and for "the more 'active identity' of the EU." (Telò, 2007, p. 301).

The Southern Common Market, on the other hand, has not yet formed a collective identity. Nevertheless, it has to be noted that the asymmetric relationship to the EU provides several incentives that could spur identity formation on the regional level.

First, as previously noted, the EU acts in as external integrator in the relationship. Due to the European Union's strong preference for the conclusion of regional instead of bilateral agreements, the MERCOSUR Member States are bound to internally consolidate their positions and to participate in the negotiations as a bloc, which can induce the formation of a group identity (Doidge, 2011, p. 46).

Moreover, the operational elements included in the agreements with the EU also contribute to identity-building. Especially the democracy clause included in the IFCA, as well as the emphasis on democracy as guiding principle in the Treaty of Asunción (and the following treaties) reveal a self-perception of MERCOSUR as democratic community of peaceful cooperation and exchange. Most recently, these common values have been postulated as reason for the suspension of Paraguay's membership. However, there are no perceptible common operational norms to which the MERCOSUR members adhere during the negotiations. In contrast to the often-postulated "Asian Way" (Law, 2006, p. 89), the Southern Common Market has not developed a 'MERCOSUR Way'. Secondly, the future developments clause shapes the MERCOSUR community as it establishes the commitment to open regionalism and political dialogue. This, in turn, becomes a determining factor for the future development of MERCOSUR.

Moreover, the dissent regarding trade issues in the industrial and agricultural sectors constitutes an external stimulus for MERCOSUR. By insisting on the opening of the EU's market to agricultural imports from the Southern Cone, the bloc assumes a unified position. Its reluctance to fully lift quotas for industrial imports from the EU is a reactive response that mirrors the EU's protectionism. As a result, the persisting conflict during the negotiations entails unintentional identity formation.

In addition to the last point, Gilson's (Gilson, 2005, pp. 309-310) concept of identity formation through differentiation and interaction is also applicable to MERCOSUR. By comparing itself to the EU, "the self [of MERCOSUR] may be identified through a process of "differentiation" with an other, drawing on its distinct identity" (Gilson, 2005, p. 310). Although MERCOSUR's foundation was inspired by the EU as model, there are several distinct features, such as the dominant role of the member state's presidents that lead to a mode of interaction labeled by Malamud (2003) as 'presidential diplomacy' and the missing supranational institutions. Furthermore, through the mere interaction with the EU, the bloc 'discovers' its positions and interests. Further, MERCOSUR may "derive its own identity in part as a result of being accepted as a 'region' by a discernible and pre-defined regional other" (Gilson, 2005, p. 310).

It has to be noted, however, that the strict intergovernmental mode of integration in conjunction with the principle of presidential diplomacy constitute two important variables in MERCOSUR's process of identity formation. As a result, a possible MERCOSUR identity is intrinsically linked to the domestic political situation in its Member States as demonstrated by the political processes of the last decade.

The 'pink tide' in South America also affected the nations of MERCOSUR and gave rise to leftist, socialist, and reformist powers. As of today, the influence of these powers has prevailed over several presidential terms.²⁰ Albeit these administrations do not represent a common ideology, they are unified by a critical stance towards neoliberalism and the assumption of the central role of the state for redistribution and social policies. These similarities have led to a "search for a renewed identity" of MERCOSUR (Gardini, 2011, p. 689), which entailed the inclusion of social issues into the regional integration agenda and plans to establish a monetary institute in order to reduce the dependence on the US dollar. Albeit there has been little

²⁰ In 2002, Luiz Inácio Lula da Silva was elected president of Brazil, Néstor Kirchner became president of Argentina in 2003. In Uruguay, Tabaré Vázquez was elected in 2005, and Fernando Lugo was elected in 2008 in Paraguay. Today, Dilma Rousseff is incumbent president of Brazil, Cristina Fernández de Kirchner of Argentina, and José Mujica of Uruguay. As a result, only Paraguay's government has undergone an ideological change with Frederica Franco, who is a liberal, as president after Lugo was ousted in June 2012.

progress to translate these plans into action, this process bears the potential to spur the collective identity formation of MERCOSUR.

Due to the relatively weak collective identity of MERCOSUR and the dominating influence of the EU, there are little prospects for a common EU-MERCOSUR identity. Currently, the asymmetrical relationship helps MERCOSUR to enhance its self-perception. However, if the asymmetry between both actors declines, there may be a more fertile ground for the exploration of identity-shaping common values.

Finally, the accession of Venezuela may have substantial repercussions on MERCOSUR's collective identity formation.

The leftist Chavez administration could boost MERCOSUR's search of a renewed identity by introducing its own agenda for the bloc.

In this respect, Chavez has already outlined that he considers it necessary to strive for a "strategic integration of the armed forces in the framework of Mercosur and turning the block into a military power" (Mecopress, 2012b). In addition to this, the emerging conflict potential between MERCOSUR and the EU becomes apparent in Chavez' anti-imperialist rhetoric and the fact that he is willing to use his country's oil reserves as leverage in the international arena (The Guardian, 2008).

As a result, the accession of Venezuela could lead to a shift from intentional identity formation, i.e., through the EU as external integrator and the negotiated operational elements, to unintentional identity formation through rising conflicts between both partners.

This may also enforce MERCOSUR's differentiation from the EU and thus lead to collective identity formation in opposition to the EU model.

4 Conclusion

This thesis has analyzed the relations between the European Union and MERCOSUR by first introducing the reader into the early forms of intra-regional integration, the subsequent emergence of new regionalist blocs and the resulting outward orientation that eventually gave rise to institutionalized interregional cooperation.

It was shown that the EU has sought to establish strong ties with MERCOSUR since the latter's inception. The dialogue was initiated with the goal to foster the institutionalization of the Southern Common Market. Moreover, the EU aimed at winning a strong regional partner in South America with substantial economic potential. Additionally, the engagement with other regions enabled the European Union to establish itself as actor in the international arena. By projecting its normative approach on the Southern Cone, the EU can legitimize its own model of integration. This normative agenda was increasingly enshrined in the dialogue and reiterated in several documents and agreements (e.g., IFCA, Joint Communiqués, etc.).

The analysis has further demonstrated that the EU's motivation to engage in an interregional dialogue with MERCOSUR consists of the following variables. First, the EU pursues externally-focused balancing by establishing a presence in South America through the cooperation with the largest regional trade bloc. The emerging economies (China, India, Russia) in conjunction with the Triad have substantially increased the international competition. As a result, the EU needs to forge a strong alliance with MERCOSUR. The normative strategy further helps to sustain the relationship by rooting it in common values. The second goal consists in the institutionalization of the dialogue by the means of an envisaged association agreement that substantially exceeds the scope of traditional free trade agreements. This creates a more binding framework and thus limits MERCOSUR's ability to engage with other partners. The analysis did not find evidence for a rationalizing of policy agendas in the international arena. However, the EU utilizes the interregional dialogue to rationalize its own foreign policy by engaging with MERCOSUR as a bloc rather than with its Member States individually. In this case, the EU's dominant position in the relationship in conjunction with its stronger actorness facilitates the achievement of this goal. The resulting higher leverage creates a 'take-it-or-leave-it' situation, which forces MERCOSUR to abide by the EU's preferences. Similarly to the rationalizing function, the agenda-setting function is limited to rhetoric in several EU documents but does not play a significant role in the relationship between both blocs. Finally, the EU pursues with its interregional strategy the formation of a collective identity. The above-mentioned normative approach plays an important role in the formulation of the operational elements of the agreements. By including

provisions such as the democracy clause and emphasizing the capacity-building efforts, the EU aims at establishing an identifiable identity of a civilian power, which serves the purpose to clearly delineate its approach from those pursued by the US or China, for example.

MERCOSUR, on the other hand, strives in its interregional policies for self-focused balancing, i.e., the diversification of ties and region-building. The Southern Common Market is also exposed to increasing competition from emerging economies and thus needs to preserve its competitive position. The second motivation consists in intra-regional institution building, which is strongly promoted by the EU. At least initially, MERCOSUR utilized the EU as model for its integration project. Moreover, by harmonizing its norms and standards in accordance with the European Union, it further aligns its intra-regional structure with that of the EU. Nevertheless, the intergovernmental approach and the presidential systems inhibit MERCOSUR's ability to incorporate supranational elements into its structure. Albeit the PARLASUR constitutes a step towards a supranational organization, its lack of real powers and thus its insignificance in the integration process demonstrate the impediments for a 'supranationalization' of the bloc. The EU acting as external integrator may propel MERCOSUR's collective identity, which is still relatively weak. Moreover, the operational elements of the IFCA and, further down the road, in the association agreement, could also contribute to the emergence of a MERCOSUR identity. The following table summarizes the main findings of the functional analysis of the EU-MERCOSUR dialogue.

	Balancing	Institution-building	Rationalizing	Agenda-setting	Collective identity formation
European Union	Externally-focused	Institutionalization of interregional dialogues	No clearing house effect Rationalization of own external relations	-	Negotiation of operational elements
MERCOSUR	Self-focused	Intra-regional institution building			External integrator (EU)

Table 4: Functional varieties of EU-MERCOSUR interregionalism

It becomes apparent that there are some incongruences regarding the motivations of both actors. It remains to be seen whether these differences will impede further progress or if they will be alleviated in the long run if the asymmetrical nature of the dialogue decreases.

The future development will also depend on how the accession of Venezuela will affect the EU-MERCOSUR relationship. On the one hand, Venezuela has exhibited a strong will to take part in the international arena, *inter alia* by using its oil reserves as leverage. Depending on the influence it will be able to exert on the other members of MERCOSUR, this could lead to a shift from self-focused to externally-focused balancing. Moreover, Venezuela could also set out to redress the imbalances between both blocs by enforcing a stronger opposition to liberalization efforts and 'imposed' values in the agreements. Moreover, it could provide an impetus for stronger institution-building in order to enhance MERCOSUR's actorness. Finally, the collective identity formation could be influenced by Venezuela as well. By denying the EU's role as external integrator, Venezuela could endeavor to form a MERCOSUR identity based on the agenda of the 'Pink Tide' or its 'Bolivarian Revolution'. As a result, the identity formation would be more influenced by differentiation rather than by interaction. Finally, this could lead to MERCOSUR questioning whether the EU should serve as model for its regional integration and whether supranationality constitutes a desirable goal at all.

This, however, depends on the future development of the 'Pink Tide' in South America, i.e., the development of the domestic political situation in MERCOSUR's Member States.

On a meta-theoretical level, the analysis has shown that Rüländ's functional approach to interregionalism helps to overcome the realist/liberalist divide in the study of international relations by including both approaches into one analytical framework. Since each of the five functions addresses different facets of the interregional dialogue, the combination of the grand theories in conjunction with constructivism allows a more comprehensive analysis of the phenomenon of interregionalism. In the view of the author, this eclectic approach also takes into account that the increasingly complex and multi-layered international arena cannot be fully understood by the application of merely one theoretical approach.

Taking everything into account, the European Union and the Southern Common Market have developed a remarkable relationship during the last two decades. Albeit the conclusion of the association agreement is still pending, the interregional approach of the EU constitutes a promising instrument for its external policy.

In a world of regions, the mutual exchange of not only merchandise but also values and ideas presents an appealing opportunity to shape the world order of the 21st century. In this process, the European Union cannot and should not be the only normative point of reference since its partners such as MERCOSUR have their own legitimate set of values and cultural peculiarities from which the EU could equally benefit.

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