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Analysis of External and Internal Variables Affecting EU-Mercosur Economic and Trade Cooperation

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Abstract: The European Union (EU) and Mercosur serve as representatives of regional economic integration organizations of the North and the South countries, respectively. The two regional organizations encompass dozens of countries and possess immense market potential. The scale of trade and investment between the EU and Mercosur has shown a steady growth trend, yielding fruitful outcomes in economic and trade cooperation. Based on the theory of neoliberal institutionalism, the economic and trade cooperation between the EU and Mercosur is the result of the convergence of three key factors: the internal variables, the international variables, and the variables of strategic interaction between regions. The internal variables stand as the fundamental element. The EU and Mercosur share similarities in their pursuit of “regional integration” and in the affirmation of their regional organization identities. “new regionalism” proposed by the EU aligns with the notion of “open regionalism” embraced by Mercosur, and both entities pursue a multilateral and pragmatic diplomatic approach. The international variables serve as the immediate impetus. The forces of globalization, economic integration, and global governance collaboration present opportunities for cooperation and development on both sides. Strategic interaction between regions lays the foundation. The legacy of colonial history endows both entities with akin bloodlines, a harmonious cultural context and an enduring economic and trade network. Moreover, the perpetually intensified strategic partnership supplies institutional underpinnings for collaborative economic and trade endeavors.

Keywords: European Union; Mercosur; Economic and Trade Cooperation; Internal and External Variables; Neoliberal Institutionalism

1. Introduction

After the UK’s withdrawal from the EU in January 2020, the EU comprised 27 member states and emerged as the world’s largest economy, epitomizing typical northern countries with significant economic and monetary regional integration that profoundly influenced global trade and financial

markets. The Southern Common Market (Mercosur) consists of five member states: Brazil, Argentina, Paraguay, Uruguay and Bolivia. It represents a comprehensive regional economic integration organization composed entirely by southern South American countries. As the fifth-largest economy in the world, Mercosur includes two G20 members, Brazil and Argentina, which rank as the first and third largest economies in Latin America.

The trade volume between the EU and Mercosur has exhibited a consistent upward trend. In 2023, EU exports to Mercosur reached €55.7 billion while imports amounted to €53.8 billion, resulting in bilateral trade in goods exceeding €100 billion for two consecutive years. Regarding trade composition, the EU primarily exports machinery, equipment, chemical products, automobiles, as well as food and beverages, while Mercosur mainly exports agricultural commodities and mineral products, along with animal and vegetable oils and automobiles parts. Both regions exhibit strong complementarities across agriculture, manufacturing sectors and services industries, indicating substantial potential for collaboration. In 1999, the two regional organizations launched formal negotiations on a free trade agreement aimed at catalyzing significant advancements in their bilateral economic relations. After two decades of complex negotiations culminating in an agreement reached during the G20 Osaka Summit on June 28, 2019. In terms of investment flows, Brazil and Argentina rank first and third among destinations for EU's foreign investments within Latin America, respectively, while Uruguayan and Paraguayan flows also demonstrated growth trends. In the 1990s, Mercosur accounted for approximately two-thirds of total direct investments of EU in Latin America and the Caribbean (Thomas, 2000). In 2019, EU's cumulative output towards the bloc stood at around €378.8 billion whereas inflow received was estimated around €27.6 billion, covering diverse sectors including agricultural processing, machinery and equipment manufacturing, energy projects.

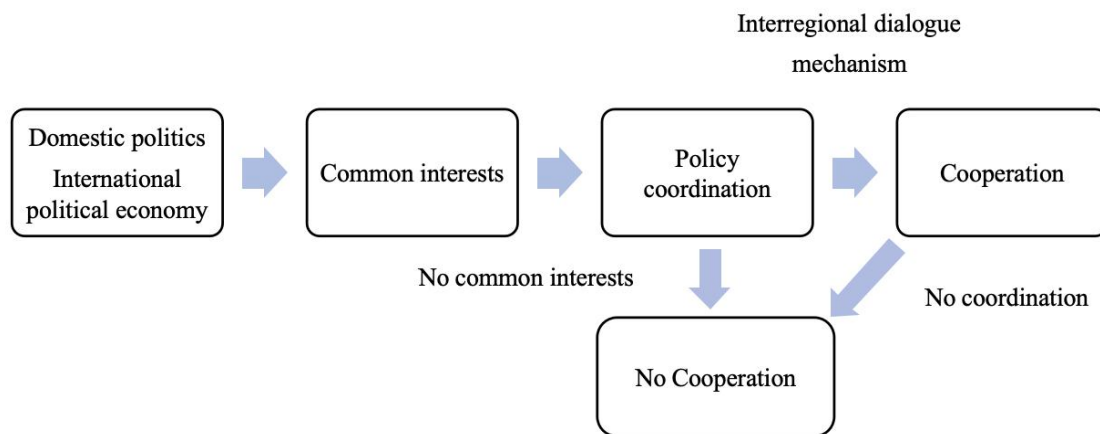
Despite facing multiple challenges and difficulties, the economic and trade cooperation between the EU and Mercosur has been smoothly carried out, with fruitful outcomes. The economic and trade collaboration between them not only serves as an important part of the economic cooperation between Europe and Latin America, but also a typical representation of interregional cooperation and global North-South cooperation. Therefore, exploring the positive factors that drive economic and trade cooperation between the EU and Mercosur is conducive to summarizing the favorable conditions for achieving economic and trade cooperation, and accumulate experience for other regional organizations and countries to establish economic and trade ties.

2. The theoretical Framework of Neoliberal Institutionalism

Since the 1990s, international political economists have amplified their inquiries into the collaborative dynamics among states within the international system, building upon the rational choices. They have delved into the interplay between domestic politics and international political economy to examine international institutions and mechanisms, by exploring the domestic political underpinnings of such institutions or mechanisms, for which the paradigm of "Neoliberal Institutionalism" has been given rise to (Wang, 2010). Robert Keohane has astutely observed that the

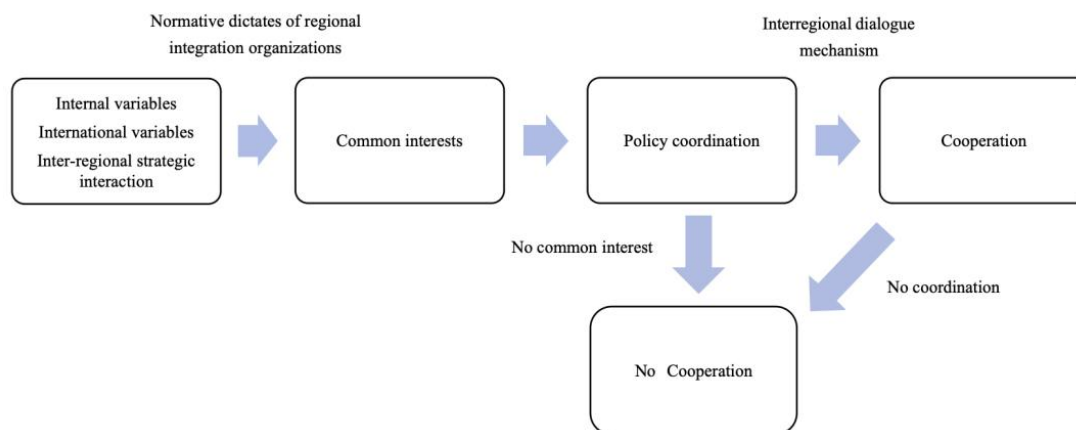
presence of shared interests does not inevitably translate into collaborative actions. Instead, such actions are only feasible within the framework of policy coordination. Through the process of policy coordination, cooperation is achieved when actors adjust their behavior to align with the current or foreseeable preferences of other actors. Negotiation or consultation is primary mechanism for policy coordination (Keohane, 1984). Overall, the analytical framework of neoliberal institutionalism for cooperation among international actors is encapsulated in **Figure 1**:

Figure 1: Analytical Framework of Neoliberal Institutionalism



Source: Created by author

Drawing upon the theory of neoliberal institutionalism, this paper assumes that the member states of the EU and Mercosur are rational entities driven by self-interest in the realm of economic and trade cooperation between these two blocs. The conduct of these states in the international sphere and their diplomatic decisions are constrained by the normative dictates of regional integration organizations, necessitating a unified “one voice” in the external engagements of the collective entity. The two regional integration organizations will consider a comprehensive range of internal and external factors, compute the costs and benefits, and select the courses of action that promise the utmost absolute benefits for the region as a whole. Nonetheless, due to the historical rapport between the European and Latin American nations, their political and economic bonds exhibit a continuous historical thread. Therefore, when contemplating the shared interests of the EU and Mercosur in establishing economic and trade cooperation, it is imperative to account not only for the political and economic factors within and beyond the region, but also for the strategic interaction dynamics between the two regional organizations. Therefore, this paper aims to synthesize the conducive conditions for the EU and Mercosur to forge economic and trade cooperation across three dimensions: internal factors, international factors, and strategic interactions, with the analytical framework shown in **Figure 2**:

Figure 2: Analytical Framework for EU-Mercosur Economic and Trade Cooperation

Source: Created by author

3. Internal Variables

In the domain of inter-regional economic and trade cooperation, the principle of regionalism has emerged as a pivotal factor. Concurrently, the foreign policies of regional organizations, as well as the diplomatic approaches and intentions of member states, exert a significant influence on the implementation and advancement of such initiatives.

3.1 Compatible “Regional Integration”

Within the global system structured around nation-states and amidst the tidal wave of globalization that surpasses national boundaries, the middle-range theory of “Regionalism” has emerged as a pivotal concept, which was initially concentrated on economic collaboration. “New Regionalism” extends beyond the scope of economic integration, gradually encompassing political and security dimensions. With a proactive feature, this iteration of “Regionalism” often termed “Open Regionalism”, thereby elucidating the inter-regional interactions within regional organizations.

The prototypical instance of regional integration, the European Coal and Steel Community, commenced with the signing of Treaty of Paris in 1951, among France, the Federal Republic of Germany, Italy, the Netherlands, Belgium and Luxembourg. In 1965, the European Community was established, whose decision-making framework was underpinned by two fundamental principles. The first is the principle of equality between France and Germany, fostering a congenial atmosphere for the reconciliation of the two. The second is the prevention of major member states from bullying smaller ones (Uli de Voist and Men, 2007). In the following two decades, the ever-expanding European Community stimulated the deepening of regional integration through the unification of tariffs and the establishment of a common market. In 1992, the Maastricht Treaty formally announced the establishment of the EU. Comprising 27 member states, with a combined population exceeding 500 million and a per capita GDP of 25,000 euros, the EU stands as the most economically integrated regional organization, the largest economy and the preeminent trading bloc in the world.

The pursuit of regional integration in Latin America originated during the period of the Wars of Independence. After World War II, inspired by the successful practice of European integration, Latin America officially embarked on its own regional integration path, establishing a multi-level regional integration organization. In March 1991, the heads of states from Brazil, Argentina, Uruguay and Paraguay signed the Treaty of Asunción, thereby officially founding Mercosur. As the prototype regional economic integration entity in South America, Mercosur includes two G20 member states, Brazil and Argentina. It is the fifth largest economy in the world, boasting a cumulative GDP exceeding 2.6 trillion USD in 2022, and stands as the paramount economic pillar of South America.

The shared pursuit of “regional integration” and the equivalent status of regional organizations will facilitate economic and trade cooperation between the EU and Mercosur, while also promoting the establishment of an equitable consultation and dialogue mechanism. Both entities share convergent interests and objectives in advancing trade liberalization, investment facilitation and intellectual property protection. Accordingly, the uniform identity will facilitate the enhancement of mutual understanding between the EU and Mercosur, fostering closer collaboration and catalyzing the progression of regional integration for mutual benefits and win-win outcomes.

3.2 EU’s “Effective Multilateralism” and “Pragmatism”

Firstly, the external affairs of the EU exhibit a consistent framework. In 2007, 27 EU member states signed the Lisbon Treaty, which further enhanced the EU’s common foreign and security policy, delineated the Union’s competencies in matters of foreign affairs and security. According to Articles 24 and 31 of the Treaty on EU (TEU), the EU has the right to establish relations with the third countries, international organizations and regional organizations and sign international treaties. The European Council is the highest decision-making body to define the general principles and strategies of the EU’s common foreign and security policy by unanimity (Bonde, 2009). However, the “intergovernmentalism” continues to prevail in the realm of common foreign and security affairs. The establishment of the EU High Representative for Foreign Affairs and Security Policy, the External Action Service and the President of the European Council have collectively enhanced the unity and efficacy of its external actions, but member states retain a “veto power” to safeguard their respective interests.

Secondly, “multilateralism” is the cornerstone of the EU’s foreign policy strategy. The EU’s “Trade Strategic Plan 2020-2024” indicates that the EU has concluded trade agreements with 76 entities, thereby establishing a global trade network. The EU primarily advocates for multilateral cooperation in trade policy. In order to cope with the crisis facing the WTO and the subsequent impact of the COVID-19 pandemic, the EU dedicates to updating the multilateral rulebook to align with the present trade landscape (European Commission, 2020). Mercosur stands as an emblematic representation of a burgeoning emerging market, which satisfy the EU’s needs to engage in multilateral cooperation to mitigate the effects of intense great power competition. Consequently, the

tenet of “effective multilateralism” is poised to drive the EU to cooperate with Mercosur to a certain extent.

Finally, “Principled Pragmatism” is an important principle of the EU’s foreign policy. In June 2016, the European External Action Service (2016) released a Global Strategy for Foreign and Security Policy. The strategy delineates that the EU has charted a novel course that navigates between the perils of “isolationist” Scylla and the “interventionist” Charybdis, which means “Principled Pragmatism”. Guided by Pragmatism, the importance of Latin America and the Caribbean in the EU’s global strategic alignment is continually escalating. The report clearly indicates the EU’s intent to broaden its collaborative efforts with Latin America, forge more robust partnerships and deeper socio-economic ties, enhance dialogue and cooperation on issues such as immigration, maritime security, climate change, energy, nuclear non-proliferation, arms control, crime and terrorism (European External Action Service, 2016).

3.3 Mercosur’s “Democratization” and “Multilateral Diplomatic Approach”

Firstly, Mercosur has established a diplomatic mechanism predicated on consensus. Articles 1 and 4 of the Treaty of Asunción stipulate that the Contracting Parties shall ensure equitable trade conditions in their dealings with third countries, coordinating their domestic policies to craft common trade competition regulations and commercial policies (Mercosur, 1991). On December 17, 1994, Mercosur promulgated the Ouro Preto Protocol. In accordance with Article 4 and 14, the supreme decision-making body, the Common Market Council (CMC), is granted the authority to represent or empower the executive body, the Common Market Group (GMC), to engage in negotiations and sign agreements with third countries, national groups and international organizations on behalf of Mercosur (Mercosur, 1994).

Nonetheless, the decision-making mechanism of Mercosur reflects a greater degree of “intergovernmental” than “integrated”, with a more pronounced role as a “forum” instead of a “regional organization”. Argentina regards Mercosur as a strategic platform for regional integration. Brazil has stated that Mercosur is its primary instrument for fulfilling the objectives set in Article 4 of the Federal Constitution, which stipulates “seeking economic, political, social and cultural integration of the peoples of Latin America with the aim of establishing a community of Latin America.” (Ministério das Relações Exteriores, 2024) Paraguayan Foreign Minister Ruben emphasized that Mercosur is a model grounded in political will (Ministerio de Relaciones Exteriores Paraguay, 2024).

Secondly, the “democratization process” in Latin America has reinforced the unity within the integration organization and is conducive to cooperation with other democratic nations. Since the late 1970s, the third wave of democratization has been set off in Latin America. Following the failure of the Malvinas War in 1983, the Argentine military government withdrew from the political stage; In 1985, Brazil and Uruguay successively concluded the dictatorship with new presidents elected; In 1989, General Rodriguez launched a coup to topple the Stroessner regime, ending his 34-year dictatorship following a series of democratic reforms in Paraguay. Since then, democratization

emerged as a fundamental prerequisite for involvement in Latin American integration. The concept of “democracy” was enshrined within the organizational development treaty at the 1992 Mercosur Summit. The establishment of a democratic system has significantly deepened the process of regional integration, enhanced the efficacy of the integration mechanism, and fostered greater unity within the organization. It has also facilitated collective participation in international negotiations and promoted international cooperation. Furthermore, shared democratic values and institutional frameworks facilitate the establishment of trust between Latin America and Europe in negotiations and cooperation, promote the development of a robust mechanism for consultation, dialogue and dispute resolution, as well as offer extensive opportunities for cooperation in people-to-people exchanges and science and technology.

Thirdly, the Mercosur member states implement a “multilateral pragmatic diplomatic strategy”. Historically, influenced by “Pan-Americanism”, Latin American countries have been deeply dependent on the United States in domestic and foreign affairs. Since the 1980s, there has been a gradual enhancement of political independence among Latin American nations. Through unity and collaborative efforts, they have independently expressed their demands in line with regional interests in international affairs. Concurrently, they have pursued a pluralistic diplomacy, strengthening exchanges and cooperation with European and Asia-Pacific countries, and resisting the control and interference of the United States. As pivotal countries in South America, the Mercosur member states have adhered to the principle of multilateral pragmatism in their foreign policies, championing multilateralism and advancing regional cooperation. Upon assuming office, Brazilian president Lula has sought to strengthen multilateral diplomacy of the nation, engaging in active dialogue for cooperation on issues such as climate change, sustainable development, human rights and technology at both global and regional levels. In 2023, he visited several countries including Argentina, Uruguay, the United States, China, France and Germany, and attended the Group of Seven (G7), the Latin American Community, BRICS, Portuguese-speaking countries, and South American Presidential Summits as well (Secretaria de Comunicação Social, 2024). Argentina prioritizes engagement with the United States and Europe, acknowledges China’s role as a strategic partner, and underscores the significance of bolstering ties with Africa and the Asia-Pacific spheres (Ministry of Foreign Affairs, 2016). The 2020-2025 international cooperation strategy of Uruguay indicates that the forms of cooperation encompass bilateral engagements (North-South cooperation), South-South cooperation, triangular cooperation, and decentralized cooperation (Uruguay Presidencia and Agencia Uruguay De Cooperación Internacional, 2023). Paraguay’s foreign policy focuses on forging robust relations with neighboring nations, and actively engaging in the affairs of multilateral organizations.

In general, Mercosur member states have formulated a “pragmatic multilateral foreign policy” that is tailored to the regional context and national interests, which facilitated fruitful dialogue and cooperation with numerous countries and regions across the globe, thereby fostering mutually beneficial and win-win outcomes within South America. Consequently, Mercosur will proactively

endeavor to sustain and enhance its collaborative relationship with the EU, promoting cooperation in a multitude of sectors including economics, trade and investment, and committing to the augmentation of transatlantic bonds.

4. International Variables

The accelerated progression of economic globalization, coupled with the outbreak of global issues such as climate change and environmental conservation, has tightened the dialogue and cooperation between the North and the South. In the case, the economic and trade collaboration between the EU and Mercosur is inevitably affected by international environmental dynamics.

4.1 Globalism and Economic Globalization

Joseph Nye (2002) posits that the crux of “globalism” lies in depicting and elucidating a world defined by a network of connections spanning multiple continents. “Globalization” refers to the transition of “globalism” from a sparse to a robust status.

Firstly, globalism and economic globalization foster trade liberalization, economic growth and employment opportunities. Globalism emphasizes interdependence and cooperation among nations. Driven by this paradigm shift, the EU and Mercosur launched formal negotiations towards a free trade agreement (FTA) in 1999, aiming to progressively lower tariff and non-tariff barriers, thereby catalyzing trade liberalization and facilitation. Furthermore, the trend of economic globalization is conducive to providing a broader market and amplifying commercial prospects for enterprises within the EU and Mercosur. Through collaborative efforts, the parties concerned facilitate optimal resource distribution, thereby fostering an environment of industrial complementarity and advancement, which not only enhances productivity and economic outcomes, but also generates increased occupational opportunities for the peoples of the two regions. Therefore, the advent of economic globalization has given rise to a numerous multinational corporations and supply chains. For instance, BASF, a German chemical conglomerate and L’Oréal, a French cosmetics giant, have established manufacturing facilities and subsidiaries within Mercosur. BASF operates one of the largest chemical production facilities in the world, boasting over 200 manufacturing sites worldwide. In South America, BASF has set up 21 branches, 16 of which are located in the member countries of Mercosur. According to data from Statista, BASF’s sales revenue in South American exceeded €3.8 billion in 2019. Brazil contributed nearly three-quarters of sales, while Argentina, Bolivia, Paraguay and Uruguay collectively accounted for 14%. The L’Oréal Group has accessed the Latin American market for over half a century and maintains close cooperation and trading relationships with Mercosur companies. In 2017, the L’Oréal Group divested its brand The Body Shop to Natura & Co., the largest cosmetics company in Brazil, for €1 billion (Bulter, 2017). In 2023, Natura realigned its investment strategy and sell its luxury brand Aēsop to L’Oréal for \$2.52 billion (Sakate, 2023).

Secondly, globalism and economic globalization promote technological innovation and knowledge exchange between EU and Mercosur. In the new century, the rapid progression of the

technological revolution, aided by economic globalization, has significantly accelerated the cross-border flow of knowledge and exchange of technological innovation. The EU and Mercosur have established comprehensive dialogue and collaboration in digital economy, intellectual property protection, the green economy and clean energy. As for Brazil, the EU has inked a cooperative agreement focusing on the research and development of digital technologies. In February 2016, representatives of the EU and Brazil signed a joint statement at the Mobile World Congress, heralding the official commencement of their partnership on 5G mobile technology under the framework of the “Horizon 2020”. They will make joint efforts on the application of 5G services in connected cars, the Internet of Things or ultra-high-definition video streaming (European Commission, 2016). In Argentina, in February 2018, the European Patent Office (EPO) and the Argentine Industrial Property Institute (INPI) entered into a memorandum of understanding on the introduction of the Cooperative Patent Classification (CPC) system at INPI, aiming to enhance inter-institutional cooperation and facilitate data exchange and technical collaboration in the domains of patents and innovation (INPI, 2019). In December 2022, the EU launched the project “Working Together for a Green Tomorrow” in Paraguay. The team formed by Germany, Spain, France and Italy has assembled to extend technical and financial backing towards the advancement of Paraguay’s green economy. The program focusses on forestry and biodiversity, sustainable production, the circular economy, and water and sanitation facilities. The investment that has been made and committed is about €130 million (Ueconparaguay, 2019). Regarding Uruguay, On July 18, 2023, at the EU-Latin America and the Caribbean Summit, the EU signed a memorandum of understanding with it on the enhancement of renewable energy, energy efficiency, and renewable hydrogen initiatives. Potential areas of cooperation include reviewing and deepening actions and policies to promote energy efficiency, sharing policies on renewable energy and renewable hydrogen and their derivatives, and collaborating to direct investment towards the above key areas (European Commission, 2023).

Indeed, the development of globalism and economic globalization has also introduced certain problems and challenges for both the EU and Mercosur, involving the exacerbation of inequalities, the expansion of the digital divide, the increasing disparity of wealth. However, overall, economic globalization has fostered swift progress in the global economy and has streamlined dialogue, trade, investment and cooperation between the EU and Mercosur. Therefore, in this context, forging closer economic and trade cooperation and partnerships represents a more favorable choice for the two regional economic integration blocs.

4.2 Global Issues and EU-Mercosur Cooperation on Global Governance

In recent years, a succession of global challenges including global warming, environmental degradation, illegal immigration and terrorism have cropped up, posing significant threats to the safety and life for individuals worldwide. The *2030 Agenda for Sustainable Development* proposed by the United Nations necessitates enhanced collaboration between nations and peoples of the North and South countries with a collective effort to fulfil the 17 Sustainable Development Goals and address

these worldwide concerns. Consequently, the pressing nature of global issues and the need for global governance have intensified dialogue and cooperation between the EU and Mercosur. Notably, enhanced collaboration in climate and environmental protection has yielded positive outcomes, contributing to the deepening of economic and trade cooperation.

Firstly, climate and environmental cooperation can pave the way for the emergence of new industries and market prospects. Mercosur, with its abundant natural resources and extensive land, possesses strengths that can be complemented by the EU's prowess in technology research and development, capital and management expertise. Through collaborative efforts, the two actors can engage in joint investment, development and operation of projects that are aligned with sustainable practices. It can foster the growth of associated industrial chains, thereby generating new trade opportunities and bolstering economic ties. The formulation and implementation of the EU-Latin America and the Caribbean Global Gateway Investment Agenda (GGIA) has identified equitable green and digital investment prospects for EU investors in Latin America and the Caribbean. The GGIA showcases over 130 investment demonstration projects aimed at fostering sustainable growth within pivotal sectors such as health, renewable energy, digital connectivity, critical raw materials, and research and innovation (European Commission, 2023). In July 2023, the European Commission and the European Investment Bank entered into agreements with Argentina, Chile and Uruguay to collaborate in energy sectors, including hydrogen energy. Europe is targeting investments exceeding €45 billion by 2027 (Matalucci, 2023). The "Green Tomorrow" initiative is in pursuit of funding for over 30 projects in Paraguay. It encompasses a diverse spectrum of areas covering water resource conservation, organic farming, forestry development, and biodiversity preservation, with an average duration of development spanning ranging from 2 to 5 years (UEenParaguay, 2022).

Secondly, climate and environmental cooperation serves as a catalyst for technological innovation and dissemination. The EU boasts significant advancements in low-carbon technology and the circular economy, while Mercosur seek application and promotion of these technologies. The cooperation not only enhances the environmental governance capabilities and industrial upgrading of Mercosur, but also confers economic advantages to technology entities based in the EU. The Low Carbon Business Action (LCBA) is a green business platform created by the EU in accordance with the 2020 European Green Deal, which encourages cooperation between European small and medium-sized technology enterprises specializing in low-carbon or circular economy, and Latin American companies seeking to enhance their efficiency and sustainability. Currently, Argentina, Brazil, Chile and Colombia have joined the platform. On the one hand, the LCBA platform assists European technology suppliers in identifying suitable clientele and business partners, and on the other hand, it can help Latin American companies access cutting-edge technology and accelerate their compliance with the stringent environmental regulations of the EU. Marcelo Perpétuo, the manager of LCBA, commented that while European small and medium-sized companies specializing in green technologies possess disruptive innovations for energy transition or circular economy, they often lack

the resources and market entry strategies employed by larger multinational corporations. For example, a diminutive Serbian enterprise has engineered an enzyme intended for inclusion in animal feed, which serves to mitigate methane emissions. Conversely, entities based in Spain and Finland are adept at utilizing microsatellites and radar technology to discern various species within botanical regions. Consequently, the LCBA functions as a nexus, fostering collaboration between businesses across the Atlantic, offering support in terms of investment and entrepreneurial endeavors, catalyzing the advancement an innovation of technology across diverse industries, and facilitating the realized ambition of “cross-disciplinary pollination”. The report highlights that since its inception in Brazil, the LCBA has secured 14 agreements totaling €22 million, potentially leading to the annual reduction of more than 430,000 tons of carbon dioxide emissions (Ramos, 2022).

Furthermore, enhanced climate and environmental cooperation will contribute to the optimization of the trade and investment, and reinforcing EU-Mercosur collaboration within the multilateral trading system. By addressing climate change collectively and advancing towards sustainable development goals, it is possible to foster the development of equitable, rational, and effective global environmental and climate governance norms, improve the environmental standards and regulatory harmonization on both sides, and ensure the maintenance of stability and development of the multilateral trading system. In this process, the involved parties are encouraged to engage in negotiations and dialogues regarding various aspects such as trade regulations, market access, environmental standards, and green finance to further optimize the economic, trade and investment environment of them. On December 28, 2022, approximately 50 scientists, former politicians and other civil society representatives from the Portuguese and Brazilian environmental sectors signed the “Brazil-EU Declaration on a Stable Climate: A Common Heritage of Mankind”, advocates for climate issues to be the core element of the EU-Mercosur agreement. Additionally, it calls for international support to enhance the environmental policies of the Lula government in Brazil. The declaration highlighted that “the 2019 EU-Mercosur Agreement failed to offer sufficient assurances for adherence to environmental and health standards. The EU and Brazil should make the goals of the Paris Agreement a condition for their bilateral and regional relations agreements.” (Rodrigues, 2023) In July 2023, Brazil and members of the European Parliament engaged in a dialogical exchange, discussing methods to enhance collaborative efforts towards the climate and sustainable development agenda. Furthermore, they aimed to foster cooperation across various domains including climate, technology and energy transformation, sustainable development and green industrialization. The initiatives have significantly influenced the EU-Mercosur Agreement, transcending sectors from industry to environment (Rodriguez, 2023).

Finally, engagement in climate and environmental cooperation can bolster the international image and reputation of both EU and Mercosur. Amidst heightened global concern for climate and environmental matters, countries that proactively participate in such collaborations are more likely to garner recognition and support from the international community, which can help attract increased international investment and trade partners, thereby creating more propitious external conditions for

economic and trade cooperation between the two entities. The tight collaboration between the EU and Mercosur in global affairs can serve as a catalyst, prompting other countries to actively engage in global governance. Simultaneously, it can act as a model and driving force for regional climate and environmental cooperation, as well as the adoption of low-carbon and circular economy.

5. Inter-Regional Strategic Interaction

The EU and Mercosur share historical, cultural and ethnic linkages, and their inter-regional relations and economic and trade exchanges are rooted in a deep-seated history. Therefore, along with internal factors within each region and the broader international variables, the historical bond and strategic interaction have emerged as crucial considerations for the economic and trade cooperation.

5.1 The Historical Legacy of Colonial Rule

The member states of the EU and Mercosur initiated the close economic and trade relations during era of colonization. In 1492, under the patronage of Queen Isabella I and King Ferdinand II of Spain, the Genoese navigator Christopher Columbus completed four voyages across the Atlantic Ocean, becoming the first European documented to have encountered Central America, South America and the Caribbean, paving the way for the subsequent extensive exploration and colonization of the Americas. Since then, European countries such as Spain, Portugal, France, the Netherlands, and the United Kingdom (the UK) successively established autonomous colonies in Latin America. The enduring historical bond between these colonial entities and their respective sovereigns has engendered akin cultural and ideological attributes across both regions. An influx of European immigrants journeyed to the New World, undergoing a process of “creolization” to become new Latin Americans. They introduced capital, together with sophisticated concepts, culture, technology and production techniques, investing and establishing factories and enterprises. Latin America supplied abundant raw materials and cheap labor, evolving into a vital market for European merchandise. As a result, the two regions forged close economic, political and commercial linkages.

The commercial relations persisted following the attainment of independence by the member states of Mercosur. Commencing in 1810, led by national hero like Simon Bolivar, liberation movements against Spanish colonists sprang up across the region. Only after a decade fraught with arduous conflicts did Paraguay (1811), Argentina (1816), Brazil (1822), Uruguay (1825), and Bolivia (1825) successively assert their autonomy. Although Latin American nations secured national independence in the early 19th century, their economic reliance on Europe did not end. The established European-Latin American trade network was retained. Influenced by the ideology of trade liberalization, European immigrants and multinational corporations continued to foster regional commerce, generating substantial profits, particularly in the aftermath of the Industrial Revolution. Being the most industrialized nation of its time, economic ties between the UK and Latin American nations thrived from the mid-19th century onward. Britain repealed trade barriers and instituted zero tariffs for Latin American countries, concurrent with Latin American nations’ dedication to fostering

export-oriented trade expansion. Consequently, a substantial volume of agricultural products from South America were exported to the UK and imposed zero tariffs on Latin American countries, while Latin American countries were committed to promoting export-oriented trade growth. Therefore, a large number of South American agricultural products were exported to the UK, with countries such as Cuba, Puerto Rico, Argentina, Chile and Uruguay reaping considerable benefits. Moreover, the UK amplified its investments in Latin America, and railways emerged as a prime focus of its capital outflows. In the 1830s, the UK embarked on the construction of the first railway in Latin America (Thomas, 1998). According to the Department of Economic Affairs of the United Nations, notwithstanding the impact of the United States' "Monroe Doctrine" and the escalating trade volume between Latin America and the United States, Europe still occupied an absolute dominant stance in Latin America's import and export trade prior to 1948. During the period from 1901 to 1905, the value of Latin America's imports from Europe was 275% of that of the United States, accounting for two-thirds of its aggregate imports (refer to **Table 1**); the value of its export to Europe was 224% of that of the United States, exceeding 60% of its total exports (refer to **Table 2**). It was only post-World War II that the European economy faced a severe downturn, enabling the United States to capitalize on the situation and reverse the trade dynamics. The United States' import and export trade with Latin America expanded rapidly, establishing its dominance as the overriding power in Latin America (Department of Economic Affairs of the United Nations, 1953).

Table 1: Latin America's Imports (million US dollars)

	1901-1905	1913	1925	1928	1937	1938	1948	1949	1950	1951
Total imports (including intra-trade)	515	1226	2066	2083	1396	1309	5101	4429
Imports from Europe	347	793	908	973	702	635	1323	1378	1450	2095
Imports from the United States	126	317	844	831	577	494	3205	2750	2743	3773
Ratio=Europe*100/ United States	275	250	108	117	122	129	41	50	53	56

Source: *A Study of Trade between Latin America and Europe (1953)*.

Table 2: Latin America's Exports (million US dollars)

	1901-1905	1913	1925	1928	1937	1938	1948	1949	1950	1951
Total exports (including intra-trade)	823	1590	2741	3005	2360	1771	6535	5543

Exports from Europe	523	963	1361	1600	1207	922	2329	1655	1775	2283
Exports from the United States	234	441	1005	947	672	453	2356	2304	2912	3350
Ratio=Europe*100/ United States	224	218	135	169	180	204	99	72	61	68

Source: *A Study of Trade between Latin America and Europe (1953)*.

In the late 1980s and early 1990s, the relationship between Europe and Latin America took a new leap forward. After the World War II, European countries were preoccupied with economic reconstruction and the process of integration, which resulted in limited engagement with their former colonial territories in Latin America. It was not until the 1970s that the European Community initiated economic cooperation agreements with Argentina, Brazil, Uruguay and other countries, but these efforts did not lead to substantial progress in the relationship between Europe and Latin America. In 1986, Spain and Portugal, two former colonial powers in Latin America, integrated into the European Community, which served as a bridge between the European Community and Latin American countries, thereby strengthening the bond between the two regions. Throughout the 1990s, the end of the Cold War nullified the previous bipolarity, leading to the amplification of the ongoing trend towards global multipolarity. The EU attached importance to forging partnerships with other regions across the world, and the strategic significance of Latin America has accordingly increased. Since 1995, the European Commission has issued policy documents that outline measures to enhance the partnership and regional cooperation between the EU and Latin America, and particularly Mercosur. These documents have provided a framework for dialogue and negotiations between the EU and Mercosur, injecting fresh momentum into their economic and trade collaboration.

5.2 Establishment of Bilateral Strategic Partnership

Since its establishment in 1991, Mercosur has received robust support from the European Community. In 1992, both parties signed their first agreement, the *Inter-institutional Cooperation Agreement*. Although the European Community provided technical and institutional assistance for the construction of Mercosur, the agreement failed to enhance relations between the two regions. After the establishment of the EU, it has consistently aimed to foster inter-regional cooperation and advance the process of Latin American integration. In 1994, in order to strengthen ties with Mercosur, the EU released a new policy document titled “The European Community and Mercosur: An Enhanced Policy”, which outlined a “two-step” cooperation strategy. The first step is to conclude an inter-regional framework agreement to bolster ministerial dialogue and consultation while supporting regional integration and trade liberalization. The second step is to establish a bi-regional partnership and strengthen mutual political, economic, commercial and socio-cultural ties (European Commission, 1994).

During Spain's tenure as the rotating presidency of the European Council in 1995, it vigorously promoted the development of EU-Mercosur relations. The EU proposed a plan to establish a "close strategic partnership" with Mercosur. On December 15, 1995, both parties reached *the Interregional Framework for Cooperation* and instituted a regular ministerial meeting system (Zhao and Zeng, 2020). The framework cooperation agreement comprises three pillars. The first pillar is mainly for information exchange, consultation, contact and meetings, which serves as a valuable mechanism for discussing and negotiating bilateral issues and important topics; the second pillar is trade liberalization and preparation for future free trade areas to encourage the development of multilateral trade liberalization; the third pillar is broader bilateral cooperation, aimed at enhancing international competitiveness within the two regions, expanding the economies, creating employment opportunities and fostering innovative developments in science and technology (Franca, n.d.). Collectively, these three pillars have laid the foundation for the further political engagement, trade relations and cooperative initiatives between the EU and Mercosur. On this basis, the negotiations on the free trade agreement were officially launched in 1999.

Entering the 21st century, EU-Mercosur relationship grew increasingly robust. The EU subsequently issued two "Five-Year Strategic Reports" concerning Mercosur. In *Mercosur-European Community Regional Strategy Paper 2002-2006*, EU member states expressed support for Mercosur's regional integration policy by endorsing efforts to complete internal market construction while strengthening institutional frameworks and economic liberalization processes. Throughout free trade agreement negotiations, both entities maintained privileged ties that would evolve into a strategic regional partnership after the negotiations (European Commission, 2002). The subsequent report (2007-2013) indicated that although substantial progress was made regarding institutional frameworks over five years within Mercosur, limited advancements occurred in establishing an internal common market or customs union. Therefore, during this period, the EU adjusted its strategy, and focused on specific action plans designed to enhance common market while promoting ongoing free trade negotiations alongside increased civil society participation (European Commission, 2007).

Although no dedicated strategic document to Mercosur has been released since then, the EU remains regarded Mercosur as an integral component of its broader strategic partnership with Latin America and the Caribbean. The 2017 report of European Parliament highlighted that following leadership changes in Argentina and Brazil since 2016, new momentum was injected into EU-Mercosur trading discussions. Argentine President Mauricio Macri took proactive steps during his tenure by engaging politically through high-level visits with various EU countries which significantly strengthened Argentina's economic ties whilst easing access to markets. Brazilian Foreign Minister Aloysio Nunes noted how the United States withdrawal from agreements like the Trans-Pacific Partnership Agreement (TPP) and the Transatlantic Trade and Investment Partnership Agreement (TTIP) reignited enthusiasm within Mercosur towards pursuing their own free trade agreement with the EU (European Parliament, 2017). Through collaborative efforts among heads of Brazil and

Argentina under the rotating presidency of Portugal, the free trade agreement negotiations finally concluded at the G20 Osaka Summit in 2019. Despite the agreement has not been approved by the European Parliament until now, the conclusion of the negotiations marked breakthrough moment in EU-Mercosur economic and trade relations. Their relationship has also gradually transformed from a part of the EU's strategic partnership with Latin America to a sole inter-regional strategic partnership, laying the foundation for broader and deeper economic and trade cooperation in the future.

6. Conclusion

In accordance with neoliberal institutionalism, a comprehensive evaluation of the potential establishment of economic and trade cooperation between the two regional organizations must consider a triad of pivotal variables: internal variables, international variables and inter-regional strategic interaction variables. Therefore, this paper performs an exhaustive analysis of the aforementioned variables and delves into the conducive internal and external conditions that pave the way for the establishment of economic and trade cooperation between the EU and Mercosur.

Regarding the internal variables, the EU and Mercosur, as the most preeminent economic integration entities in Europe and South America respectively, share similarities in terms of “regional integration” and regional organization identity. Both entities emerged from comparable foundational contexts, operate on parallel models, and are united by akin objectives of fostering regional peace and economic revitalization. The EU's “new regionalism” is consistent with the concept of Mercosur's “open regionalism”, facilitating mutual understanding and collaboration within the framework of regional integration. The EU's diplomatic doctrines of “effective multilateralism” and “principled pragmatism” have enhanced its impetus to engage in cooperation with Mercosur. Simultaneously, the “democratization” of Mercosur member states and their “multilateral pragmatic diplomatic approach” have further reinforced their expectation to establish collaboration with the EU.

From the vantage point of international variables, globalism and economic globalization have facilitated trade liberalization as well as spurred technological innovation and knowledge exchanges between the EU and Mercosur. Engagement in global governance, particularly in areas such as climate and environmental conservation, has engendered novel industrial and market prospects, fostered technological innovation and dissemination, optimized the environment for trade and investment, bolstered collaboration within the multilateral trading framework, and elevated international standing and repute. Therefore, in light of the irreversible trend of economic globalization and the necessity of global governance, Mercosur and the EU are destined to collaborate on the basis of shared interests.

From the lens of inter-regional strategic interaction variables, the shared colonial history between the EU and Mercosur has endowed with similar ethnic linkages, harmonious cultural foundations, and a well-established economic and trade network. Furthermore, during the era of European colonization, the majority of leaders and elites in Latin America underwent Western education, resulting in a lack of pronounced ideological discrepancies between regions, which facilitated greater trust and easier cooperation. Since the establishment of the EU and Mercosur, the two entities have progressively

strengthened their inter-regional partnership by concluding multiple framework cooperation agreements, thereby providing institutional underpinnings for economic and trade collaboration.

In an ideal scenario, EU-Mercosur economic and trade cooperation is propelled by internal factors serving as the decisive variables, international factors acting as the direct driving force, and the inter-regional strategic interaction serving as the foundational elements. Consequently, not only must the two collaboratives possess compatible political systems and foreign affairs strategies, but they also need to foster political mutual trust and learning of civilizations. In addition, it is crucial for them to take full advantage of the favorable conditions provided by economic globalization and the strategic opportunities emerging from global governance.

Certainly, common interests do not automatically translate into cooperation, and the alignment of interests between countries or regions may not fully encompass the complexities of the internal environment, the international environment and the interplay among entities. Throughout the process of policy implementation and coordination, numerous challenges must still be addressed and surmounted. In their collaborative efforts, the EU and Mercosur confront a multitude of challenges, including disparities in economic development levels, discrepancies in regional integration, disputes concerning environmental protection and human rights, and instability of political leadership. As a result, the free trade agreement has been stalled for a long time, and it has been difficult to make breakthrough progress in regional economic and trade relations. Diverse countries or regions are imperative to adapt to the evolving economic and trade landscapes, utilizing bilateral or multilateral dialogues, and proactively engaging in consultations and negotiations under varying circumstances.

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Author Contributions

Xiaolan Rong: Data curation, Writing, Original draft, Conceptualization, Methodology, Supervision. The author reviewed the results and approved the final version of the manuscript.

Availability of Data and Materials

The data on which the study is based were accessed from a repository and are available for downloading through the following link.

<https://ec.europa.eu/trade/policy/countries-and-regions/>

https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/mercosur_en

<https://www.basf.com/global/en/who-we-are/organization/locations/south-america.html#%7B%20%22%3A%5B%5B%22basf%3Alocations%2Fsouth-america%22%2C%5B%22basf%3Alocation>

s%2Fsouth-america%2Fargentina%22%2C%22bas f%3Alocations%2Fsouth-america%2Fbrazil%22%2C%22basf%3Alocations%2Fsouth-america%2Fparaguay%22%2C%22basf%3Alocations%2Fsouth-america%2Furuguay%22%2C%22basf%3Alocations%2Fsouth-america%2Fbolivia%22%5D%5D%5D%7D

<https://www.statista.com/statistics/789562/basf-revenue-south-america-distribution/>

<https://repositorio.cepal.org/server/api/core/bitstreams/e2b61e52-4648-4248-ab09-9aa18edb0c77/content>

Conflicts of Interest

The authors declare that they have no conflicts of interest to report regarding the present study.

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