

## CHAPTER TWO

### THE HISTORICAL DEVELOPMENT AND STRUCTURE OF MERCOSUR

#### 1. INTRODUCTION

The advent of the globalisation phenomenon and its requisite reliance on information technology, necessitates that states and non-state entities, particularly the transnational corporations (TNCs), structure themselves in a manner that facilitates meaningful participation. Globalisation is primarily based on the inter-connectedness and interdependence of national economies. Being driven by information technology and telecommunications, it thrives on an open economy system. There is hardly any part of the globe that is unreachable and therefore financial capital and services can be moved and rendered almost in real time, irrespective of geographic constraints. Thus its proponents insist on trade liberalisation and removal of all protectionist measures which include tariff barriers, manipulation of national currencies, subsidies and so forth. This presents opportunities as much as it does dangers. States could gain from new markets, thus earning foreign currency. Increased foreign currency earnings enable states both to diversify into new products and/or expand production, thus providing more job opportunities. Collectively, these contribute towards the economic growth of a country and eventual improvement in the lifestyles and well-being of people. From a security perspective such conditions are ideal, as people whose basic needs of survival are satisfied do not readily pose any security threat to the incumbent government or existing political system.

However, globalisation could also be detrimental. Small and emerging economies can easily become subsumed and even submerged by bigger and stronger economies. Unfettered and unregulated market forces could wreak havoc on national economies in the form of high inflation; more environmental degradation; acutely inequitable distribution of wealth; and increased unemployment as new global actors engage in capital-intensive enterprises, thus driving out those economies relying on labour-intensive industries.<sup>1</sup> The shedding of jobs on a massive scale due to trade liberalisation and other policies could engender extensive protests and even the toppling of governments. The two main survival strategies in the globalisation phenomenon are, firstly, establishing sufficiently large entities or regional groupings to make

a tangible impact on a global scale and, secondly, gaining a competitive edge rather than comparative advantage as was the case during the greatest part of the Cold War era. These two aspects provided the impetus for the formation of Mercosur.

This chapter attempts to chart the historical development of Mercosur by briefly analysing some of the salient factors that contributed towards its establishment. The institutional structure, including the roles and functions of the Mercosur group, are also discussed. The performance of the group is then assessed in relation to its stated goals.

## 2. FACTORS NECESSITATING THE ESTABLISHMENT OF MERCOSUR

As in any attempt at analysing cause and effect or the linkages between the variables and the net effect, it is extremely difficult to pinpoint with definitive authority the driving forces that impelled the constituting members of Mercosur to form such a grouping. However, the following could be listed as possible justifications or impelling factors that contributed towards the establishment of Mercosur: *the military developmentalism doctrine; the proliferation of regional organisations in the world; conflict potential; the democratisation process; and, lastly, globalisation.*

### 2.1 MILITARY DEVELOPMENTALISM DOCTRINE

For a substantial period most South American countries were either under military rule or civilian rule with excessive military influence. For instance, in Paraguay the military have dominated national politics for more than 150 years. Unlike Paraguay, Colombia has had numerous successive civilian governments, except for six times since independence, but the military have continuously played excessive roles in national politics.<sup>2</sup> The military rulers realised that for them to achieve high military competency and to acquire technologically-advanced military equipment and hardware, they had to improve economic performance. They resolved that military developmentalism — a doctrine that the military should stay in power for as long as it requires to place the economy on a right footing — would be effective. Hence, Hirst<sup>3</sup> calls the military regimes of that time ‘instrumental regimes’ because they used economic growth as an instrument to stay in power. To this effect, they invited or co-opted civilian specialists to help design economic policies and strategies that reflected popular

thinking of that time. For instance, in Brazil, where this doctrine originated, the military regime in 1964 embarked on the policy of economic stabilisation which sought to reduce inflation and to restore investor confidence. Brazilian President Castello Branco appointed Roberto Campos de Oliveira, the former head of the National Bank of Economic Development, as Minister of the Economy. Campos, through the use of indexation, managed to repress public protests over austere economic measures introduced to improve economic performance. He also introduced a ten-point plan in terms of which such measures would be implemented. Having been a lecturer at the Escola Superior de Guerra, Brazil's most senior and influential military training institution, Campos was able to imbue certain economic policy values which were wholeheartedly accepted and adopted by the military establishment. This facilitated the acceptability of his appointment as head of economic affairs for a military government.<sup>4</sup>

Campos's policies did not survive for too long, as the head of government, President Casto e Silva, who came to power in 1967, appointed a new Minister of Finance, Antonio Delfim Neto. Delfim, who was to be in office until 1974, brought the Ministry of the Economy under his direct control, thus centralising economic policy making in his office. In 1968 the Fifth Institutional Act was enacted, which brought an end to political opposition, thus ushering in one of the most repressive periods in Brazilian political history. Ironically, this period coincided with impressive economic growth and Gross National Product (GNP), which at that stage stood at around 7 per cent. The military developmentalist strategies were adopted by Argentina in 1966, by Peru in 1968, by Chile and Uruguay in 1973, and again in Argentina in 1976. These strategies proved inadequate for dealing with external factors such as the oil shocks of 1973 and 1979.<sup>5</sup>

## 2.2 PROLIFERATION OF REGIONAL ORGANISATIONS

The initiation of integration talks and efforts in Western Europe spurred on other regions to consider similar ventures. On 9 May 1950, French Foreign Minister Robert Schuman proposed that Europe's coal and steel should be placed under a common European authority. Subsequently, on 18 April 1951, Belgium, France, Germany, Italy, Luxembourg and the Netherlands signed the Treaty creating the European Coal and Steel Community (ECSC). These events, together with the signing on 25 March 1957 of the Treaties creating the European Economic Community (EEC) and the European Atomic Energy Community

(Euratom), up to the signing on 7 February 1992 of the Treaty of Union and Final Act in Maastricht, demonstrated beyond doubt that developing states would not survive the economic might of the powers of the North, given the political, military and also economic resources at their disposal.<sup>6</sup> They had to follow suit.

For developing countries, the strategy was to attempt to devise ways of using their primary resource power to leverage against the exceedingly expensive manufactured products from the North. It was against this background that more regional organisations, especially from among developing countries, were established. First of these was the Latin American Free Trade Area (LAFTA)<sup>7</sup>, also known by its Spanish acronym ALALC — *Asociación Latinoamericana de Libre Comercio*, which was established in 1960 with a view to fostering economic collaboration in the region. Its secretariat was situated in Montevideo, Uruguay. In the same year, a similar separate organisation called the Central American Common Market (CACM) was created, with its permanent secretariat in Guatemala City. However, the CACM disintegrated due to the eruption of war between El Salvador and Honduras in 1969. This war only ended in 1979 after eleven years of intense negotiations.<sup>8</sup>

Third of these was the Council of Arab Economic Unity (CAEU)<sup>9</sup> which was established in 1964. It sought to promote economic integration among Arab nations. Fourth was the establishment of the Association of South East Asian Nations (ASEAN)<sup>10</sup> in 1967. Its primary goals were to encourage regional economic, social and cultural co-operation among its members. Fifth was the formation of the Caribbean Community (CARICOM)<sup>11</sup> in 1973 which also wanted to promote economic development and integration. In 1975 ECOWAS<sup>12</sup> was established with a view to promoting economic co-operation. In the same year, an organisation called the Latin American Economic System (SELA) was established. Also designed to engender economic collaboration among regional states, it was specifically planned to exclude the United States and to include Cuba.<sup>13</sup>

Similarly, the Southern African Development Co-ordination Conference (SADCC)<sup>14</sup> was established in 1980 both to promote regional economic co-operation and to reduce dependence on South Africa. In 1981 the Latin American Integration Association (LAIA) — also known as ALADI — the Spanish acronym for *Asociación Latinoamericana de Integración*, was established to foster free regional trade.<sup>15</sup> The current efforts at regional co-

operation in South America are based on the solid foundation laid by the ALADI agreements — also known as the economic complementarity agreements. For instance, in December 1994, Chile and Mexico, and also Colombia and Venezuela, concluded an agreement on tariff reductions based on the ALADI provisions. The Mercosur common external structure is also largely influenced by the ALADI framework. In fact, both the Mercosur and the Andean Community are an integral part of ALADI.<sup>16</sup> Lastly, the South Asian Association for Regional Co-operation (SAARC)<sup>17</sup> was established in 1985 with the view of promoting economic, social and cultural co-operation among its members.<sup>18</sup> While most of these organisations have survived into the twenty-first century, they have had to change or adapt their original agendas in order to provide for new challenges. To this effect, they have increasingly incorporated security aspects without abandoning their original goals. Obviously, numerous integration efforts in South America had failed due to many factors, thus the formation of Mercosur represented a fresh attempt with a limited geographic focus.

### 2.3 CONFLICT POTENTIAL

The southern cone has for many years been characterised by either real or latent conflicts. These conflicts or, more appropriately, tensions, were fuelled by or promoted by military rule in many of the South American states. Rivalries for regional dominance, especially between Argentina and Brazil, and unresolved border disputes such as those between Argentina and Chile, resulted in limited friendly interactions between governments and perpetuated mutual suspicions. In fact, since the signing of the 1881 Boundary Treaty, which sought to settle the border dispute between Argentina and Chile, both countries have been hovering on the brink of going to war on this issue.<sup>19</sup> Similarly, there have always been simmering tensions between Bolivia and Paraguay, which culminated in the Chaco War in 1932-1937, the only major disturbance to peace in South America in the whole twentieth century.<sup>20</sup> Even the Falklands War of 1982 between Britain and Argentina had limited consequences for the region.

As a general rule, where there is vagueness and ambiguity in the drafting of a treaty designed to end a conflict, such conflict is bound to resurface as the context, the real or imaginary features, or the perceptual understanding of the conflict changes. The Boundary Treaty amply

bears testimony to that reality. This is particularly relevant in the case of the territorial acquisitions by Brazil and Argentina following the so-called War of the Triple Alliance (1865-1870) or the National Epic — as it is known in Paraguay. The war erupted as a result of Paraguay attempting to attack Uruguay by sending troops through Argentina without the latter's prior approval. Consequently, Paraguay faced the combined military force of Argentina, Brazil and Uruguay. The Chileans made similar territorial acquisitions following the War of the Pacific (1879-1883) when they defeated the combined force of Bolivia and Peru.<sup>21</sup>

These territorial and other tensions have consistently persisted throughout the twentieth century. It is noteworthy that these conflicts and/or tensions are linked to specific natural resources that have direct political, economic, security or strategic value. Any denial of access to these resources through treaties or agreements does not necessarily diminish their intrinsic value. With the demise of the Cold War, the River Plate countries resolved to form Mercosur, which has a conflict resolution and management mechanism. Through this mechanism the member countries are able to resolve conflicts amicably. In this manner, the formation of Mercosur has provided an umbrella body under which the increasingly complex modern-day issues, including security issues, could be addressed. Indeed, one of the contributory factors towards the acceptance of this approach has been the democratisation process that is increasingly being established in South America.

#### 2.4 DEMOCRATISATION PROCESS

The South American countries have a longer history of concerted efforts to establish democratic governments in the region than most other regions such as Africa. Consistently, they realised the intrinsic connection between peace, stability and democracy. Ironically, the democratic process has been threatened by the military establishment quite more often than in other regions excluding Africa. Such efforts at democratisation can be traced as far back as 1936 when states recognised the existence of democracy as a source of common interest in the Americas. It was enshrined in the Declaration of Principles of Inter-American Solidarity and Co-operation of the Inter-American Conference on the Consolidation of Peace that was held in Buenos Aires in 1936. This stance was further emphasised by the Uruguayan Minister of Foreign Affairs, Dr Eduardo Rodríguez Larreta, when on 21 November 1945 he proposed to

the American governments to suspend or restrict the principle of non-intervention in the internal affairs of another country. He argued that state security and regional stability were being threatened by people who wanted to interrupt democratic processes in the knowledge that no other country would intervene. However, this proposal was never accepted but it demonstrated the seriousness with which the defence of democracy was being viewed by some of the South American states.<sup>22</sup>

During the immediate post-WW II environment the UN was formed, and it is notable that 20 of the first 51 member states were from Latin America. The link between security and democracy was further strengthened when South American (not necessarily Latin American) countries signed the Inter-American Treaty of Reciprocal Assistance or, as it is popularly known — the Rio Pact on 09 February 1947. The Rio Pact was essentially a regional/hemispheric collective security agreement which, according to Article 4, stretched from the North Pole to the South Pole in the Western Hemisphere. It committed signatories in Article 6 to common action or defence in the event that —

“the inviolability or integrity of the territory or the sovereignty or political independence of any American State should be affected by an aggression which is not an armed attack or by an extra-continental or intra-continental conflict, or by any other fact or situation [which] might endanger peace of America.”<sup>23</sup>

In 1948, the Charter establishing the Organization of American States (OAS) was signed. As the paranoia with communism escalated, the US was able to convert the OAS into a bastion against all communist influence in the Western Hemisphere. Both the Charter and the Rio Pact enabled the US to assume the leadership role in addressing the security concerns of the Americas.<sup>24</sup> The Charter calls for the recognition of democracy as a preferred form of government and an amicable resolution of conflicts. To this effect, the Charter of the OAS<sup>25</sup> declared the purposes of the organisation in Article 2 as being, *inter alia*, to —

- strengthen the peace and security of the continent;
- provide for common action on the part of those states in the event of aggression; and
- promote, by cooperative action, their economic, social, and cultural development.

Furthermore, the economic dimension was emphasised in Article 3 where it is stated that “[e]conomic cooperation is essential to the common welfare and prosperity of the peoples of the continent.”<sup>26</sup> The OAS also passed numerous declarations, resolutions and measures to force its member states to entrench democracy and keep the military establishment out of politics. Such measures and resolutions had not yet borne sufficient fruit by the late 1980s.<sup>27</sup> However, this situation changed following the decision taken in Santiago, Chile, in June 1991. The foreign ministers of the Americas, who gathered for the General Assembly of the OAS, adopted Resolution 1080<sup>28</sup> or the so-called the Santiago Commitment to Democracy and the Renewal of the Inter-American System. In terms of Resolution 1080, the OAS was mandated to intervene automatically in any country where there was an illegal interruption of the democratic process in the region. In fact, this resolution ensured a speedy response to disturbances in Haiti, Peru and Guatemala. It changed the moral requirement of defending democracy in any part of the region to a legal obligation that had to operate automatically. The resolution was further strengthened by the amending the Charter of the OAS through the Protocol of Washington of 14 December 1992. Article 9 of the Charter read as follows:

“A member of the Organization whose democratically constituted government has been overthrown by force may be suspended from the exercise of the right to participate in the sessions of the General Assembly, the Meeting of Consultation, the Councils of the Organization and the Specialized Conferences as well as the commissions, working groups and any other bodies established.”<sup>29</sup>

The mid-eighties saw the military governments giving way to civilian rule in South America. In Argentina, for instance, a civilian government took over in December 1983 under President Raúl Alfonsín. Having been isolated by the international community and also still recovering from the Falklands/Malvinas War, one of Alfonsín’s priorities was the reinsertion of Argentina into international affairs. The Alfonsín administration faced a dual challenge: satisfying the international community that it was genuinely democratising and also keeping the military establishment satisfied. This proved daunting, as on the one hand Argentina espoused disarmament, but, on the other, it still continued with the nuclear programmes of the previous military regimes. Even when Carlos Saúl Menem took over from Alfonsín in 1989, the situation did not improve.<sup>30</sup> Similar challenges faced Brazil as well. In Brazil, for instance, José Sarney took over as a civilian president from the military. However, during his

reign the military were still too powerful, and Sarney still found it difficult to change the developmentalist model of the military. Security was still viewed strictly in military terms and economic development was to be achieved with a view to bolstering military prowess. Thus the real democratisation phase commenced only in March 1990 with the inauguration of Fernando Collor de Mello as the President of Brazil. He introduced a market economy by liberalising trade, eliminating tariff barriers, and attempting to integrate the Brazilian economy into the global system. High on his priority list were the following aspects which later led to the formation of Mercosur: the integration of Southern Cone countries; reducing foreign debt; improving technology; and dealing with environmental issues.<sup>31</sup> With military conflicts and the role of the military in politics receding, there was an increasing need to expedite regional economic co-operation in the face of globalisation.

## 2.5 GLOBALISATION

Globalisation is arguably the most compelling factor which made the establishment of Mercosur a reality. In analysing the globalisation phenomenon, Singer<sup>32</sup> posed a question: what is it [globalisation] all about? He posits that there has been financial, economic and cultural internationalisation since at least Marco Polo's trip to the Far East. Despite limited capacity to navigate long distances, the great empires of Asia and Europe were able to maintain commercial links. By the 15<sup>th</sup> century, when the Portuguese and Spanish started with their transoceanic navigations, Africa and the Americas were already integrated into the economic system of the world — even though at primitive stages. However, with new technologies, especially in the area of communication and transportation, internationalisation underwent a qualitative change which transformed it to globalisation. This qualitative change was helped by the existence of global peace, even though peace was tense and armed. Singer further identifies globalisation in two main spheres, namely, economic and political. In the political sphere, globalisation relates to the ability of the world system to create and sustain supra-national institutions. These international governmental institutions, such as the European Parliament of the European Union (EU) and the African Parliament of the African Union (AU), should be able to determine and codify international law. It is noteworthy that political globalisation has been less successful than economic globalisation.<sup>33</sup>

In the economic sphere, globalisation seeks to widen national markets. As already indicated, this has the potential to expand or destroy national economies. Expansion of markets could

also be detrimental to the national economy, thus bringing about insecurity. It is against this background that, despite pressures of globalisation dictating otherwise, the expansion of national markets is hardly ever a purely economic matter.<sup>34</sup> It includes security issues both in the political and strategic senses. The demise of the Cold War left few global players in the economic field. The economic giants of the rich Global North sought to swallow small and unprotected markets. Most of these unprotected markets happened to be in the poor Global South. Realising that participation in the globalisation phenomenon held more advantages for nations than non-participation, developing countries had to form larger entities. While most regional entities had a very strong economic bias, their agendas gradually expanded to include political and security issues. This stemmed from the realisation that security or interdependence in one field naturally implied strengthening relations in others. The formation of regional entities, such as Mercosur, would enable states to challenge global prejudices and present a common front in international fora.

### 3. THE ESTABLISHMENT OF MERCOSUR

The origins of the Mercosur group can be traced back to the early sixties when efforts at integration in Europe in the form of European Economic Community (EEC) of 1957, threatened to exclude a large number of Latin American agricultural products. Talks were initiated for renegotiating and expanding intra-regional preferential trade agreements within the framework of the General Agreement on Trade and Tariffs (GATT). This was based on the clause of non-discriminatory trade on the basis of ‘Most Favoured Nations’ (MFN) status in GATT. Consequently, Article XXIV of GATT provided a basis for the creation of the Latin American Free Trade Association (LAFTA/ALALC) in terms of the Treaty of Montevideo of 1960. ALALC sought to establish a free trade area through removing all forms of restrictions to trade. When this could not be achieved according to schedule, the period was extended to twenty years in terms of the Caracas Protocol of 1969. However, the new target dates could also not be accomplished mainly due to two factors: economic and political harmony and co-operation had not yet been achieved in the region, and an inherent incompatibility of inward-looking economic strategies of individual countries. In addition, there were limitations with regard to relatively small market size and the continued protection of highly inefficient industrial sectors which collectively created a deficit in the region's balance of payments. Macroeconomic policies among partners were not yet harmonised and

there was also no mechanism to deal with the uneven distribution of costs and benefits of the integration process.<sup>35</sup>

As already stated, the integration process that had been initiated by the Treaty of Montevideo was once again resuscitated in 1981 through the creation of ALADI which replaced ALALC. The ALADI arrangement was in line with the GATT requirements in terms of the Enabling Clause which created preferential conditions for trade among developing countries. The ALADI Treaty sought to engender co-operation in the region by creating a Latin American common market. This was to be achieved through a regional tariff preference (that is tariff reductions for the benefit of third countries); agreements of regional scope (applicable to all members of ALADI); and agreements of partial scope (those agreements binding two or more member countries). No specific target dates were set. Bilateral and multilateral agreements were encouraged in order to foster intra-regional co-operation.<sup>36</sup> However, at the same time as the ALADI process, an important event occurred which could be regarded as the turning point in the formation of Mercosur. The long-standing rivals — Argentina and Brazil, together with Paraguay — signed a tripartite agreement. The agreement set up a mechanism that had to be used in dealing with the border water resources. This harmony at diplomatic level provided impetus to the integration process.<sup>37</sup>

The ALADI arrangement recognised the principle of ‘differential treatment’, which permitted member states to enter into agreements taking cognisance of the different levels of economic development. To this effect, three categories were identified in terms of economic performance, namely, *advanced* (e.g. Argentina, Brazil and Mexico), *intermediate* (e.g. Uruguay), and *less developed* (e.g. Paraguay).<sup>38</sup>

The integration efforts of the Montevideo arrangement fizzled out due to many factors, including the fact that some countries were still under military governments, while others were in transition to democratic rule and others were still immersed in intense hegemonic rivalries, especially between Argentina and Brazil. In addition, poor external economic conditions precipitated a crippling international debt crisis which, in turn, caused members to re-adopt protectionist policies — all to the detriment of intra-regional trade. However, as the democratisation process was apparently becoming irreversibly entrenched, the Montevideo process was revived, but with more vigour and determination. In the interim, Argentina and

Brazil signed in 1986 the so-called Program for Integration and Economic Co-operation (PICE). The primary aim of PICE was to ensure sectoral co-operation, especially in such sectors as capital goods, food, technological co-operation, and iron, steel, nuclear and auto industries. PICE helped allay the fears of potential investors in each country that their investments would be in danger. Subsequently, the two countries undertook an even more ambitious project when in November 1988 they signed the Treaty on Integration, Cooperation, and Development. With this treaty both countries sought to open up trade between themselves and to form a common market within ten years. On 6 July 1990 they signed the Act of Buenos Aires in terms of which they undertook to establish a common market by 1995. Subsequent to that an agreement called the *Acuerdo Complementario Económico* (Agreement for Economic Complementarity — ACE) was signed. ACE sought to synchronise the macroeconomic policies of the participating countries and it consolidated all bilateral agreements between Brazil and Argentina.<sup>39</sup> Consequently on 26 March 1991 the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Eastern Republic of Uruguay signed the Treaty of Asunción which established Mercosur.<sup>40</sup>

#### 4 'OPEN REGIONALISM' CONCEPT

The nature and character of Mercosur is based on the 'open regionalism' concept. In contrast to the traditional import-substituting *desarrollo hacia adentro* economic strategies of the 1960s, the 'open regionalism' concept as embodied in the Treaty of Asunción espouses an approach which portrays integration into the world economy as a mere extension of national markets. The proponents of this concept believe that not only does the qualitative aspect of services, goods and products improve but exporters get opportunities to maximise their profits. The previous economic policies were primarily inward-looking in focus, and therefore very myopic in outlook.<sup>41</sup> In 1991 countries such as Argentina, Brazil, Chile, Mexico, Peru and Venezuela started embracing trade liberalisation on an unprecedented scale. The formation of Mercosur was partly attributable to the economic realities at the time as regional economies worldwide were integrating in one way or another. But there also was a growing fear that Europe would become inward-looking and create a 'fortress Europe'.<sup>42</sup>

The relative success of the 'open regionalism' concept as applied by the Mercosur group does not imply that co-operative arrangements based on 'closed regionalism' are bound to fail. For

instance, the EU, which is based on the 'closed regionalism' concept, is extremely successful. The fundamental difference between the two concepts is that, while 'closed regionalism' as exemplified by the EU relies on creating a barrier to trade with non-members, 'open regionalism' such as that of Mercosur and the Asian Newly Industrialised Countries (NICs) — also known as the 'Asian Tigers' — seeks to establish a common approach to extra-regional commerce by opening their national markets.<sup>43</sup> Thus both models of regional integration can be successful as long as the peculiar regional characteristics are carefully analysed and a suitable model chosen.<sup>44</sup>

It was this 'open regionalism' concept which caused much apprehension and public protest from the farmers in Paraguay and Chile during the formation of Mercosur. The peasant communities (particularly maize and livestock farmers) charged that their countries would be flooded with cheap agricultural products from Argentina and Brazil, while export-orientated sectors such as wine and fresh fruit, favoured the agreement as it would enable them to penetrate the large Argentine and Brazilian markets.<sup>45</sup> However, this did not deter member states as they realised that the advantages of joining the group far outweighed the disadvantages that would only affect certain sectors of the economy.

## 5. DEFINING THE MERCOSUR GROUP

The notion of Mercosur was a direct crystallisation of the forces of integration, including ALADI, which preceded it. The member states of Mercosur undertook to establish a common market that would be responsible for *inter alia* the free movement of goods, services and factors of production between member countries; the establishment of a common external tariff (CET) and the adoption of a common trade policy in relation to third states or groups of states; co-ordination of positions in regional and international economic and commercial forums; and the co-ordination of macro-economic and sectoral policies between the states parties in the areas of, for instance, foreign trade, agriculture industry, fiscal and monetary matters.<sup>46</sup> The ultimate goal was to create a South American Free Trade Area (SAFTA) along the lines of North American Free Trade Area (NAFTA).

Membership of Mercosur was deliberately limited to the four constituent countries (Argentina, Brazil, Paraguay and Uruguay), ostensibly with a view to preventing it from

becoming too big to manage (see Map 1 below). However, a saving clause was included in order not to place it on a collision course with the regional neighbours. To this effect, Article 20 of the founding treaty — Asunción Treaty, stipulates that:

This Treaty shall be open to accession, through negotiation, by other countries members of the Latin American Integration Association. Their applications may be considered by the States Parties once this Treaty has been in force for five years. Notwithstanding the above, applications made by countries members of the Latin American Integration Association who do not belong to sub-regional integration schemes or an extraregional association may be considered before the date specified. Approval of applications shall require the unanimous decision of the States Parties.<sup>47</sup>

This left open the possibility of extra-regional countries joining the group. Thus no new member would be admitted before March 1996 if such countries participated in any other regional integration process. It is against this background that some countries in South America are at different stages of negotiating for membership. Chile and Bolivia are already associate members while Venezuela, Colombia and Peru have indicated a willingness to join Mercosur.<sup>48</sup> Bolivia, which has been an associate member since the Colonia meeting in January 1994, conducts 60 per cent of its trade with Mercosur but is also a member of the Andean Group, thus creating a legal hurdle. While Chile, which became an associate member of Mercosur on 25 June 1996, is not a member of the Andean Group, it has ratified the NAFTA agreement. Both countries attend Mercosur meetings as observers.<sup>49</sup>

Of particular interest to South Africa is the fact that Brazil, a dominant member of Mercosur, has indicated on numerous occasions its willingness to embrace other extra-regional countries in South America "as well as gradually enlarging the regional integration process to areas beyond Mercosul, according to a strategic and long term view ..."<sup>50</sup> Furthermore, the Brazilian perspective on Mercosur is that it "is not just economic in its aims; it is also a long-term political enterprise intended to help consolidate democracy ... by reducing remaining bilateral tensions."<sup>51</sup> The historical involvement of the military in politics, especially in countries now constituting Mercosur, prompted these countries to state that the primary objectives of the group were to defend democracy and maintain peace and security. To achieve this, they would strive to ensure economic development and social justice.<sup>52</sup> In this

regard, the Mercosur partners applauded Argentina's ratification of the Treaty of Tlatelolco which declares Latin America a nuclear-free zone, and also the fact that Brazil had halted its military-run nuclear research programme. These security-related successes are specifically attributable to these countries' membership of Mercosur.<sup>53</sup>

## 6. MERCOSUR'S INSTITUTIONAL FRAMEWORK AND FUNCTIONS

The founding treaty of Mercosur stated that Mercosur's institutional framework should be finalised before 31 December 1994. This framework was eventually finalised on 17 December 1994 when the Ouro Preto Protocol was signed. The Ouro Preto Protocol gave Mercosur the status of a juristic person, thus enabling it to enter into agreement with non-Mercosur member states, and provided it with an institutional structure for administration. The main organs of Mercosur are —

- the Council of the Common Market (the highest organ of Mercosur responsible for political leadership and strategic decisions);
- the Common Market Group (the executive organ of Mercosur);
- the Mercosur Trade Commission (responsible for monitoring the implementation of the common trade policy instruments);
- the Joint Parliamentary Commission (representing the parliaments of States Parties and responsible for the harmonisation of national legislations and the speeding up of the implementation of decisions taken by Mercosur organs);
- the Economic-Social Consultative Forum (representing the socio-economic sectors and responsible for providing recommendations to the Common Market Group); and
- the Mercosur Administrative Secretariat (providing operational support to the Mercosur organs).<sup>54</sup>

## Map 1: The four Mercosul Countries



Source: Adapted from De Noronha Goyos, D. 1995. "Mercosul Structures and Perspectives." *Unisa Latin American Report*, Vol. 11, No. 1, p. 18.

The institutional structure of Mercosur is geared to perform its set goals and enables Mercosur to link up relatively smoothly with other regional organisations and extra-regional states. Extra-regional states will be able to identify specific sectors of relevance and importance to them through the Mercosur Trade Commission or the Economic Social Consultative Forum (see Table 1).

**Table 1: MERCOSUR ORGANS AND THEIR FUNCTIONS**

ORGAN	FUNCTIONS
<i>Council of the Common Market (CCM)</i>	<ul style="list-style-type: none"> <li>* To supervise the implementation of the Treaty of Asunción, its protocols, and agreements signed within its context.</li> <li>* To formulate policies and promote the measures necessary to build the common market.</li> <li>* To assume the legal personality of Mercosur.</li> <li>* To negotiate and sign agreements, on behalf of Mercosur, with third countries, groups of countries and international organisations.</li> <li>* To rule on proposals submitted to it by the Common Market Group;</li> <li>* To arrange meetings of ministers and rule on agreements which those meetings refer to it.</li> <li>* To establish the organs it considers appropriate, and to modify or abolish them.</li> <li>* To clarify, when it considers necessary, the substance and scope of its decisions.</li> <li>* To appoint the Director of the Mercosur Administrative Secretariat.</li> <li>* To adopt financial and budgetary decisions.</li> <li>* To approve the rules of procedure of the Common Market Group.</li> </ul>
<i>Common Market Group (CMG)</i>	<ul style="list-style-type: none"> <li>* To monitor, within the limits of its competence, compliance with the Treaty of Asunción, its Protocols, and agreements signed within its framework.</li> <li>* To propose draft Decisions to the Council of the Common Market.</li> <li>* To take the measures necessary to enforce the Decisions adopted by the Council of the Common Market.</li> <li>* To draw up programmes of work to ensure progress towards the establishment of the common market.</li> <li>* To establish, modify or abolish organs such as working groups and special meetings for the purpose of achieving its objectives.</li> <li>* To express its views on any proposals or recommendations submitted to it by other Mercosur organs within their sphere of competence.</li> </ul>

	<ul style="list-style-type: none"> <li>* To negotiate, with the participation of representatives of all the States Parties, when expressly so delegated by the Council of the Common Market and within the limits laid down in special mandates granted for that purpose, agreements on behalf of Mercosur with third countries, groups of countries and international organisations. When so mandated, the Common Market Group shall sign the aforementioned agreements. When so authorised by the Council of the Common Market, the Common Market Group may delegate these powers to the Mercosur Trade Commission.</li> <li>* To approve the budget and the annual statement of accounts presented by the Mercosur Administrative Secretariat.</li> <li>* To adopt financial and budgetary Resolutions based on the guidelines laid down by the Council.</li> <li>* To submit its rules of procedure to the Council of the Common Market.</li> <li>* To organise the meetings of the Council of the Common Market and to prepare the reports and studies requested by the latter.</li> <li>* To choose the Director of the Mercosur Administrative Secretariat.</li> <li>* To supervise the activities of the Mercosur Administrative Secretariat.</li> <li>* To approve the rules of procedure of the Trade Commission and the Economic-Social Consultative.</li> </ul>
<i>Mercosur Trade Commission (MTC)</i>	<ul style="list-style-type: none"> <li>* To monitor the application of the common trade policy instruments both within Mercosul and with respect to third countries, international organisations and trade agreements.</li> <li>* To consider and rule upon the requests submitted by the States Parties in connection with the application of and compliance with the common external tariff and other instruments of common trade policy.</li> <li>* To follow up the application of the common trade policy instruments in the States Parties.</li> <li>* To analyse the development of the common trade policy instruments relating to the operation of the customs union and to submit Proposals in this respect to the Common Market Group.</li> <li>* To take decisions connected with the administration and application of the common external tariff and the common trade policy instruments agreed by the States Parties.</li> <li>* To report to the Common Market Group on the development and application of the common trade policy instruments, on the consideration of requests received and on the decisions taken with respect to such requests;</li> <li>* To propose to the Common Market Group new Mercosur trade and customs regulations or changes in the existing regulations.</li> <li>* To propose the revision of the tariff rates for specific items of the common external tariff, <i>inter alia</i>, in order to deal with cases relating to new</li> </ul>

	<p>production activities within Mercosur.</p> <ul style="list-style-type: none"> <li>* To set up the technical committees needed for it to perform its duties properly, and to direct and supervise their activities.</li> <li>* To perform tasks connected with the common trade policy requested by the Common Market Group.</li> <li>* To adopt rules of procedure to be submitted to the Common Market Group for approval.</li> </ul>
<i>Joint Parliamentary Commission (JPC)</i>	<ul style="list-style-type: none"> <li>* It shall endeavour to speed up the corresponding internal procedures in the States Parties in order to ensure the prompt entry into force of the decisions taken by the Mercosur organs.</li> <li>* It shall assist with the harmonisation of legislations, as required to advance the integration process.</li> <li>* When necessary, the Council shall request the Joint Parliamentary Commission to examine priority issues.</li> </ul>
<i>Economic Social Consultative Forum (ESCF)</i>	<ul style="list-style-type: none"> <li>* It has a consultative function and shall express its views in the form of Recommendations to the Common Market Group.</li> </ul>
<i>Mercosur Administrative Secretariat (MAS)</i>	<ul style="list-style-type: none"> <li>* Serves as the official archive for Mercosur documentation.</li> <li>* Publish and circulate the decisions adopted within the framework of Mercosur. In this context, it shall: <ul style="list-style-type: none"> <li>- make, in co-ordination with the States Parties, authentic translations in Spanish and Portuguese of all the decisions adopted by the organs of the Mercosur institutional structure, in accordance with the provisions of Article 39;</li> <li>- publish the Mercosur official journal.</li> </ul> </li> <li>* Organise the logistical aspects of the meetings of the Council of the Common Market, the Common Market Group and the Mercosur Trade Commission and, as far as possible, the other Mercosur organs, when those meetings are held at its headquarters. In the case of meetings held outside its headquarters, the Mercosur Administrative Secretariat shall provide support for the State in which the meeting is held.</li> <li>* Regularly inform the States Parties about the measures taken by each country to incorporate in its legal system the decisions adopted by the Mercosur organs provided for in Article 2 of this Protocol.</li> <li>* Compile national lists of arbitrators and experts, and perform other tasks defined in the Brasilia Protocol of 17 December 1991;</li> <li>* Perform tasks requested by the Council of the Common Market, the Common Market Group and the Mercosur Trade Commission;</li> <li>* Draw up its draft budget and, once this has been approved by the Common Market Group, do everything necessary to ensure its proper implementation;</li> </ul>

	* Submit its statement of accounts annually to the Common Market Group, together with a report on its activities.
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**Source:** Protocol of Ouro Preto signed by the Mercosur member states at the city of Ouro Preto, Federative Republic of Brazil, on 17 December 1994.

The economic potential provided by Mercosur is enormous (see Table 2). With a population of over 200 million, and a combined Gross Domestic Product (GDP) of over US\$1.4 trillion, partnership with Mercosur could enable countries especially in Africa to find accessible markets that are premised on almost similar recent history of political and economic developments. Even the debt burden is characteristic of developing countries. Unlike Brazil and Paraguay, both Argentina and Uruguay are heavily indebted with external debt constituting just over 40 per cent and almost 25 per cent of their GDP respectively.

**Table 2: PROFILE OF THE MERCOSUR COUNTRIES, 2000**

Country	Population size (million)*	Territorial size ('000 km <sup>2</sup> )	GDP (US\$bn)**	External Debt (US\$bn)**
Argentina	36.9	2 767	367	149
Brazil	172.9	8 512	1 057	200
Paraguay	5.6	407	19	2.7
Uruguay	3.3	177	28	8
<b>TOTAL</b>	<b>218.7</b>	<b>1 1863</b>	<b>1 471</b>	<b>359.7</b>

\* July 2000 estimate.

\*\* 1999 estimate.

**Source:** United States of America (USA) Central Intelligence Agency (CIA). 2000. *World Factbook 2000*. [www.odci.gov/cia/publications/factbook/geos](http://www.odci.gov/cia/publications/factbook/geos)

In 1990, Brazil was (and still is) by far the largest partner in the Mercosur group in all respects, followed by Argentina in a distant second place. Brazil alone accounted for 79 per cent of total population, 72 per cent of the GNP, 67 per cent of the total exports and 76 per cent of the total imports destined for the group. In the same year Brazil absorbed a third of total exports by Argentina and Paraguay, and 30 per cent by Uruguay. Thus, the continued survival of Mercosur is largely dependent on the economic, political and social stability of Brazil. It is notable that Brazil is regarded as a 'pivotal state', not only for the Mercosur partners, but also the whole world. Being the fifth most populous country in the world; its economy being the eighth largest in the world in terms of 1996 GDP figures; being regarded

as one of the ‘big emerging markets’; and its rain forests holding the greatest collection of biodiversity in the world — Brazil certainly is pivotal in ensuring global security.<sup>55</sup> Similar to the US, which has identified Brazil as being a crucial market for its products and a partner in bringing about global security, South Africa’s economic, political and security interests are served through the partnership with Mercosur.

## 7. THE PERFORMANCE OF THE MERCOSUR GROUP

Since its establishment in 1991 the Mercosur group has achieved relative success when compared with other regional groups among the developing countries, such as the ASEAN and the SADC. Much of its success as a sub-regional entity could be attributed to the following factors:

- *Small size*: It comprises only four members (Argentina, Brazil, Paraguay and Uruguay, with Bolivia and Chile as associate members).
- *High value congruence*: There is a high degree of congruence with regard to political and social values, but especially a common commitment to democracy, an aversion to kleptocracy and a shared Latin culture.
- *Common economic interests and perspectives*: The member states share a common vision and a similar perception of risks and opportunities. This is exemplified by the relative ease with which the strategy of macro-economic stabilisation or liberalisation was accepted among the member states.
- *Good personal and political relations*: There is a direct link among the heads of states and government and they also communicate quite regularly.
- *Good capacity to manage complex policy and technical issues*: Member states have adequate human resource capital and a highly trained labour force.<sup>56</sup>

Given such compatibility, there has been an astronomical increase in trade with and within Mercosur since 1985 (see Tables 3 and 4 below). While both internal trade (which more than

tripled within four years of integration) and foreign direct investment (FDI) (which has increased tenfold from 1990 to 1997) have shown substantial growth, the Mercosur group has not succeeded in making a significant mark in the world market. This could be attributed to the fact that only Brazil and Argentina have substantial export capacity. However, it remains the third largest customs union in the world after NAFTA and the EU. It could be argued that it maintains this position not necessarily because of its structure or operating procedures, but largely because other regional organisations are not even operating at 50 per cent of their potential capacity.

**Table 3: TRADE RELATIONS WITH AND WITHIN MERCOSUR**

Year Factor	1985 (US\$bn)	1990 (US\$bn)	1997 (US\$bn)
<b>Intra-regional trade</b>	1.8	4.2	Over 20
<b>Exports as % of World Trade</b>	-	1.1 %	1.7%
<b>Foreign Direct Investment</b>	-	2.6	26.6

**Source:** Mills, G. & Mutschler, C. (eds.) *Exploring South-South Dialogue: Mercosur in Latin America & SADC in Southern Africa*. Johannesburg: South African Institute of International Affairs (SAIIA), p. 5.

**Table 4: INTRA-REGIONAL TRADE WITHIN MERCOSUR, 1987 – 1994**

Year	1987	1988	1989	1990	1991	1992	1993	1994
<b>Trade (US\$bn)</b>	2 276	2 781	3 574	4 200*	5 289	7 323	10 055	13 000

\* Denotes "figure adapted from Mutschler and Mills (1999:5)"

**Source:** De Noronha Goyos, D. 1995. "MERCOSUL Structures and Perspectives." *Unisa Latin American Report*, Vol. 11, No. 1, p. 17.

**Table 5: COMPARISON OF BRAZIL'S IMPORTS FROM THE CURRENT MEMBER STATES IN 1980 WITH SPECIFIC MONTHS IN 1997**

Country	1980 (US\$m)	Month in 1997 with equivalent value
<b>Argentina</b>	756	June
<b>Paraguay</b>	91	April and May
<b>Uruguay</b>	196	January to March

**Source:** Mills, G. & Mutschler, C. (eds.) 1999. *Exploring South-South Dialogue: Mercosur in Latin America & SADC in Southern Africa*. Johannesburg: South African Institute of International Affairs (SAIIA), p. 26.

In intra-regional terms, trade volumes increased significantly as indicated in Table 4. For instance, Brazil's imports from its Mercosur partners in 1980 were achieved within a month or two in 1997 (see Table 5). Despite these achievements, Mercosur has been criticised by some observers, including the World Bank, that while intra-Mercosur trade grew, such trade came from sectors in which Mercosur members are not internationally competitive. The critics further argue that the internal free market turns Mercosur into a 'fortress' that deters its members from investing in their most efficient and internationally competitive industries.<sup>57</sup> Besides, the group still seems not immune to problems largely traceable to hegemonic rivalries of the past. For instance, Argentina and Brazil are occasionally confronting each other about issues pertaining to the design and especially interpretation and implementation of agreements. One sensitive trade area concerns the automotive industry with Argentina exporting about 30 per cent of vehicle production to Brazil while the latter exports only 7-8 per cent to the former.<sup>58</sup> Another thorny issue concerns the different exchange rate regimes between the two countries. Argentina continues to rigidly peg its currency to the US dollar, while Brazil decided in January 1999 to let its currency float and subsequently devalue it. Trade within the group fell by about 30 per cent in 1999 as Argentina reacted by restricting the influx of cheap imports from Brazil. These tensions demonstrated the inadequacy of conflict resolution and management mechanisms within the group.<sup>59</sup> Thus, Mercosur's macro-economic policies are still in a constant state of flux, but it has achieved much more stability and predictability than, for instance, within SADC.

## 8. CONCLUSION

The establishment of Mercosur, as discussed in this chapter, was a direct result of inescapable factors that are dominating the international system even today. Numerous attempts had previously been made to establish Mercosur, but all to no avail. This could be attributed to various factors, including the dominant role of the military in many South American countries and the myopic inward-looking policies of reigning regimes. With the advent of democracy in these countries, national interests and national security, as opposed to regime security, became a more inclusive process requiring national consensus. Furthermore, numerous other regional organisations had emerged, thus necessitating a review of extremely nationalist and protectionist policies which characterised most of South American governments' psyches at the time. The perennial fear of the resurgence of traditional hegemonic rivalries and sporadic

border disputes had diminished and a new democratic leadership had emerged. Thus, it could be concluded that the establishment of Mercosur or a similar organisation was inevitable.

However, the conceptualisation of Mercosur shows that it had undergone numerous iterations before it took the form that it eventually did. Unlike the EU, the constituting member states decided to pursue an ‘open regionalism’ model in spite of their vulnerability to being swamped by cheap and subsidised EU agricultural and other products. Membership was deliberately limited to four with the possibility of expansion after a certain measure of maturity had been achieved. This is contrary to the approach followed by such sub-regional organisations as SADC and ASEAN. The institutional structure was also designed in a manner that was flexible enough to allow for leeway in negotiating with extra-regional countries. However, there appears to be a weakness regarding especially conflict management and resolution mechanisms.

Since its inception, Mercosur has achieved relatively great success, particularly with regard to intra-regional trade. It is noteworthy that Brazil, and, to a lesser extent Argentina, plays a pivotal role in ensuring success of the group. As a group, Mercosur presents an incredibly large export market and an ideal strategic partner for South Africa’s quest for especially human security for all in the SADC sub-region. As was indicated in the previous chapter, human security is premised on the satisfaction of basic human needs, protection of human rights and the centrality of individuals (or citizens) in the government’s national security equation.

As will be seen in the next chapter on the socio-economic aspects of security regarding South Africa’s relations with the Mercosur countries, the primary objective of most of the post-Cold War collaborative efforts are geared towards ensuring favourable economic development and mutual trade enhancement. The basis for this approach is the maximisation of socio-economic benefits accruing to co-operating states and the minimisation of potential risks that could dampen investor confidence. With the demise of the bipolarity in world politics which characterised the post-WW II international system, states, including South Africa, pursue trade relations at both bilateral and multilateral levels. A sectoral approach to security — military, economic, political, environmental — as identified by Buzan, necessitates complementing multilateral arrangements with bilateral ones.

In analysing the rationale and feasibility of co-operation on socio-economic issues between South Africa and the Mercosur countries, the next chapter looks at the quest for human security as predicated on development and freedom from fear of hunger, violence, environmental degradation and nuclear disasters of cataclysmic proportions. To achieve all these, South Africa has to engage its neighbours across the Atlantic Ocean, not so much with a view to ensuring national security in its Westphalian sense, but as a concerted effort aimed at achieving human security as well.

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- <sup>4</sup> Calvert, P. *op cit*, pp. 54-55.
- <sup>5</sup> *Ibid.* pp. 43, 55.
- <sup>6</sup> Kegley, C.W. and Wittkopf, E.R. 1993. *World Politics: Trends and Transformation*. New York: St. Martin's Press, pp. 180-181.
- <sup>7</sup> LATFA/ALALC consisted of Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay. Bolivia and Venezuela joined the association in 1966 and 1967 respectively.
- <sup>8</sup> Calvert, P. *op cit*, p. 24.
- <sup>9</sup> The Council of Arab Economic Unity members are Iraq, Jordan, Kuwait, Libya, Mauritania, the Palestine Liberation Organisation (PLO), Somalia, Sudan, Syria, the United Arab Emirates, and Yemen.
- <sup>10</sup> The ASEAN members are Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.
- <sup>11</sup> CARICOM members were: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.
- <sup>12</sup> ECOWAS members are: Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo.
- <sup>13</sup> Calvert, P. *op cit*, p. 24.
- <sup>14</sup> SADCC members were: Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe.
- <sup>15</sup> ALADI members are: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.
- <sup>16</sup> [www.iadb.org/int/intpub/nota/aladi.htm](http://www.iadb.org/int/intpub/nota/aladi.htm).
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