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Pamela Bernarda Torres Castillo

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Thèse de doctorat en Sciences Politiques

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**European Union and South America's inter-regional relations**

A comparative analysis of the *factors, motivations and bargaining power* of two small states within the EU-Mercosur and EU-Andean Trade Agreements

Thèse dirigée par Olivier DABÈNE, Professeur des Universités (Sciences Po/CERI) et Carlos QUENAN, Professeur des Universités (IHEAL-CREDA)

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## **Relations interrégionales entre l'Union européenne et l'Amérique du Sud**

Une analyse comparative des facteurs, des motivations et du pouvoir de négociation de deux petits États dans le cadre des accords commerciaux UE-MERCOSUR et UE-CAN

### **Résumé**

Qu'est-ce qui motive les petits États à s'engager dans des trajectoires interrégionales institutionnalisées ? C'est l'une des questions centrales de cette recherche. Pour y répondre, elle interroge la capacité des petits États à prendre toute leur place dans les négociations et trajectoires interrégionales. Cette étude explore pour cela les facteurs (influent et externes), les motivations et les sources de pouvoir de négociation qui ont conduit deux petits États tels que l'Équateur - dans le cadre de l'accord commercial multipartite (MTA) entre la Communauté andine (CAN) et l'Union Européenne (UE), et l'Uruguay - dans le cadre de l'accord de libre-échange (ALE) entre le MERCOSUR et l'Union Européenne (UE), à signer des accords commerciaux avec un acteur en position hégémonique. En s'appuyant sur les approches traditionnelles de l'interrégionalisme et en s'intéressant aux actions entreprises par des acteurs sous-régionaux pour négocier des accords commerciaux et institutionnaliser leurs relations, cette étude contribue à la recherche sur les États de petite taille (« smallness » en anglais) et ouvre le débat sur les relations entre les régions. En effet, l'analyse des résultats empiriques obtenus soutient l'existence d'un rapport de causalité positif entre l'interrégionalisme et les États de petite taille qui renouvelle la compréhension de ces deux domaines d'étude en les mettant en relation. Si cette étude suggère que les petits États s'engagent dans des trajectoires interrégionales en visant d'abord des bénéfices en terme de ressources matérielles (ouverture des marchés), elle souligne aussi l'importance que leurs rôles inter-subjectifs prend dans leur spectre de motivations. Enfin, elle constate que les petits États sont des acteurs capables d'influencer sensiblement le résultat final des faits institutionnels en suivant différentes voies interrégionales.

**Mots clés** : petite taille des États, interrégionalisme, pouvoir de négociation, capacité d'action en propre, Communauté andine, MERCOSUR, Union européenne, latéralismes ou formes de gouvernance, OMC.

## **European Union and South America's inter-regional relations.**

A comparative analysis of the factors, motivations and bargaining power of two small states within the EU-Mercosur and EU-Andean Trade Agreements

### **Abstract**

This research analyses the inter-regional trajectories of two small states in order to shed light upon one central question: What motivates small states to engage in institutionalized inter-regional trajectories? It therefore explores the factors (influencing and external), motivations and sources of bargaining power which have prompted small states such as Ecuador – within the Multiparty Trade Agreement (MTA) between the Andean Community (CAN) and the EU; as well as Uruguay within the Free Trade Agreement (FTA) between MERCOSUR and Europe – to sign hegemon-based agreements. Accordingly, this research contributes to the study of smallness and opens up the debate on the relations between regions by scrutinizing the traditional approaches of inter-regionalism and acknowledging actions carried out by sub-regional players to conclude agreements and institutionalize relations. In fact, this study's empirical evidence supports the existence of a positive causal mechanism between inter-regionalism and smallness. Consequently, it delivers a broader comprehension of the interconnections between these two areas of research and provides an analytical contribution to its research agenda. That said, it recognizes that small states engage in institutionalized inter-regional trajectories moved by material and subjective means, in other words, certainly by market access but also by their inter-subjective roles. Finally, it endorses that small states can influence the ultimate outcome of institutional facts following different inter-regional paths.

**Keywords :** Smallness, inter-regionalism, bargaining power, creative agency, pragmatism, CAN, MERCOSUR, EU, lateralisms, WTO.

*To Emilio Lucien*

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The idea to initiate an academic career started back in Quito, firstly, while working as a Trade Analyst at the Secretariat for Planning and Development (Senplades), where I realized the lack of understanding about small states and the issues they confront in trade negotiations. Accordingly, as I had the opportunity to lecture at Universidad de las Americas back in 2012, I was surprised by the pleasant experience of interacting with students and the academic world. Yet, the topic of this research responds to my commitment as a citizen of a small state - which succeeded in temporarily *tying up Gulliver* -, in the search for greater autonomy in its foreign and trade policies.

As I had the wonderful chance to travel and establish myself in France, I have encountered several challenges and opportunities, one of the hardest ones has been to finish this dissertation while not being a financed student. Yet, being confronted to a new academic culture has nurtured my mental structuring. Throughout these PhD years, I definitely owe a lot to my two directors, Professors Olivier Dabène and Carlos Quenan, both have generously and patiently guide my learning process and accompanied the intellectual fluctuations I experienced to finally come up with a decent research project.

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## Acronyms and Abbreviations

<i>Actores de la Economía Popular y Solidaria</i>	
Popular and Solidarity Economy Stakeholders	AEPYS
African, Caribbean and Pacific Group of States	ACP
Agreement on Government Procurement	GPA
Asia-Pacific Economic Cooperation	APEC
Agreement on Trade-Related	
Aspects of Intellectual Property Rights	TRIPS
Bolivarian Alliance for the Peoples of our America	ALBA
Brazil -Russia -India -China-South Africa	BRICS
Common External Tariff	CET
Comprehensive Economic Trade Agreement	CETA
<i>Comunidad Andina - Andean Community</i>	CAN
<i>Comunidad de Estados Latinoamericanos y del Caribe –</i>	
Community of Latin American and Caribbean States	CELAC
Economic Commission for Latin America and the Caribbean	ECLAC
Economic Partnership Agreement	EPA
<i>Federación Ecuatoriana de Exportadores –</i>	
Ecuadorian Federation of Exporters	FEDEXPOR
European Coal and Steel Sectors community	ECSC
European Implementation Assessment	EIA
European Parliament	EP
European Union	EU
Foreign Direct Investment	FDI
Foreign Trade Committee	COMEX
Free Trade Agreement of the Americas	FTAA
Free Trade Agreement	FTA
General Agreement on Tariffs and Trade	GATT
General Agreement on Trade in Services	GATS
Generalized System of Preferences	GSP

Genetically Modified Organisms	GMO
Geographical Indications	GIs
Global System of Trade Preferences	GSTP
Gross Domestic Product	GDP
Human Development Index	HDI
Intellectual Property Rights	IPR
International Monetary Fund	IMF
International Political Economy	IPE
International Relations	IR
Latin America and the Caribbean	LAC
Least Developed Countries	LDC
<i>Ley Orgánica del Sistema Nacional de Contratación Pública –</i>	
Organic Act of the National Public Procurement System	LOSNCP
Market Power Europe	MPE
<i>Ministerio de Relaciones Exteriores, Comercio e Integración–</i>	
Ministry of Foreign Affairs, Trade and Integration	MRECI
<i>Ministerio de Economía y Finanzas –</i>	
Ministry of Economy and Finance	MEF
Multiparty Trade Agreement	MTA
Normative Power Europe	NPE
Non-Aligned Movement	NAM
Qualified Majority Voting	QMV
Regional Trade Agreements	RTA
Regional Comprehensive Economic Partnership	RCEP
Sanitary and Phytosanitary Measures	SPS
<i>Secretaría Nacional de Planificación y Desarrollo–</i>	
Secretariat for Planning and Development	SENPLADES
Small and Medium Sized Enterprises	SME
Special and Differential Treatment	SDT
Transatlantic Trade and Investment Partnership	TIPP
Trans-Pacific Partnership	TPP

Treaty of functioning of the EU	TFEU
<i>Unión de Naciones Sudamericanas –</i>	
Union of South American Nations	UNASUR
United Nations Conference on Trade and Development	UNCTAD
United States of America	US
World Bank	WB
World Trade Organization	WTO

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*“If Lilliputians can tie up Gulliver,  
or make him do their fighting for them,  
they must be studied as carefully as the giant.”*

Keohane (1969: 310)

## **Introduction**

What motivates small-states to engage in institutionalized inter-regional trajectories? This is one of the central questions this research seeks to uncover. Delving into the actorness of small states as critical players with agency capacities within inter-regional negotiations is part of this endeavor. Moreover, undertaking an academic effort to contribute to the study of small states manifests the commitment I have as a citizen of a small state - which succeeded in temporarily *tying up Gulliver* -, in the search for greater autonomy in its foreign and trade policies. Secondly, I attempt to open up the debate on the relations between regions, by scrutinizing the traditional approaches to inter-regionalism and acknowledging actions carried out by regions to conclude agreements and institutionalize relations. Consequently, this research recognizes that inter-regionalism between South American regional blocs with the European Union (EU) has yet to be explored, as opposed to comparative regionalism in Latin America, which in the recent decades has been subject to extensive academic debate among scholars (Briceño Ruiz, 2001, 2006; Dabène, 2009; Mace Gordon et al., 2016; Motta Veiga & Ríos, 2007; Riggirozzi & Tussie, 2012).

On the one hand, inter-regionalism between the EU and South America, largely inspired by the multilateral trading system, has prompted the signature of Association Agreements, Free Trade Agreements (FTAs) or Multiparty Trade Agreements (MTAs). The latter is a result of intra-regional fragmentations demanding recognition of asymmetries. However, those demands have not necessarily been translated into the application of a special and more favorable treatment within what are also asymmetrical trade negotiations. This has implications for the assumption that trade agreements are tools for the economic and social development of smaller trade partners (Rodrik, 2018), resulting in public concerns about the consequences of those deals and the distribution of its benefits (Leblond & Viju-Miljusevic, 2019; Meunier & Csezana, 2019). Within these dynamics,

some influential and external factors have shaped inter-regional trajectories in different ways and to different degrees, resulting in particular outcomes. I therefore seek to examine what the EU-South America asymmetrical relation implies in terms of the motivations of small states to pursue an inter-regional negotiation and to what extent small states have bargaining power to influence inter-regionalism and its outcomes.

On the other hand, smallness is an area of research that has been studied through the lens of different schools of thought (Bishop, 2012; Briguglio, et al., 2010, 2007; Cooper A. F. and Shaw, 2009; East, 1973; Ingebritsen et al. 2006; Keohane, 1969; Katzenstein, 1985-2006; Lee & Smith, 2010; Ingebritsen et al. 2006; Briguglio, et al., 2010; 2007; Cooper A. F. and Shaw, 2009; Maas, 2009; Rothstein, 1968; Vital, 1967) and therefore has gravitated with conceptual shifts over time. Yet the qualitative criteria used to categorize smallness in different settings has not evolved significantly and has even been misleading. In fact, the narratives of early studies on small states have emphasized *vulnerability* and *resilience* as the two notions that most commonly illustrate them (Briguglio, 2007; Briguglio et al., 2010). That said, a far-reaching conceptualization of small states brings windows of opportunity to contribute to the elaboration of renewed prospects for the smallness debate. This renewed approach can take them beyond being mere “empty vessels” following Smith et al. (2005), but as active international policy-makers. I posit that it is through enhanced agency, pragmatism, and other inter-subjective dimensions that small states can transform into being active actors within inter-regional trajectories. In fact, recognizing that Ecuador has *aggressive* economic sectors and that it should not be automatically downsized as a small state was the first challenge I faced during fieldwork. This experience permitted me to flesh out the terms of this investigation with greater wariness. Similarly, acknowledging that Uruguay has a territorial surface similar to the size of two European states<sup>1</sup>, incited my interest in disentangling smallness from its conventional prerogatives (See Appendix 2.A).

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<sup>1</sup> Belgium and England can fit inside Uruguay’s territorial surface. Caetano raises this fact, evoked by Gilbert Perret, a priest of the Congregation of the *Sagrada Familia*, who arrived in Uruguay from France in 1897. He made this proposal in one of his main school manuals, *Ensayo de Historia Patria*, willing to evoke that smallness should be anchored in scale and based on comparison (Caetano, 2019, pp.14-16). In other words, it was a way to contextualize Uruguay’s size.

I therefore explore the *factors, motivations* and sources of *bargaining power* which have prompted small states such as Ecuador – within the MTA between the Andean Community (CAN) and the EU; as well as Uruguay within the FTA between MERCOSUR and Europe – to sign *hegemon-based* agreements<sup>2</sup>.

In doing so, this research aims to cover the inter-regional negotiation processes of both of the abovementioned South American sub-regional blocs with the EU, which are part of the dynamics of institutionalized inter-regional trajectories determined by divergent interests between the two regional schemes. I will be conducting a comparative study between two case studies, building upon distinctive aspects of different research streams: International Political Economy (IPE), International Relations (IR), Development studies, and Constructivism. This will allow me to shed light upon the smallness debate, in addition to undertaking a theoretical discussion on inter-regionalism.

That said, this research expands on conceptual and empirical findings of inter-regionalism and smallness through the analysis of the inter-regional trajectories in which two presumed small-states were involved within their own sub-regional schemes, CAN and Mercosur, as well as within two inter-regional negotiation processes, the MTA and the FTA with the EU. It focuses on the long-lasting and complex processes of negotiation rather than on the *a posteriori* economic impact of the agreements themselves. In fact, the empirical evidence supports the existence of a positive causal mechanism between inter-regionalism and smallness. Consequently, it delivers a broader comprehension of the two small states' *motivations* and sources of *bargaining power* they exercised within an institutionalized inter-regional relation.

Finally, this study offers a deeper reading on both inter-regionalism and smallness research agendas. Although there is significant literature that inquires into both variables (Aggarwal & Fogarty, 2004; Briguglio, 2003; Cooper A. F. and Shaw, 2009; East, 1973, 2010; Hänggi, 2000; Ingebritsen et al. 2006; Katzenstein, 1985-2006; Roloff, 2005; Söderbaum & Van Langhenove,

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<sup>2</sup> This term has been discussed by some of the supporters of the *hegemony-based* theory (Gilping, 1987; Keohane, 1984; Kindleberger, 1981; Krasner, 1976) who emphasize the role of a hegemonic state in the creation and maintenance of open international trade and monetary regimes.

2005; Vital, 1967, 1971), the inter-connections between them have not been assessed by scholars. Additionally, I posit that there are some smallness categories that become apparent only in the framework of an inter-regional relation. Therefore, there are windows of opportunity to foster the debate on small states' motivations to entertain inter-regional negotiations and to influence their ultimate outcome. At the same time, these prerogatives provide greater prospects about some smallness dimensions identified throughout this research such as creative agency, great-issue specific power, ideology of social partnership, pragmatism, autonomy, among others. As Long sustains "it is not the size that counts, it is the relationship between states" (2017, p.3). Whereas other voices have "shifted the focus from the power that states possess to the power they exercise" (Steinmetz & Wivel, 2010, p.7). These are signs that foresee a change in the future of smallness studies, one based on their agential capacities.

#### **a) Overview of South America's geopolitical race**

The following overview provides some elements that bring light to this research. The geopolitical and geo-economic race in South America seems to have played a contextual factor in the South American inter-regional trajectory with the EU<sup>3</sup>. The changing global patterns of trade and investment, together with the combination of international, regional, and domestic power asymmetries, among other factors discussed in Chapters 3 and 4, have shaped those inter-regional trajectories. Therefore, inter-regionalism between the EU and South America cannot be conceived away from this geopolitical setting. In this respect, I hereby examine the United States (US) and China's state of affairs and what their presence has implied for the EU's inter-regional strategy.

##### **i. The United States: the EU's long-standing competitor**

According to Higgott (1991), the EU, by being the leading counterpart within inter-regionalism with South America, needs political support to sustain its influence and leadership in a trade-based relationship. Consequently, its hegemonic role depends on the capacity to impact the world system, as compared to its most fierce competitors, the US (Sbragia, 2010) and China. In fact, the race against these competitors obliged the EU to reconsider its strategy of external relations and

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<sup>3</sup> Following Sbragia (2010), several factors could explain the EU's material incentives to choose an inter-regional dynamic, notably the economic and geopolitical competition between the EU and the US in what concerns trade relations.

presents itself as one of the motivations to advance with the subscription of trade agreements in a more flexible manner<sup>4</sup>. Already in 2003, as the Free Trade Agreement of the Americas (FTAA) process failed, trade negotiations in a *hub and spoke* basis with the US proliferated. This shift enabled the US to leverage its interests in its favor and to secure a regulatory influence, rooted on a bilateral basis (Phillips, 2005).

In line with a realist perspective which Aggarwal and Fogarty uphold, the EU uses its foreign policy to disseminate its economic and political clout. It is manifest that for the EU, this could be attained through an inter-regional commercial strategy, based on the diffusion of norms, by dictating the terms of institutionalized relationships (Aggarwal & Fogarty, 2005, p.337), and attempting to export its model of integration (Börzel & Risse, 2012; Meunier & Nicolaidis, 2006; Wintgens, 2018; Young & Peterson, 2006). That said, South American states may have been the means to attain this strategy. As Aggarwal and Fogarty (2005) contend, the launching of Europe's trade negotiations with South American blocs could be considered a reaction against American trade prospects in the region.

## **ii. Europe is the past, China is the future**

China's presence globally has considerably increased in the past 15 to 20 years. According to the Economic Commission for Latin America and the Caribbean (ECLAC, 2016), despite a slight setback, China continues to be the fastest growing economy worldwide. In terms of trade flows, in the period between 2000 and 2011, it became the fiercest competitor in many regions. In succeeding years however, exchanges slowed down sharply, mainly due to a decrease of the economic activity in both China and in the Latin American region<sup>5</sup> and due to the end of the *commodities super-cycle* (ECLAC, 2016, p. 6). Yet the Asian giant has attained an important place

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<sup>4</sup> Heron recalls Gruber (2001) in order to explain this phenomenon as a competitive approach of "bandwagoning", that is, the fear of being marginalized make states pursue FTAs even if preferring the status quo (2011, p.335). I make a parallel comparison with the fact that the EU, for this fear of being marginalized, became open to flexibilities that made them undertake changes in their governance forms (switching from pure inter-regionalism to mixed).

<sup>5</sup> It should be considered that a growing trade deficit with China is due also to the growing negative balance with Mexico and with Central America which is explained by the high trade dependence these two partners have with the US.

as a foreign investor in the region, albeit without deploying more significant investment amounts than those of the US and some EU states<sup>6</sup>.

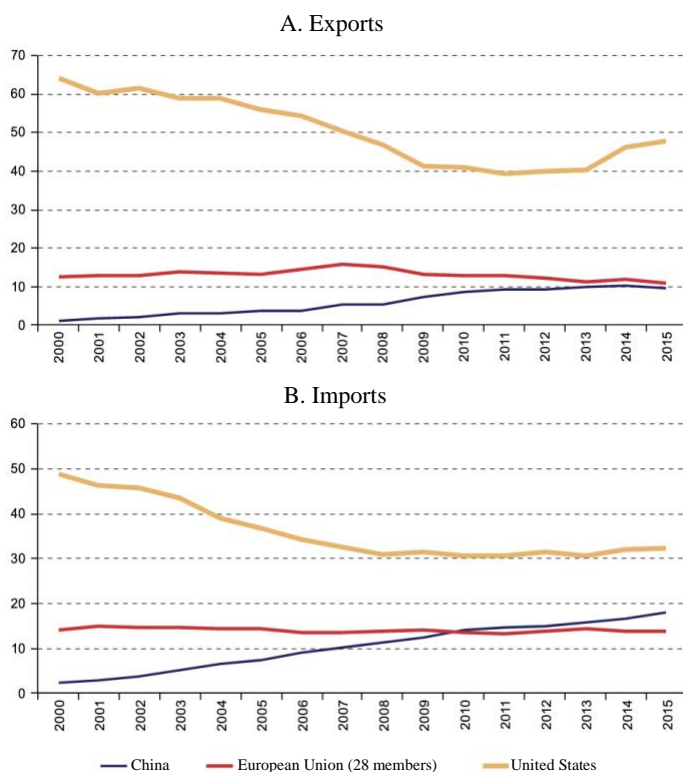
Notwithstanding the loss of dynamism in bilateral trade with Latin America, in 2014 China slightly displaced the EU as the region's second largest trading partner. The following figures demonstrate this: in 15 years (2000-2015) China's share in regional exports rose from 1% to 10%, while its import share increased from 2% to 18%. Whereas the figures for the EU's trade share in Latin America have remained at around 10% of participation in both exports and imports (ECLAC, 2016, p.22). See figure 1 below.

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<sup>6</sup> According to ECLAC estimates, prior to 2010, China's investments in the region accounted to 7 billion USD. In 2010 alone, the flow of Chinese FDI doubled, reaching 14 billion USD, which is the equivalent of 11% of the total FDI received by the region in that year. In 2015, China was positioned as the fifth country with the largest investment amounts announced in Latin America and the Caribbean, after the US, Spain, France and Japan. See Comisión Económica para América Latina y el Caribe – CEPAL, (2016) Relaciones económicas entre América Latina y el Caribe y China: oportunidades y desafíos. p.42 Santiago- Chile, [https://repositorio.cepal.org/bitstream/handle/11362/40743/1/S1601155\\_es.pdf](https://repositorio.cepal.org/bitstream/handle/11362/40743/1/S1601155_es.pdf)



**Figure 1. Latin America: participation of trade in goods 2000-2015**



Source: ECLAC 2016 based on UNCOMTRADE

Aside from this data, other factors need to be considered. Namely, cooperation flows between China and the Community of Latin American and Caribbean States (CELAC), which have become close whose relationship seeks to diversify Latin America’s exports and contribute to a transfer of knowledge and to adding value to the region’s exports<sup>7</sup>. Along the same lines, as Oviedo suggests, China plays a role in the economic upgrading of at least three Mercosur countries, namely Argentina, Paraguay, and Uruguay (Oviedo, 2020, as cited in Bernal-Meza & Xing, 2020, p.194). Moreover, considering the broad geopolitical sphere of trade and cooperation agreements, Western

<sup>7</sup>According to the ECLAC’s report, cooperation with China will contribute to the region’s infrastructure and logistics, while stimulating the intra-regional trade and value chains (2016, p.5). This means that China will continue to increase their presence in the region, potentially at the expense of other regions. In other words, China could get ahead of its main competitors, the US and the EU.

states “have fear of China”<sup>8</sup>. The reasons for this fear are broad, from the Belt and Road Initiative to the RCEP Agreement<sup>9</sup>, both of which are part of China’s 13th Five-Year Plan (2016-2020)<sup>10</sup>. Furthermore, in the midst of the COVID-19 pandemic, China has deployed a global vaccine diplomacy and cooperated extensively in the Latin American region, whilst Latin American governments either made their voices heard in international fora or made use of their strategic partnerships with China to secure access to vaccines<sup>11</sup>. It is evident that the geopolitical purpose regarding China’s growing presence in this region is to achieve an enhanced diplomatic recognition (Rodríguez, 2008 as cited in Telias & Urdinez, 2021), which could have influenced competitors’ decisions to further and maintain cooperation with this region.

Many voices sustain that the reconfiguration of these global forces have shaped the agenda of trade negotiations (Bartesaghi, 2013, 2019; Quenan & Romero, 2018; Sanahuja & Rodriguez, 2019; Valle, 2010;). Interestingly enough, at the time of writing, both Ecuador and Uruguay were willing to initiate trade negotiations with China, which confirms some of the narratives raised in my fieldwork, as one of the Uruguayan political stakeholder interlocutors suggests: “Europe is the past and China is the future, that is the reality”<sup>12</sup>. Similarly, “the Silk Road, the Pacific Alliance, all of those have contributed to strengthening the will to advance with the EU agreement”<sup>13</sup>.

Accordingly, the EU has been credited a normative preference towards inter-regionalism (see discussion in Chapter 2). In fact, the most classic approach considers the EU is a reference for the attempts at economic regionalism, standing out as an alternative model to other *hegemon-based-*

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<sup>8</sup> Following Urdinez et al. (2016), there is an inverse relationship between Chinese investments, bank loans, and manufacturing exports to Latin America and the US’ political influence in this region, which denotes China’s economic expansionism and an increased fear towards this competitor.

<sup>9</sup> The Comprehensive Regional Economic Association (RCEP) Agreement, subscribed in November 2020, seeks to establish a large free trade area made up of Australia, China, India, Japan, New Zealand, the Republic of Korea, and the ten member countries of the Association of Southeast Asian Nations (ASEAN). Its mandate is broad, spanning new issues related to trade such as electronic commerce, value chains, environment and climate change, labour standards, and gender (ECLAC, 2016, p.16).

<sup>10</sup> Adopted in 2016 by the People’s National Assembly of China, a white paper that addresses a number of initiatives to promote international trade and China’s participation in the governance of globalization (Aglietta & Bai, 2016).

<sup>11</sup> See Mowla & Zhang (2021), “Latin America and the Caribbean’s Asymmetrical Engagement with China during the COVID-19 Pandemic”. Georgetown Journal of International Affairs. Retrieved from <https://gjia.georgetown.edu/2022/01/18/latin-america-and-the-caribbeans-asymmetrical-engagement-with-china-during-the-covid-19-pandemic/> accessed March 03 2022

<sup>12</sup> Fieldwork carnet, March 5, 2020.

<sup>13</sup> Fieldwork carnet, June 3, 2020.

*agreements* (Grugel, 2004; Higgott, 2005, 2007 in Börzel & Risse, 2015, p.55). That said, both the Mercosur and Andean CAN agreements with the EU fall within a political-strategic turn that allows them to face the increasing confrontations between the EU's global competitors.

To summarize, this geopolitical race was enshrined as an external factor shaping the EU-South American inter-regional relation, that is, the imperative need to subscribe to trade deals, which in the case of CAN gravitated from an Association Agreement to a FTA to a MTA and from pure, to hybrid, to mixed forms of inter-regionalism. In the case of EU-Mercosur, it remained as pure inter-regionalism, with recent threats of rupture. The presence of the US and China hereby impacted the EU's pure inter-regional strategy, one traditionally prompted by the EU Commission, playing as an external and contextual factor that changed the nature of the EU-South American inter-regional relation. That is, as a variable that potentially affected the agreement's outcome.

## **b) Research design**

This research has a descriptive and explanatory function of two causal relationships. It follows a rigorous procedure of devising research questions, constructing hypotheses (Ralston, 2011, p.85), selecting a methodology, and employing empirical data collected in fieldwork (35 semi-structured interviews) in order to understand the interactions among a set of dependent, independent, and explanatory variables. In fact, the interest of a case study research is finding the conditions under which particular outcomes occur, as well as the mechanisms through which they happen.

The dependent variables under investigation are i) the dynamics of institutionalized inter-regional trajectories between the EU and South American partners, and ii) the production of effects of the two inter-regional trade agreements. As far as the values of the dependent variable are concerned these can be either (1) outcome alteration or (0) no alteration.

Conversely, the independent variables are the two small-states' motivations and their bargaining power (also framed as influential factors) that affected the EU- South American inter-regional trajectories. Finally, the explanatory variables, which affect the dependent variable and potentially alter the outcome of this study, are (a) the external factors (South America's geopolitical and geo-

economic race), and (b) the changing nature of inter-regional relations (pure to mixed inter-regionalism).

Finally, this investigation attempts to bridge the gap between the study of smallness and inter-regionalism. In doing so, I conduct a comparative case study analysis informed by a theoretical framework of IPE, Development studies, IR, Constructivism, and Inter-regionalism, to understand the interplay of small states' influential factors (motivations and bargaining power), with the effects and outcomes within an institutionalized inter-regional trajectory. Therefore, it pursues a two-fold objective: to evaluate the two South America –EU inter-regional negotiation processes in order to pinpoint the lessons from one sub-regional bloc to the other; and to contribute to a renewed conceptualization of small-states.

### **Research questions and hypotheses:**

This work deals with small states' inter-regional dynamics with the EU, addressing the following research questions (RQ) and hypotheses. Some of these RQ lead to sub-questions, which are addressed throughout the chapters.

**RQ1** → What motivates small states to engage in institutionalized inter-regional trajectories?

**H1** → Despite asymmetrical EU-South American inter-regional relations, small states engage in institutionalized inter-regional negotiations where they expect to pursue their motivations and increase their bargaining power with the aim of altering the ultimate outcome in their favor. Certain smallness conditions play as influential factors in this regard.

**RQ2** → What are the sources of the EU's external relations? What type of inter-regionalism was grounded between the EU with CAN and with MERCOSUR respectively?

**H2** → The inter-regional dynamics between the EU and the two South American blocs have sometimes overlooked European or multilateral regulations (SDT recognition) and have been disrupted by external factors. Consequently, the EU's trade strategies have fluctuated between normative and market power, and between different forms of *lateralisms*, as a means to maximize its influence in the South American region and on a global stage.

**RQ3** → To what extent do small-states have bargaining power within an institutionalized inter-regional relation?

**H3**→ Nurtured by their smallness conditions, small states have shaped their fixed preferences, fragmenting the inter-regional model between the EU and South American blocs. Influential factors, prompted by political and socio-economic representations, have triggered different degrees of real influence in order for inter-regional negotiations to prosper and conclude. Yet they have not automatically turned them into institutional facts.

I answer these questions by examining what the asymmetrical relations of the EU with South America imply in terms of the motivations of small states to pursue an inter-regional negotiation and to what extent small states have bargaining power to influence inter-regionalism and its outcome. I recognize *bargaining power and motivations* as influential factors and I contrast them with other *external factors*, which provide a context to shed light upon the institutionalized inter-regional trajectories.

### **c) Methodology**

This study is based on a comparative method of two inter-regional trajectories between South American blocs and the EU. It is based on a small-N case oriented analysis (Brady & Collier, 2010; Collier, 1993 in Finifter, ed.; Della Porta & Keating, 2008), where the goal is to discover contrasts, similarities, or patterns across the cases to ultimately test and confirm the hypotheses (Mills et al., 2010) about the external factors, motivations, and bargaining power of these two inter-regional trajectories. This undertaking should allow us to broaden the understanding of smallness and inter-regionalism as two interconnected phenomena.

In order to compare and contrast, the case study selection is inspired by the method of agreement *Most Different System Design* (MDSD) (J.S. Mills, 1843), which compares cases that do not share common features apart from the political outcome as well as a few explanatory factors seen to be important for the explanation of that outcome (Landman et al., 2003, p.29). The ultimate aim is to extract the key elements that are different and that account for variance in the observed results.

Although my cases also show some similar conditions, which differed in being sufficient to alter the outcome (See Chapter 5) according to Mahoney, Kimball, and Koivu (2008).

In doing so, this study undertakes a causal mechanism analysis (Mahoney, 2008) to observe the existence of a social phenomenon based on a series of variables and interactions among explanatory factors<sup>14</sup> (Hall, 2003), which when activated generates an “outcome of interest” (Mahoney, 2008). Table 1 below shows some characteristics my cases share, as well as the different features they depict which explain variance in the outcome.

As George and Bennet sustain, case studies are useful to explore the aspects of causality. One advantage of undertaking this type of study lies in the possibility to accommodate complex causal relations (2005) according to research needs. In fact, this research results in *multifinality*, in which a similar condition (smallness) results in multiple pathways that lead to the presence of an outcome to be explained (2005).

That said, Ecuador and Uruguay present differences as units of analysis while having common observations (they are two small-states participating in asymmetrical inter-regional negotiations with the EU and within each of their sub-regional blocs- CAN and Mercosur), which at the same time favors the difference of outcome. In Ecuador’s case the outcome was an institutional fact subscribed through a Protocol of Accession (breaking pure inter-regionalism and relying in a multiparty basis); in the case of Uruguay the outcome was a concluded agreement with a pending ratification (potentially breaking pure- inter-regionalism)<sup>15</sup>. The following table reviews some conditions (either similar or different) of the two case studies, while underlining the outcome to be explained.

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<sup>14</sup> Yet, George and Bennet (2005) argue that a causal mechanism may be necessary, but not sufficient, in an explanation. To overcome this, one should rely on Humphrey’s aleatory theory of explanation (1981), where effects are brought about by groups of mechanisms, some of which contribute to the effect and some of which may operate to counteract the effect or reduce its magnitude.

<sup>15</sup> A caveat: this observation should be considered predictive without being a definitive outcome. That said, the reader must note that it is often more appropriate to settle for a defensible claim that the presence of a variable favors an outcome, which may or may not be a necessary condition to alter an outcome. In this case, the pending ratification could favor the break-up of pure-inter-regionalism.

**Table 1. Explaining variance through selected conditions**

<b>Conditions</b>	<b>Ecuador</b>	<b>Uruguay</b>
<b>Smallness</b> (selected categories)	<p>Dependent on agro-industrial exports</p> <p>Economically vulnerable member within open-regionalism schemes (CAN)</p>	<p>Dependent on agro-industrial exports</p> <p>Economically vulnerable member within open-regionalism schemes (MERCOSUR)</p>
<b>Inter-regional negotiations</b>	<p>Asymmetrical</p> <p>Bloc- to-bloc basis and Multiparty negotiations</p>	<p>Asymmetrical</p> <p>Bloc-to bloc basis</p>
<b>External factors</b> (China and US geopolitical race)	<p>Influenced by competitors (CAN members count with FTAs with US)</p> <p>Noncompliance of CAN's Decision 598</p> <p>Ecuador – China current trade negotiations (bilateral basis)</p>	<p>Influenced by competitors (but no FTA with US)</p> <p>Negotiations in a bloc to bloc manner by virtue of Decision 32/00</p> <p>Uruguay– China trade rapprochement (bilateral basis)</p>
<b>Regional organization's membership and trajectory</b>	<p>Ecuador abandoned inter-regional negotiations with the EU and subsequently requested accession to the CAN -EU MTA</p> <p>CAN international insertion strategy has been more efficient.</p> <p>No structural differences among members.</p> <p>Sub-regional fragmentation</p>	<p>Uruguay's political leadership supports Mercosur but also looks for trade agreements outside of the region to diversify markets</p> <p>Mercosur has structural differences in terms of size and economic asymmetries.</p> <p>Brazil is a player with global market influence that has not impacted the bloc's international insertion</p> <p>No fragmentation</p>

<b>Political regimes</b>	Unstable democracy with institutional flexibilization  Progressist, left-wing governments during period of negotiations. Highly politicized towards negotiations with EU	Stable democracy with institutional continuity  Progressist, left-wing governments during period of negotiations. No politization towards negotiations with EU
<b>Socio-economic representations</b>	Centralized developmental needs.	Centralized developmental needs.
<b>Outcome to be explained</b>	MTA ratified by all signatories	FTA with pending ratification by all parties.

**i. Case selection**

This research analyses two cases of small states inter-regional trajectories with the EU: Ecuador (within the MTA CAN-EU negotiations) and Uruguay (within the FTA Mercosur-EU). By following a case-oriented qualitative research logic (Della Porta, 2008), it chooses a small-N comparative analysis in order to deal with cases as units of comparison selected for their analytical relevance. This design acknowledges the nuances of each case while stressing the comparative dimension that is needed to advance with theoretically-based knowledge.

That said, the justification of the selected cases responds to the following explanations:

- The two case studies are representative of an inter-regional trajectory which went through a particular dynamic of political contestation during changing domestic political contexts (Bolivia and Ecuador in the case of CAN) and (Argentina, Brazil and Uruguay in the case of Mercosur), resembling post-liberal (Motta Veiga & Rios, 2007; Sanahuja, 2008) and post-hegemonic regionalism models (Briceño Ruiz, 2006; Riggiozzi & Tussie, 2012). Whereas sub-regional



schemes in Central America<sup>16</sup> and the Caribbean<sup>17</sup> also share inter-regional trajectories with the EU (Gratius, 2014), they were not characterized by political contestation nor by significant political changes, which probably explains the lack of attempts to break the pure inter-regionalism approach, as it happened in the two South American sub-regional blocs.

- I selected two cases with both similarities and variance in the dependent variables. That is, the dynamics of the EU- South American inter-regional trajectories and the effects and alteration of the outcome in the two inter-regional trade agreements<sup>18</sup> (the *faits accomplis*). Yet, one of them is an evolving target whereby testing theoretical hypotheses for analyzing other cases of asymmetrical inter-regional relations with the EU can pose limited conditions for generalization. Nonetheless, Landman et al., sustain that comparing few-cases comprises a “middle level” conceptual abstraction (2003) in order to identify salient patterns of action that go beyond a single-case description and that can offer “partially generalized propositions” based on empirical and theoretical knowledge (Rueschemeyer, 2003). Similarly, cases selected on the dependent variable can help to identify which variables are not necessary or sufficient conditions for the selected outcome (George & Bennet, 2005).

- Relevance: the cases of Ecuador (CAN) and Uruguay (Mercosur) are relevant because of the type of inter-regional relation with the EU, which was influenced to a large extent by two small-states considered as allegedly non-influential and weak partners. That said, both are outlier cases that show discontinuities in the inter-regional relation with the EU, as opposed to cases in Central

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<sup>16</sup> The negotiation process for the Association Agreement between the EU and Central American states (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) was launched in 2007, after having subscribed to a Framework Cooperation Agreement (1993) and a Political Dialogue and Cooperation Agreement (2003) along similar lines as Mercosur and CAN. After five years of negotiations and around eight rounds of negotiations, the agreement was signed during the Meeting of Presidents of the Central American Integration System. See [http://www.sice.oas.org/tpd/cacm\\_eu/CACM\\_EU\\_e.ASP](http://www.sice.oas.org/tpd/cacm_eu/CACM_EU_e.ASP) accessed February 15 2022.

<sup>17</sup> The CARIFORUM-EU Economic Partnership Agreement (EPA) was signed in 2008 on an inter-regional basis. Unlike the three Association Agreements with the EU (Mercosur, CAN and Central America), the EPA is a trade and development partnership. Some of the differences as observed by the European Commission are i) creating a more equal partnership, ii) officially recognizes the existence of asymmetries between the two regions, and iii) it supports the region’s integration process. See [https://trade.ec.europa.eu/doclib/docs/2012/april/tradoc\\_149286.pdf](https://trade.ec.europa.eu/doclib/docs/2012/april/tradoc_149286.pdf) accessed February 15 2022.

<sup>18</sup> I recognize that the cases selected are an imperfect measurement of a set of events, yet they are valid for identifying potential causal paths.

America and the Caribbean. Nonetheless, the Economic Partnership Agreement (EPA) subscribed with the CARIFORUM is the only case that differs from Association Agreements<sup>19</sup>. I recognize that it could have been viable to compare South American cases with the EPA, as it could have clarified the theoretical puzzles that I try to unravel: the influential factors in an institutionalized but asymmetrical inter-regional trajectory that resulted in variance in the outcome.

- I selected two cases in which it was possible to analyze the domestic, sub-regional, and inter-regional dynamics. As it happens when undertaking small-N comparisons, the case selection was done on the basis of two states that can be considered small (vulnerable or weak) within two contexts: South America as a whole and in each of their sub-regional schemes: CAN and MERCOSUR. In other words, these are regionally similar states that can be compared to each other (Landman et al., 2003, p.30).

Moreover, I attempt to mobilize two cases where smallness is in play, for the following factors they share:

- Both show a positive causal relationship between influential factors and smallness.
- Both shared similarities in their motivations to engage in these type of inter-regional dynamics, even with different subjective means— in the case of Uruguay, being a bridge (See Appendix 2.B) in Mercosur, and in the case of Ecuador, having an instrument for development— but with similar material ones (market access).

Therefore, both provide a greater understanding of two small states' motivations and sources of bargaining power they exercised within institutionalized inter-regional relations.

## **ii. Contextual factors in case selection**

The exploration of analytically equivalent phenomena requires an extant consideration of some contextual factors that could provide conceptual validity (George & Bennett, 2005). Considering

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<sup>19</sup> In strict sense, these are the type of agreements the EU pursues. As explained in Chapter 2, the EU Commission's strategy is based on Association Agreements comprising three pillars: political dialogue, cooperation, and trade. Nonetheless, this research focuses only on the trade pillar.

the period of analysis during which the process of inter-regional negotiations took place, for Ecuador this is 2007 -2017 whereas for Uruguay it focuses on the period 2000- 2019. Although a wider landscape contemplates the inter-regional trajectories going from 1999 (when Inter-regional Cooperation Framework Agreements were subscribed – see Chapters 3 and 4 respectively – until the present). Thereby, I undertake a contextualization of the two small states, in the following terms:

- The case of Ecuador stands for a political and ideological polarization<sup>20</sup>, as Moncagatta’s (2020) findings suggest. In particular, my empirical data demonstrates that this polarization existed primarily within the political class. Whereas in Uruguay, non-negotiable policies (Frente Amplio’s (FA) social legacy: same-sex marriage, voluntary interruption of pregnancy, and regulation of cannabis use) were above inter-regional negotiations. It seems that there were tacit deals about these social policies, even though the widespread sense among Uruguayan citizens is that opening markets is a necessary condition for a small state<sup>21</sup>.

- The trajectory of each of the two head of states, Rafael Correa and Tabaré Vasquez<sup>22</sup>, went through different stages, beginning with more ideological stances and switching to pragmatism at the end of negotiations, as discussed in Chapters 3 and 4. This has potential implications on decision-making and on institutional design. In fact, Baldacchino and Wivel (2020) argue that political leadership becomes decisive in cases of fragile political institutions. For instance, in Ecuador’s case institutions were “tailored-made” (the Ministry of Trade was established in 2013 mainly to advance inter- regional negotiations with the EU – see Chapter 3); whereas in Uruguay the two institutions in charge of international negotiations (the Ministry of Foreign Affairs and the Ministry of Economy) were settled in the same building with the aim of reinforcing their coordination for trade policy design and “with the main purpose of opening markets”<sup>23</sup>.

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<sup>20</sup> For the Ecuadorian case, political or ideological polarization refers to whether citizens’ ideological self-identification corresponds to their positions on the role of the State in the economy (Moncagatta et al., 2020). Indeed, during Correa’s mandate there was a strong process of ideological polarization in Ecuador (Moncagatta et al., 2020, p.74).

<sup>21</sup> This was evoked repeatedly during fieldwork (Fieldwork carnet, February 26, 2020 and March 4, 2020).

<sup>22</sup> Even though Pepe Mujica (2010-2015) was in office during the process of inter-regional negotiations with the EU, I am not considering him in the same analysis as his administration was more of an example of political continuum.

<sup>23</sup> Fieldwork carnet, March 3, 2020.

- Moreover, small states tend to be considered more democratic as tinier size is usually related to a shorter distance between the population and the political elite (Ott, 2000; Richards, 1982; Srebrnik, 2004 as cited in Baldacchino & Wivel, 2020, p.9). Conversely, this exhibits other issues such as cronyism. In Uruguay, “we all know each other” could imply that favors can be easier in such an environment; while in Ecuador “*palancas*<sup>24</sup>” are quite frequent. At best, whether issues related to small democracies played a role in the definition of national “fixed preferences”, and therefore in inter-regional trajectories, is a question that goes beyond the scope of this study. On the contrary, it is indeed possible to infer whether those issues had an impact on ideology of social partnership<sup>25</sup> (Campbell & Hall, 2009), which in fact is one smallness dimension discussed in this research.

- Following Alesina and Spolaore (2005) who defend the thesis of heterogeneity of preferences (see Chapter 2), this occurs to some extent in Ecuador due to it being socially and ethnically diverse (the 2008 Constitution recognizes it as a pluricultural and multiethnic State<sup>26</sup>). Additionally, the country has marked territorial divisions typically due to the division of regions (Sierra vs the Coastal regional vs the Amazon vs the Galapagos Islands), with centralized cities being where the political powers come together. In other words, in Ecuador the nature of their preferences is heterogeneous mainly due to territorial divisions and social and ethnic diversity. Uruguay has a similar situation in terms of territorial constraints as its political division is extremely centralized in the capital city, Montevideo, yet with a much smaller and homogeneous population which accounts for more uniform preferences.

- Likewise, the contextual factors of the socio-economic representations share similarities in the two cases as both are part of the agro-export-oriented and fisheries sectors which create significant sources of employment<sup>27</sup> and are located elsewhere than in the capital cities. Both are demanding

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<sup>24</sup> “*Palancas*” refers to the appointment of friends to head institutions in order to advance particular interests.

<sup>25</sup> Referring to the state’s willingness to cooperate for the common good and for the consolidation of a common cultural identity (Campbell & Hall, 2009, p.557).

<sup>26</sup> See Constitución de la República del Ecuador, Articles 257 and 380.

<sup>27</sup> In Uruguay in the period 2014 – 2019, livestock accounted for 58% of employment of the agricultural sector. See Ackermann and Cortelezzi (2020). In Ecuador, during the period 2000-2017, the agricultural sector generated employment for 25% of the economically active population. See Pino et al., (2018). In other words, 20% of its

for market access. Consequently, they have tended to centralize developmental needs in each of their territories, which has caused territorial and social cleavages, as well as centralized economic hubs, while having undermined the creation of a common good for the aggregate national.

- Last but not least, it is relevant to consider regional organization's membership. This is one major contextual element which sheds light upon the influential factors of the two selected cases. As some voices assert, institutions offer shelter and securitize members from external shocks, while also being platforms of influence (Baldacchino & Wivel, 2020). They enable small states to prioritize their diplomatic resources by working through regional groups where they persuade third parties (Panke & Gurol, 2020 as cited in Baldacchino & Wivel, 2020, p.12). Ecuador is a member of the Andean Community (CAN)<sup>28</sup>, formed in 1969 under the Cartagena Agreement<sup>29</sup> which aimed at the promotion of economic cooperation of its members through free trade. In fact, at this sub-regional level, Ecuador used CAN as a double-edge sword. First by abandoning inter-regional negotiations CAN- EU in 2009 and by subsequently requesting accession to the MTA in 2014 through a bilateral negotiation. Indeed, it was a way to use its membership to persuade its partners towards an objective more in line with its interests.

Uruguay is a member of Mercosur<sup>30</sup>, this bloc was created in 1991 through the Asunción Treaty whose main objective was fostering economic integration<sup>31</sup>. It was initially successful in increasing intra-bloc trade. As Mercosur established a free trade area, a large amount of Uruguayan exports went to Argentina and Brazil<sup>32</sup>. However, following a regional stalemate for allegedly not deepening its international insertion, Mercosur's members and notably Uruguay, has sought to

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population is focused on the agricultural sector, within it around 54% is carrying out agricultural activities (Instituto Nacional de Estadística y Censos, 2020).

<sup>28</sup> CAN is constituted by Bolivia, Peru, Colombia, and Ecuador. Venezuela and Chile withdrew in 1973 and 2006 respectively due to political and economic incompatibilities, notably the signature of an FTA between the US, Colombia, and Peru. This organization failed to achieve higher levels of economic integration as in its initial project (it was considered an imperfect customs union due to the rupture of the Common External Tariff), prompted by the inconsistencies among its members to individually advance in trade agreements with third countries.

<sup>29</sup> Initially named Andean Pact, it followed subsequent institutional reforms (the Protocol of Trujillo 1996 which formally established the Andean Community). See <https://www.comunidadandina.org/quienes-somos/cronologia/> accessed February 22 2022

<sup>30</sup> Its founding members are Argentina, Brazil, Paraguay, and Uruguay. It was enlarged with the entry of Venezuela (2014) and its subsequent suspension (2017) due to the application of the democratic clause.

<sup>31</sup> See more <https://www.mercosur.int/quienes-somos/objetivos-del-mercursosur/> accessed February 22, 2022

<sup>32</sup> See <https://bti-project.org/en/reports/country-report/URY#pos0> accessed February 22, 2022

diversify its export markets through the promotion of trade agreements with third countries outside Mercosur<sup>33</sup>. Yet major partners have prevented this from happening by virtue of Decision 32/00. In particular, Uruguay's political leadership strongly supports Mercosur but has also looked for trade agreements outside the region. At the time of writing, Uruguay had used its diplomatic tactics to persuade its Mercosur partners to allow it to advance with bilateral negotiations<sup>34</sup>.

Both CAN and Mercosur are considered open regionalism schemes whose main premise is the economic dimension of regional integration and its relationship with globalization. In this view, trade liberalization has been a key to a more efficient participation of Latin American countries in the global economy and to improve the international insertion of state and non-state actors, including the participation of private companies (ECLAC, 1994).

Whereas the progressist wave in Latin America during the first two decades of this century responded to the generalized support of populist leaders who opposed the failed right that generated dissatisfaction in the region (Moncagatta & Espinosa, 2019, as cited in Moncagatta et al. 2020, p.77), and particularly in both Ecuador and Uruguay, created a rejection towards the neoliberal content of old regionalism schemes.

Finally, to justify the case selection and to offer a deeper reading of the two selected cases, I examine several particularities of each of my case studies' profiles. In that regard, the table below provides data that illustrates Ecuador and Uruguay's geographical and socio-economic features.

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<sup>33</sup> In fact, Uruguay signed an FTA with Mexico 2004 and with Chile in 2018. (See Table 2).

<sup>34</sup> "Mercosur: planteo de Uruguay generó tensión con Argentina previo a cumbre virtual de presidentes", La Diaria, July 8 2021.

<https://ladiaria.com.uy/politica/articulo/2021/7/mercosur-planteo-de-uruguay-genero-tension-con-argentina-previo-a-cumbre-virtual-de-presidentes/> accessed February 23 2022

**Table 2. Profiles of the case studies**

	<b>Ecuador</b>	<b>Uruguay</b>
<b>Population</b>	17.373 million	3.461 million
<b>Main ethnic group</b>	71.9% Mestizo	87.7% White
<b>Surface area</b>	256,730 sq. km	176,220 sq. km
<b>Density</b>	73/km <sup>2</sup> (139th)	19.8/km <sup>2</sup> (99th)
<b>Agricultural land</b>	21.936 (2018)	80.082 (2018)
<b>GDP</b>	USD 108.108 billion	USD 61.231 billion
<b>GNI (per capita)</b>	USD 3,090 (2019)	USD 16,230 (2019)
<b>Social inequalities - GINI index</b>	45.7 (2019)	39.7 (2019)
<b>Human Development Index HDI</b>	0.75 - high · 86 <sup>th</sup> (2020)	0.81 - very high · 55 <sup>th</sup> (2020)
<b>Trade openness<sup>35</sup></b>	43.29 %	46.37 %
<b>FTAs in force</b>	EU (Multiparty) (2017)  European Free Trade Association (EFTA) (2020)	_____
<b>FTAs not in force</b>	United Kingdom	_____
<b>Preferential trade agreements in force</b>	Mexico (1993) Mercosur (2004) Chile (2010) Guatemala (2013)	Mercosur -Chile (1996) Mercosur -Bolivia (1997) Uruguay – Mexico (2004) Mercosur – Peru (2005) Mercosur – Mexico (2006) Mercosur – Israel (2009) Mercosur – India (2009)

<sup>35</sup> It accounts for exports plus imports as percent of GDP. Data retrieved from [https://www.theglobaleconomy.com/Uruguay/trade\\_openness/](https://www.theglobaleconomy.com/Uruguay/trade_openness/) Accessed February 18 2022

		MERCOSUR - Southern African Customs Union (SACU) (2016) Mercosur – Egypt (2017) Uruguay- Chile (2018) Mercosur -Colombia (2018)
Source: Authors' own elaboration based on World Bank <a href="https://data.worldbank.org">https://data.worldbank.org</a> ; The Global Economy <a href="https://www.theglobaleconomy.com/">https://www.theglobaleconomy.com/</a> ; Organization of American States: <a href="http://www.sice.oas.org">http://www.sice.oas.org</a> ; The United Nations Development Program (UNDP) <a href="https://hdr.undp.org/">https://hdr.undp.org/</a>		

First and foremost, the traditional variables shown in the table (such as population and territorial size) do not match with the thresholds that the main international agencies use to measure and categorize smallness (World Bank and Commonwealth Secretariat). Therefore, one could infer that the selected cases could not be contemplated as small-states but rather as middle- income/ middle states. This is where the context takes wider significance to underpin conceptual validity. That is, smallness gets its sense in an inter-regional framework as opposed to isolated contexts. Inasmuch as this study attempts to emphasize the inter-subjective constructs and agential capacities small-states have, the static prerogatives of traditional smallness studies<sup>36</sup> (Bishop, 2012) should be complemented with perspectives nurtured by an interdisciplinary dialogue (IPE and constructivism), which is something I explore throughout this study.

Table 2's economic features demonstrate that Uruguay has a considerably higher GDP and GNI per capita, as well as an extension of agricultural land that is 3 times larger than Ecuador's. Similarly, Uruguay has higher living standards, measured through the Human Development Index (HDI), accounting for the 55<sup>th</sup> world ranking<sup>37</sup> while Ecuador ranks 86<sup>th</sup> place. On the contrary, both states have comparable ranks with regards to the GINI index, which measures their social inequalities.

However, other major differences are seen in terms of population and density. Ecuador has a much larger population, accounting for 5 times that of Uruguay's, and a density that almost triples the one of southern cone state. Yet in terms of surface area both states have comparable territorial

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<sup>36</sup> Vulnerability and resilience are the basis of Development studies, as discussed in Chapter 1.

<sup>37</sup> See UNDP's Human Development Reports Retrieved from <https://hdr.undp.org/en/countries/profiles/URY> accessed February 21 2022. The HDI is based on health, education and life expectancy.



extensions. Finally, with regards to their geographic locations, even though both are strategic, from the fact of having access to the Pacific and Atlantic oceans and hosting two important ports in South America (Guayaquil and Montevideo<sup>38</sup>), Uruguay's location has much more geopolitical implications as being between Argentina and Brazil makes it a key player, a bridge, or a *buffer state*<sup>39</sup>.

In terms of their political regimes, both states are Presidential Republics. Uruguay has a bicameral General Assembly consisting of a Chamber of Senators and a Chamber of Representatives, with 31 and 99 seats respectively<sup>40</sup>. Conversely, Ecuador has a unicameral system that consists of a National Assembly that counts 137 seats<sup>41</sup>. Indeed, the type of democracy is another contextual factor. Uruguay is recognized as one of the region's most stable democracies, having the highest support for this form of governance (76,2% of acceptance) while Ecuador is less reputed for this<sup>42</sup> as 54.4% of its population support democracy as the best form of government<sup>43</sup>. Yet both political regimes are comparable, except for the continuity of their institutions and their public policies.

While in Ecuador there has been variation in the social, economic, and foreign policies over the last 20 years, Uruguay is characterized by more continuity. In fact, a strongly consolidated Uruguayan democracy is more likely to maintain an increased level of political stability and respect for democratic institutions (Salgado Espinoza, 2015, p.235). Yet Salgado sustains that Jorge Battle's mandate (2000-2005) was a turning point in terms of social unrest and political change,

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<sup>38</sup> According to ECLAC, in 2015 Guayaquil was the 7<sup>th</sup> port in the region's top 20 ranking, while Montevideo reached the 19<sup>th</sup> place. The unit of measurement is the TEU (equivalent to a container of 6,25 meters) which shows the cargo volume. See <https://www.icontainers.com/us/2017/01/26/quiz-top-ports-in-south-america/> accessed February 21 2022

<sup>39</sup> The definition of *buffer state* has been largely discussed among scholars (Buzan & Waeber, 2003; Mathisen, 1971; Menon & Snyder, 2017 as cited in Pedi, 2020). Pedi summarizes the three defining criteria for this type of state: i) located between two rival powers; ii) having relative power in comparison to the two other states it buffers; and iii) having a neutral foreign policy, one that conveys alliances (2020, p.2).

<sup>40</sup> Both members are directly elected through a proportional representation vote for a 5-year term. See <https://parlamento.gub.uy/> accessed February 21 2022

<sup>41</sup> 116 members are directly elected in single-seat constituencies by simple majority vote, while 15 members are directly elected in a single nationwide constituency by proportional representation vote, and 6 are directly elected in multi-seat constituencies for Ecuadorians living abroad by simple majority vote. See <https://www.cia.gov/the-world-factbook/countries/ecuador/#government> accessed February 21 2022

<sup>42</sup> In fact, quality of democracy was a subject raised several times by interviewees during my fieldwork in Uruguay. In Ecuador this topic was not raised during interviews. See also America's Barometer, LAPOP 2018/2019 in Moncagatta et al. (2020).

<sup>43</sup> According to data of the America's Barometer, LAPOP 2018/2019. See Moncagatta et al. (2020).

which led to a political transition from traditional two party politics to a left-wing government and a three party system in 2005 (Salgado Espinoza, 2015, p.235). Concurrently, other factors such as the professionalism of the public administration enabled Uruguay to maintain a solid, traditional foreign policy, at least during the 15 years the FA was in office.

On the contrary, until the end of Alfredo Palacio's mandate in 2007, Ecuador suffered from violent social turmoil that came about as a reaction to the social dissatisfaction towards the critical neo-liberal regimes installed in Ecuador since the early nineties. In fact, these social demands for change seem to have also influenced how political relations with other states in the region should be conducted (Salgado Espinoza, 2015, p.236), therefore affecting the course of Ecuador's foreign policy design. This was fueled by a lack of political stability and low professionalization of the public administration. In other words, it resulted in a limited capacity to plan a foreign policy position (Bonilla, 2008; Jaramillo Jassir, 2008), affecting Ecuador's political continuity and international reputation.

### **iii. Sources of information**

For the analysis conducted, I employed secondary literature, official documents issued by national public institutions, and regional institutions, as well as media coverage and analytical papers, many of them from local researchers (both in Uruguay and Ecuador). These sources provided essential background information on inter-regional negotiations for the two case studies, which afforded me with an overview of the events and decisions that led to specific outcomes. Moreover, I collected empirical information by conducting semi-structured interviews, which I explain in the succeeding section.

#### **iv. Interviews and data processing**

This study is largely based on data collected in interviews during my two fieldworks in Ecuador and Uruguay. I conducted a total of 35 semi-structured interviews in the cities of Quito and Guayaquil in April and May 2019, and in Montevideo in February and March 2020 (See Appendix 1). All interviews were audio-recorded with the interlocutor's prior consent and they were asked if they would like to be anonymized. Through open-ended questions, semi-structured interviews enable hypothesis testing, based on prior knowledge and understanding of the researcher but also allowing interlocutors to speak openly on their subject (Leech, 2002, p.665). I also used information based on informal conversations that were registered in my fieldwork carnet with the approval of the different interlocutors.

Around 40 potential respondents were contacted in both fieldworks. Some of them declined to be interviewed arguing that: they were not available at the moment; they were unwilling to discuss the topic as “they were not invited to participate in the negotiation process and therefore were not capable to supply the information I was looking for”; or agreeing to grant the interview at the beginning, but were unable to set an appointment due to time constraints.

In Uruguay, I had no response from some contacts, whereas in Ecuador, all contacts answered although some of them refused. I presume that one factor that intervened is that I was a local in one case and a foreigner researcher in the other. The second factor that could have influenced especially in Ecuador, is that those interlocutors are either stakeholders that were opposed to the agreement or did not consider themselves as “relevant” for my study. In other words, the profiles that were prone to refusal were stakeholders that belonged to the faction that was deliberately against the trade agreement, which accounted for the polarization I describe in previous lines, or belonged to unorganized groups that considered themselves as having no direct influence or impact on the negotiations process. The third factor of refusal was probably the fact that the subject was a politically sensitive one, as I looked to interview high-level decision-makers, some of whom were reluctant as they might have wanted to avoid exposure or political risks. All these factors are highly informative for my analysis.

## v. Data processing

For processing the collected data, I made efforts to validate them by providing consistency in support with other sources of information (what Patton defines as triangulation<sup>44</sup>) such as press releases, official documents, and/ or government reports. Prior personal knowledge was also helpful in this regard, as I explain in the *Declaration of Bias* below. Similarly, interlocutors' personal factors that could have intervened in their narratives were taken into consideration, their beliefs, ideologies<sup>45</sup>, personal background, trajectories, current position, as well as subjective understandings. All of these elements form part of their personal and sociological profile, as I explain further. My fieldwork carnet was useful for this matter. It was where I kept notes that later allowed me to acknowledge all the factors that could have affected both the data collection and data processing (Patton, 1990, p.239). This included the particular conditions under which the interview took place such as place, time, privacy, comfort, anecdotes, and their emotions<sup>46</sup> related to the topic and other key questions, as well as interlocutors' attitudes towards questions and their willingness to delve into sensitive topics and/ or requests to turn the recorder off.

Once back from fieldwork, all interviews were transcribed and translated to later be used as original quotations. The translations from Spanish to English are the author's own. Grounded on this data, in an excel file, I classified them into different, broad categories that I had previously identified and they were subsequently narrowed down to more specific issues<sup>47</sup>. This allowed me to draw relationships to the three large topics of investigation (factors, motivations, and bargaining power) in order to lay out the analysis through a partial inductive process, as semi-structured interviews are initially based on pre-existing theoretical and empirical expectations. Concurrently, during the writing process, quotations per topic and their associated comments were recovered and

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<sup>44</sup> According to Patton, triangulation refers to “checking out the consistency of different data sources using the same method” (1990, p.464). In other words, comparing respondent's narrative's with different perspectives, validating it with published documents. The ultimate aim is to offer explanations from different results.

<sup>45</sup> Ideological identification usually includes economic dimensions, moral values, and aspects related to the application of public policies (Moncagatta et al., 2020, p.75).

<sup>46</sup> Even though delving into emotions is not the focus of this study, asking interlocutors about their emotions on the processes of negotiation was quite informative. They expressed either satisfaction, dissatisfaction, anger, grief, and deception among others. All of these emotions were present and entail a thermometer to measure the mood towards the agreement's outcome.

<sup>47</sup> I followed my supervisor's recommendations regarding the data processing. That is, using my methods (in this case storing information directly in an excel file) and not through the use of a specialized qualitative data analysis software. In other words, this was a deliberate choice.

rigorously analyzed. These argumentations are mainly developed in the empirical parts (Chapters 3 and 4).

As anonymity was demanded by some informants, with the aim of guaranteeing confidentiality and on the basis of providing neutrality, a code and a tag have been created and assigned to all interviewees, regardless of whether they requested to be anonymized or not. This process attempts to keep essential information that adds value to the empirical research.

On these grounds, first, participants' names were replaced by codes which are composed by a letter from their names and last names. They are followed by the initials of the case study and by a number to standardize the codes. A second step comprised of nesting indirect identifiers by transforming specific features into grouped categories. This logic allows the informative attributes to be kept and impedes participants' profiles from being easily tracked. In this regard, a tag was created which kept the informant's nested information regarding their sector of activity and different trajectory features, in order to preserve their relevance as multi-positioned actors. At the same time, this allowed the position that mostly influenced the negotiation process to be highlighted, which is pertinent material for my analysis. Finally, the reader must note that I put emphasis on the sector, in order to also exhibit their representativeness for the subject at stake. In other words, this skewed representation is highly informative for my study.

#### **vi. Access to the field**

Access to the field in both cases did not pose unsurmountable constraints. In this regard, I mapped potential participants that could be my entry points and contacted them in advance, which allowed me to easily establish a first connection on the field. In Ecuador, some interlocutors were former colleagues, while in Uruguay some of them were personal contacts<sup>48</sup>. Once on the field, contacts functioned through a *snowball effect path*, in which “informants refer the researcher to others, who are contacted by the researcher and then refer her or him to yet other informants” (Noy, 2008,

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<sup>48</sup> I was able to testify that in both cases informants were of quite easy access, helping to evidence the fact it is simpler to establish contacts within small networks (pertaining to small-states).

p.330). As a result, the contact path illustrates the inter-relations of a social network, which is highly informative for the analysis.

That said, in both fieldworks, the snowball effect worked and I was able to interview a variety of actors: high/ medium decision-makers, negotiators- technocrats, public officers, private representatives, scholars, and political stakeholders. Ultimately, I prioritized representativeness and variance in the two cases, as I explain further.

During my stay in Montevideo, I was hosted at the Sociology Department of the Facultad de Ciencias Sociales at Universidad de la República, which gave me access to the library and its bibliographical resources. Professor Miguel Serna, who was my contact there, kindly offered me an office at the Sociology Department and took the time to discuss with me about the appropriate way to conduct of my interviews. He also provided me with faculty contacts. During my stay in Guayaquil, for personal reasons, I was hosted at the Universidad de las Artes' public library, where I had adequate conditions to analyze the daily collection of data. Regarding the interviews in Guayaquil, informants were contacts of Francisco Rivadeneira, a former professor during my Bachelor's studies and former Vice-ministry of Trade (2012-2013), a quite influential stakeholder<sup>49</sup> within the sphere of international trade whose contacts have been broadly involved in the process of negotiations with the EU and who did not hesitate to grant me an interview. Finally, in Quito, my hometown, I was able to easily access interlocutors, many of whom belong to my own professional network.

## **vii. Interviewee's profiles**

As stated before, the selection of interviewees was based on representativeness and variance. In order to justify this two case comparison, I selected similar profiles in both case studies, where some differences are assigned to the cases themselves (to the different contexts of each case) and not to the methodology or to a deliberate choice. In other words, it should not be assumed that their

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<sup>49</sup> This depicts what Noy (2008) argues is a snowball effect path, mirroring power relations within a network. A kind of hierarchy was underlying the dynamics of the interview granting process from the fact that it was my former professor who kindly asked them to grant me an interview, which was with no doubt generously accepted.

profiles are statistically representative. In fact, there could have been a number of selection biases, as one interlocutor with a particular profile would be more willing to contact the researcher and participate in the study than another. In other words, interlocutors that “supported” the negotiation process were more eager to grant me an interview than the ones that were sidelined from the negotiations or that were opposed to subscribing to the agreement.

### ***Characterizing interviewee’s profiles:***

I emphasized the sociological profile of my interlocutors rather than their current positions. Firstly, *multi-positioned trajectories* matter as they provide elements of analysis rather than only one static position with a unique narrative. Secondly, I insisted on choosing high and/or medium decision-makers as well as technical profiles. This effort responds to the fact that high decision-makers (embodied in this study mostly by government officers) typically suffer from the “media training effect”<sup>50</sup>, whereas low level technocrats usually speak more freely, which entails a more thoughtful reading of the empirical data. Thirdly, I selected a range of scholars that have worked closely on the subject and highlighted the positions that mostly influenced the negotiation process. In Ecuador’s case, profiles were multi-positioned, whereas in Uruguay they have a more stable trajectory and therefore these informants tend to deliver a one-way discourse. Again, this is one possible bias that was taken into consideration in my analysis as it is highly informative.

Additionally, profile selection was based on the following criteria:

- *Multi-positioned* stakeholders: actors that held different consecutive positions during the negotiation process; whether decision-makers, technical profiles, private, public sector or academia.
- Profiles with different levels of involvement in decision-making.
- Industries that are the main beneficiaries of the trade agreements.
- Organized and unorganized economic sectors and potential beneficiaries of the FTAs.

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<sup>50</sup>These informants are used to deliver political statements, with a “media effect” that is, they are minding their words and they address interlocutors in the same “diplomatic” terms. This means their narratives must be read within a certain political configuration and considering their positions.

- Profiles that influence public opinion (trade unions<sup>51</sup>, associations, or NGOs).
- Political stakeholders (either in favor or against negotiations).
- Scholars that have studied the negotiation process.
- Main private sector representatives: business associations, chambers of commerce, etc.

**d) Empirical and theoretical assumptions**

**i. Regionalism and inter-regionalism**

The literature on regionalism is vast, resulting in the development of different definitions. I highlight a first approach, following Gamble and Payne who endorse the creation of regional organizations as a response to material interdependence (1996) and a second one, that is centered on the emergence of a project that has cognitive foundations and is built upon shared ideas, identities, and mental maps (Adler, 1997). Furthermore, I stress that regionalism is a process that evolves across time and space, expanding borders, integrating new members and actors, increasing the scope of policy areas, and redefining its institutional framework towards the definition of a common goal. In other words, a regional integration project is socially constructed and politically debated upon collective ideas and identities (Katzenstein, 2005; Risse, 2010; Söderbaum, 2012). The actors and scope that are discussed below have a wide significance within this dynamic.

Even though inter-regionalism has been largely conceptualized, there are some voices that assert it is a phenomenon that pertains to a relatively new field of study, with a rather limited theoretical consensus (Gilson, 2002; Grugel, 2004; Rüländ, 2002, 2001). That said, inter-regionalism can be defined as a collective identity project between regions (Hurrell, 1995; Deutsch, 1968; Adler and Barnett, 1996). Whereas, according to Alvarez and Zelicovich, inter-regionalism refers to the establishment of close institutional links between two regional blocs (2020, p. 110). Accordingly, Aggarwal & Fogarty sustain that the nature of inter-regionalism is cooperative and intended to produce benefits for all participants through voluntary negotiation and mutual agreement regarding a set of rights and responsibilities (2004, p. 5). Yet the distribution of those benefits and how they

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<sup>51</sup> For instance, in Uruguay I had the chance to reach the Plenario Intersindical de Trabajadores – Convención Nacional de Trabajadores (PIT-CNT), which is the national trade union center and was a relevant actor during the negotiation process.



affect third parties varies case by case. These understandings are relevant to this research as they shed light upon the dilemmas my two case studies went through in terms of the benefits they could derive from their participation in one or another level of integration.

As a matter of fact, the literature recognizes inter-regionalism as a variable of regionalism (Hänggi & Roloff, 2005), which addresses questions about the role of the state in the international system. This unravels Ecuador's and Uruguay's role in each of their inter-regional trajectories. Following Putnam, from an outside-in perspective, he argues that there could be a potential loss of democratic control over global governance as governments resort to a two-level logic to bolster their position in international negotiations and also in national decision making processes (1998). However, it seems that (sub) regionalism counteracts the advancement of their positions, consequently having to resort to inter-regionalism.

Building upon the extensive regionalism research agenda, this research addresses different factors that motivated two small-states within their inter-regional trajectories to subscribe to agreements with the EU, making them fluctuate among different types of inter-regionalism (which I define as "mixed") while belonging to their own (sub) regional schemes. Along those lines, this study draws upon a range of assumptions to foster dialogue on the two small states' strategies in each of their sub-regional schemes as well as their participation in inter-regional negotiations. I therefore evaluate the following assumptions:

- (Sub) regionalism is a necessary condition to pursue inter-regionalism. Without CAN and Mercosur membership, inter-regional negotiations would not have taken place. In fact, both negotiations promoted a regional integration clause, aiming for the agreements to be gatekeepers of regionalism. Similarly, at the regional scale, the European Commission seeks to pursue inter-regional negotiations, with regions considered as "sufficiently integrated", where it established conditions to initiate negotiations but is quite flexible in the terms of undertaking them<sup>52</sup>. In principle, it seems the two small states had no other

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<sup>52</sup> In fact, the "*Marco General para la negociación de un Acuerdo Comercial entre la Unión Europea y países Andinos*", Brussels, January 22th 2009", establishes that: "the Agreement between two or more parties may be signed when an agreement has been reached on all the negotiation issues between the EU and at least one of the participating Andean countries" (own translation). This seems contradictory to negotiation aimed to shield regional integration.

choice than the inter-regional path. Yet some deviations appeared throughout their trajectories, creating inconsistent strategies between regionalism and inter-regionalism.

- Informed by empirical evidence, I put forward that both agreements presented some conflicting policy areas that were restrictive at the sub-regional level. Interviewees referred to the high degree of difficulty in finding agreements at this level, limiting the capacities of their members to be able to advance their paramount interests.
- Following the conceptual discussion on regionalism, it seems that on one hand, Ecuador prioritized material interdependence and was motivated by market access; while Uruguay opted for its inter-subjective idea of building a bridge in Mercosur.
- Finally, I conclude by arguing that it is within inter-regionalism that smallness takes significance. In fact, the dependent variables (the dynamics of institutionalized inter-regional trajectories between the EU and South American partners, and ii) the production of effects of the two inter-regional trade agreements) are telling in terms of the relevance they provide to smallness. Similarly, one of the explanatory variables (the changing nature of inter-regional relations from pure to mixed inter-regionalism) is considerable insofar as it was exerted by two small-states. Accordingly, throughout this study I posit that there are some smallness categories that become apparent only in the framework of an inter-regional relation.

## **ii. Actors and scope**

This study considers public (state actors) and private actors (non-state actors) as relevant informants. Firstly, state actors (governments and public officers) are the main agents in inter-regional negotiations, which grants them the capacity to formulate and portray domestic “fixed” preferences at the inter-regional level. Yet, a two level approach in the definition of foreign policy (Putnam, 1988) infers that there is a prior interaction between domestic and external state and non-state actors which defines governmental preferences.

Secondly, non-state actors deliver their inputs to governmental authorities, typically to meet their best developmental needs, as IPE suggests (Heron, 2011). Therefore, preference formation is highly determined by the inputs and interests of the main economic players, even if state actors are the ones who frame and deliver them according to political calculations. In this regard, in inter-regional negotiations non-state actors' capacity to influence domestic fixed preferences increases as their interests and their dependence on external markets becomes more chronic.

Through the analysis of the interactions of state and non-state actors, this research explores the role of organized *socio-economic representations* and *political interest groups* as players actively engaged in inter-regional negotiations. These actors are endowed with resources and expertise to advise governments (Freidson, 1994), which in turn allows them to influence inter-regional negotiations.

In particular, **socio-economic representations** are depicted as the traditional agro-export oriented sectors, including fisheries and beef industries. They can be characterized as groups that have a relevant role in shaping national fixed preferences and crafting identity ties (Campbell & Hall, 2009). In other words, they devise negotiation strategies and political mobilization to implement open trade policies by deploying their own material and human resources as well as developing inter-cultural ties and shared values with external actors. In short, they represent an idea of market competitiveness and a sense of a common national identity (Checkel, 2005; Wendt, 1999) (i.e. Uruguayan grain-fed beef<sup>53</sup> or Ecuadorian sustainably certified shrimp<sup>54</sup>). Although, within inter-regional relations they tend to benefit sectoral interest at the expense of the aggregate or national demand.

**Political interest groups** are represented by the sectors of the political class, the private sector, and business chambers. In contrast to socio-economic representations, this group has grounded political interests and is mobilized by a set of political ideologies. That means they either tend to be easily polarized, creating cleavages in a given policy area; or they act as converging actors and/or policy-maximizers. However, the way they define their converging or diverging interests is in

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<sup>53</sup> See <https://beefensteak.nl/en/beef/uruguay-grain-fed-beef/>

<sup>54</sup> See <https://www.idhsustainabletrade.com/project/ecuador-honduras-asc-shrimp-certification/>

response to contextual factors rather than to conditions of smallness. Even though, for instance, in a smaller population there is an easier alignment of interests. Whereas socio-economic representations tend to adopt a pragmatic stance towards international negotiations, political interest groups follow political calculations, sometimes resulting in factions within the same party. In summary, both of them have the capacity to influence inter-regional negotiations by dictating its terms (Aggarwal & Fogarty, 2005) and potentially shaping its national preferences.

The **capacities** these two types of actors possess can be defined as those based on material or human and subjective or ideational resources that enable actors to influence inter-regional trajectories. Material and human capacities pertain to market size, population, territorial surface/land area, natural resources, as well as talented personnel and regulatory frameworks. Subjective or ideational capacities refer to the ability to transmit a further understanding of the self, of formulating negotiation strategies and positions capable of altering other actor's preferences and understandings about an issue. It includes negotiation and diplomatic skills as well as technical knowledge to exert bargaining power and influence a particular outcome (Da Conceição-Heldt & Meunier, 2014; Drahos, 2003; Odell, 2013).

**Fixed preferences** are defined as the actor's positions regarding a negotiation, its potential outcomes and effects, which result from calculations of material costs and benefits, but also about inter-subjective or ideational understandings. In fact, a distinction between material and subjective preferences was observed in my cases. Finally, for the purposes of this study, the reader would note that I draw a parallelism between "national fixed preferences" and "motivations", which are sometimes used interchangeably.

### **iii. Towards a renewed definition of smallness**

The state of the art about smallness undertaken in Chapter 1 allows me to call into question some of the traditional categories on the smallness literature: vulnerability, resilience, size, population, and all the rest of the qualitative and quantitative criteria used for its conceptualization. On the contrary, following Long (2017), the research agenda should concentrate more on a relational approach that scrutinizes the relationships in which these states get engaged. This is precisely what

this study attempts to do: to provide sense to smallness within two inter-regional dynamics by elucidating the motivations and bargaining power these actors generate.

Nurtured by my two case studies, I examine some other smallness dimensions situating them in the inter-regional debate, and potentially turning them into operational categories by combining constructivist and IPE perspectives. Throughout this research I therefore explore the following presuppositions:

- Small-states are actors with creative agency, both domestically and internationally speaking. They have achieved international (diplomatic) recognition and have talented personnel. These elements have credited them as actors with a certain degree of influence on inter-regional trajectories.
- Strategic flexibility is an innate dimension of smallness that can have positive institutional, regulatory, and socio-economic effects and be potentialized by inter-regional relations.
- Socio-economic representations promote their issue-specific power (sectors or industries) and mobilize themselves and their resources in ways that can be determinant for a state's motivations and bargaining power. They tend to emerge within inter-regional trajectories.
- There is an inter-subjective understanding of smallness based on, among others, cultural ties, shared beliefs, and values, which altogether form an ideology of social partnership. Small- states can use it as a source of leverage.

Finally, if these presuppositions were to be confirmed, a renewed definition of smallness could emerge as a contribution of this research.

#### **e) Declaration of bias and limitations**

##### **i. Declaration of bias**

As an Ecuadorian I am more familiar with Ecuador's case. In fact, in 2011 I served as a Trade Analyst at the Secretariat for Planning and Development (SENPLADES) during Rafael Correa's

mandate<sup>55</sup>. One of my tasks was precisely participating in an inter-institutional committee to discuss the viability of resuming the EU-CAN negotiations. The political context was averse to FTA. That is why, together with some colleagues, we were missioned to formulate a renewed proposal to replace the template of a FTA, typically used in international trade negotiations as I have explained throughout my study. We came up with a proposition named “*Commercial Agreements for Development*” containing otherwise non-existent clauses, to recognize economic and social agreements along all the text or to include the possibility to apply safeguards in some special cases such as for infant industry purposes or for problems of balance of payments. Nonetheless, when the project was presented to the Foreign Trade Committee (COMEX), it was not approved, probably due to strong opposition by some factions of the government whose position was pro-free trade which diverged from the government in office’s position. I left the Secretariat in 2013 and a few months later negotiations with the EU were resumed and concluded in 2016. By then, the agreement had been publicized as a MTA and not as a FTA.

Therefore, part of the assessment undertaken in this research is based on a professional background that contributed to the subject from a regulatory perspective. I somewhat situated myself as the *object of study*. In that regard, I had the chance to return to the field in Ecuador 6 years after I left my position, this time as a researcher. I discussed with former colleagues from my professional network, some of them in different positions, but with the same professional convictions. Interrogating them about a subject which we worked on together in the past was a very insightful experience, although seen from a different perspective. Regardless, this is a declaration of bias that could have influenced my understanding of the subject at stake.

Accordingly, in the strict sense, the type of agreement the EU pursues, as it is discussed in Chapter 2, are the so-called Association Agreements based on three pillars: political dialogue, cooperation, and trade. Nonetheless, this research focuses only on the trade pillar, possibly because I was influenced by my professional background.

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<sup>55</sup> His left-wing presidency marked a shift in the country's economic paradigm, as his political project was a reaction to the neoliberal policies of the 1990s in Latin America (Lacuisse, 2015) moving from a neoliberal policy to strong state interventionism.

## ii. Limitations

Throughout the conduct of this research I had limited financial resources as I was not a financed student. Consequently, I also had time constraints due to the fact that during these 7 years I have been working either part-time or even full-time jobs. Thus, finding the right timing to travel to do fieldwork was problematic on many occasions and obliged me to reschedule traveling plans. These two constraints didn't permit me to undertake longer stays, which undeniably impacted the quantity of data I was able to collect. Nevertheless, I have no doubts on the quality of this information.

One additional limitation to consider particularly regarding Chapter 4, is that data collection during fieldwork might have been polluted by the beginning of the global pandemic, which occurred in early March 2020 as I was conducting interviews. Secondly, the reader should note that negotiations between Mercosur and the EU lasted for 20 years (1999- 2019). Therefore, it is not a coincidence that interviewees pertain mainly to the last period of negotiations, as many of the stakeholders that participated in the first phase of negotiations are now retired officers and some of them have even passed away.

## f) Chapter overview

This study unfolds in 5 chapters.

**Chapter 1** offers an overview of the different schools of thought that have studied the question of smallness. It encompasses three theoretical currents, namely: International Relations (IR), Development studies and International Political Economy (IPE), as well as Constructivism. Within this exploration, IPE and constructivism are expected to provide broader considerations to understand small states' influential factors. The ultimate purpose of this chapter is to disclose to what extent these theoretical approaches drive a greater understanding of smallness. Finally, it builds upon political science and IR research agendas to set up a renewed definition of small states based on the issues that constitute their political configurations and economic strategies.

**Chapter 2** addresses commercial multilateralism, emphasizing the World Trade Organization (WTO) legal framework, to uncover the room of maneuver for the application of Special and

Differential Treatment (SDT) on inter-regional negotiations. By focusing on the dynamic of the EU's external relations, it discusses the strategies to promote European normative and market power, as well as its elusive pursuit between pure inter-regionalism and other forms of trade governance. In other words, within the framework of trade policy, it addresses the tensions among the so-called *lateralisms*. Finally, it inquires about the EU's institutional flexibility in undertaking negotiation processes with asymmetrical trade partners.

**Chapters 3 and 4** explore how small states' motivations have been articulated and the extent to which they have exerted bargaining power within inter-regional trajectories. Both chapters contain an analysis of the empirical data collected during fieldwork. Particularly, **Chapter 3** is devoted to Ecuador's singular path towards the EU- Andean Multiparty Trade Agreement, by considering both the external and the influential factors that could have shaped the inter-regional trajectory with the EU. Within the influential factors, a small state's motivations to undertake such negotiations, are based on the state's fixed preferences towards inter-regionalism. Ecuador's bargaining power is appraised as the real influence it exerted to alter or not the agreement's outcome, while making use of its vulnerability *vis à vis* its European trade partners.

**Chapter 4** deals with the long-lasting negotiation process towards an FTA between the EU and MERCOSUR, through the assessment of the external and influential factors that could have prompted the political configurations and made the environment suitable for inter-regional negotiations to prosper and conclude. Along the same lines as the previous chapter, it explores Uruguay's motivations during inter-regional negotiations with the EU and the extent to which this state exercised bargaining power and turned it into real influence, potentially through the use of its ideology of social partnership.

**Chapter 5** or the concluding chapter is devoted to a comparison between the two case studies discussed in Chapters 3 and 4. It aims to provide a greater understanding of small states' motivations to participate in *hegemon-based* agreements and to influence their ultimate outcome following different inter-regional paths. Finally, it intends to draw a roadmap between inter-regionalism and smallness, pointing out the research's empirical and theoretical contributions to the study of smallness and inter-regionalism within an institutionalized framework.



## CHAPTER 1 : SMALL STATES' VULNERABILITY IN INTER-REGIONAL TRAJECTORIES

During my fieldwork in Guayaquil, Ecuador in 2019 I was positively challenged in one of my interviews. As I spoke about Ecuador having a position of a *small state* in an international trade negotiation, I was surprised with the interviewee's response to my statement: "The notion of a small state is absolutely relative. It depends on which angle we look at it... We [Ecuadorians] are not considered a small state. We have some aggressive [economic] sectors."<sup>56,57</sup> Another interviewee, this time in Montevideo, Uruguay, responded with the same reference about small states: "The question of a small state is mostly a question of scale<sup>58</sup>", as if he was suggesting, again that the issue falls under relativism.

It was the first discussion that took place in Guayaquil in particular that made me reconsider the approach of my research, placing small states at the center of the debate. As a matter of fact, this chapter is the outcome of those fieldwork discussions. In other words, the following is an attempt to contribute to a renewed conceptualization of small states. In doing so, I will first undertake a brief overview of the main theoretical stances that have appraised the question of smallness. Secondly, I will explore two groups of categories that have been part of this debate (based on qualitative and quantitative criteria). Finally, I will address some other dimensions that have not necessarily been explored in the smallness literature and which resonate with my empirical work, as they appear to have influenced inter-regional trajectories, which is part of this research.

### 1.1 The different theoretical approaches that deal with smallness

In order to elucidate a more holistic understanding of small states, based upon analytical considerations, in this section I undertake a brief overview of the different schools of thought that have studied the question of smallness, typically by assessing relational power. I will do so by echoing Bishops' (2012) seminal article *The Political Economy of Small States: Enduring*

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<sup>56</sup> Author's own translation.

<sup>57</sup> Fieldwork carnet, April 26, 2019.

<sup>58</sup> Fieldwork carnet, February 21, 2020.

*Vulnerability?* which evaluates smallness through the lens of three dominant collections<sup>59</sup> which encompass three theoretical currents, namely: International Relations (IR), Development Studies, and International Political Economy (IPE). I also undertake a brief review of constructivism from the perspective of small-states. Within this exploration, IPE and constructivism are expected to provide broader considerations to understand small states' agency.

Until the 1960s, the analysis of small states was not of particular interest for IR scholarship. On the contrary, Development Studies, particularly during the 1980s and 1990s, focused its attention on studying these very particular actors. This was followed by an emerging research agenda that placed the question of smallness within the more critical lens of IPE<sup>60</sup>. The central tenet of this body of literature conveyed newer directions, mainly calling for a greater recognition of small states' agency (Bishop, 2012, p.943) as it will be discussed further.

Each of the schools of thought have been based on preconceptions and particular narratives, which have reduced small states as actors "building resilience" for their somehow "static vulnerabilities", supported by purely quantifiable notions (Bishop, 2012, p.943). In the case of IR scholarship, this debate has been overwhelmed by the realist tradition and the question of relational power<sup>61</sup>, which has proved limited for a better understanding of small states' trajectories. In fact, some scholars argue that small power is "a state which can rely least on outside help... and by virtue of its situation is compelled to make its own decisions on the basis of its own understanding of [a] situation and such resources are available to it" (Vital, 1967, p.79). I lay out a discussion about these statements in the following sub-sections.

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<sup>59</sup> Ingebritsen, C., Neumann, I., Gstöhl and Beyer, J. (Eds.). (2006). *Small states in international relations*. University of Washington Press and University of Iceland Press.; Briguglio, L., Vigilance, C., Vella, S. And Cordina G. (2010). *Profiling Vulnerability and Resilience : A Manual for Small States*. Commonwealth Secretariat.; Cooper, A. F. and Shaw, T. M. (Eds.). (2009). *The diplomacies of small states : between vulnerability and resilience*. Basingstoke New York: Palgrave Macmillan

<sup>60</sup> Although, Strange (1996) asserts that the question of power during the 1990s was superficially treated in IPE. She explores this issue in *The Retreat of the State*, where she explains that power was only thought in relational terms, overriding any chance for "smaller" states to influence international politics. I will discuss this point more in depth later in this section.

<sup>61</sup> In fact, Strange (1996) asserts that power should not only be thought of in relational terms but by considering who determines the rules, meaning if they are *rule-takers or rule-makers* and if non-state actors influence rule making. She also claims the consideration of a state's capacity for disseminating information, whether small or not, as one of its forces or ways to exert power over the rest.

### 1.1.1 The smallness debate in International Relations

By delving into the collection *Small States in International Relations* (Ingebritsen et al., 2006), Bishop (2012) underpins how the study of smallness has remained slightly minor in this discipline (p. 943). During the early years of IR<sup>62</sup>, the conventional wisdom agreed on a state-centric nature prevailing in their scholarship. Consequently, a large portion of the debate circulated through the lenses of the realist tradition and was particularly focused on security issues for the maintenance of peace and security, and understanding *great powers*'<sup>63</sup> behavior. Similarly, the inter-war period granted small European states increased diplomatic opportunities, notably with the creation of the League of Nations and the beginnings of multilateralism, following the idealist school of thought, which enabled European small states to exert their foreign policies (Neumann & Gstöhl as cited in Ingebritsen et al., 2006, p.5). IR scholars assert that their discipline started to draw attention to small states with the formation of smaller, new independent states and the emergence of the non-alignment movement in 1961, as they paved the way for an increased diplomatic role within the existing world order. Whereby, some of the outstanding proponents of the smallness perspective in IR are, among others, Vital (1967), Rothstein (1968), Keohane (1969), and East (1973). However, David Mitrany (1933) already acknowledged the notion of small power in political studies, by sustaining a binary approach of world politics; that is, the existence of great and small powers. At best, other more contemporary approaches introduced further perspectives to assess the character of states. For example, the idea that the world system conditions them to being either great or small (realist approach by Morgenthau, 1972)<sup>64</sup> or states being recognized through different patterns of behavior (Toje, 2010). Similarly, Thorhallsson built another body of research

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<sup>62</sup> I mainly refer to the development of the American and English IR schools during the 1950s-1960s and 1970s which were traditionally state-centric. This fact is related to the bi-polarity that remained characteristic during those years. Nonetheless, the approaches that followed these two 'traditional' schools developed more critical ideas that envisioned the influence of non-state actors in the study of IR.

<sup>63</sup> The reader should consider that referring to *great power* corresponds to the period when hegemonic states begun to draw themselves in the international system (according to some scholars, this started in the nineteenth century, running from 1815 to 1914, and small states were all those states that were not great powers). According to Neumann and Gstöhl (2006), in this period when state categories were formed, the dominant group of five great powers decided on having regular meetings to discuss questions that mattered them and to establish treaties. During this time, documents with legal force were developed by the five powers. Thus the category of great power became legal. This category has cohabited with the principle of sovereign equality of states. That is, from a legal standpoint, all sovereign states are equal. However, from a political stance, they are far from equal. Since then, the recognition of great power status in the international system at the Congress of Vienna coexisted with the major principle of equality of sovereign states (guiding principle in the United Nations Charter) (p. 5).

<sup>64</sup> Morgenthau (1972) claimed that "a great power is a state which is able to have its will against a small state.. which in turn is not able to have its will against a great power..." (pp.129-30).

to analyze smallness patterns in the context of the European Integration (2000; 2006; 2018). Ultimately, Neumann and Gstöhl as cited in Ingebritsen et al. (2006) aimed to demonstrate the value of assessing smallness in their diversity<sup>65</sup> as a way to make IR theory advance (p. 4). Within these efforts, in IR there was no concrete definition of small states, which permeated the scholarship and impeded the characterization of small states studies (Neumann & Gstöhl as cited in Ingebritsen et al., 2006, p.8). Along this chapter, I will examine some of the tenets of this body of literature, as part of the intention to exhibit some of main categories that can be drawn from IR.

According to Neumann and Gstöhl (2006), IR builds upon three assumptions<sup>66</sup> that are worth examining: states with powerful capabilities will inexorably make use of them, these states do not feel compelled by international norms and thus they would be likely to free-ride; from an institutionalist stance, great powers are the ones granted with the legitimacy to shape and norm international institutions, this being the status of great power-hood, that is, having institutional privileges; and finally, norms, institutions, and policies are to be considered not only as the result of great-power bargains, but also of the actors' relations, notably power relations (pp.3-4). These assumptions provide some insights about the different positions within trade negotiations which can account for small states' bargaining power. Indeed, while small states endorse international law and organizations, as they value them as bargaining platforms. Thus, their particular national interests play a significant role in decision-making, while serving as leverage to increase their bargaining power<sup>67</sup>.

In the same vein, with *The Power of Small States*, Baker Fox (1959) activated the study of small states in IR. Indeed, she demonstrates how both external (geostrategic neighborhood) and internal (diplomatic leverage and bargaining skills) factors of smallness play a role so as to resist the power of bigger states (as cited in Neumann & Gstöhl, 2006, p.10). Similarly, during the early post-war period, IR studies focused on some fundamental questions: the survival of small states within a

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<sup>65</sup> They recognize the heterogeneity and number of small states (two dozen out of the 193 United Nations member states fall in the category of small), thus acknowledging this diversity (Neumann & Gstöhl as cited in Ingebritsen et al., 2006). This means small states should be considered important actors, both individually and collectively (p.4).

<sup>66</sup> These assumptions correspond to the dominant IR theoretical perspectives: capabilities (neo-realism), institutions (neoliberal institutionalism), and inter-state relations (social-constructivism).

<sup>67</sup> The latter is a speculation which I expect to confirm throughout my study.

context of crisis, and the dynamics of hegemonic powers and bipolarity. This created a deficit in IR and political science, which consequently inclined scholarly interest towards a greater understanding of how states with limited capacities coped with the costs of dependence (Neumann & Gstöhl, 2006). During the 1980s and 1990s there was a standstill in the study of small states due to pessimism in political science scholarship which considered the concept of small states was not a useful analytical tool to shed light on world politics (Neumann & Gstöhl, 2006, p.12). Yet, during the 1980s the academic interest towards small states was reactivated with the question of economic development. Katzenstein was part of this endeavor. In fact, he explored how small states' domestic political structures have adapted to an increased participation in an internationalizing economy (1985-2006).

<b>Table 3. Small states IR theoretical approaches</b> (with special focus on Latin American states)			
<b>Historical context</b>	50s- 70s: Cold War era and bipolar world; Decolonization and independence processes; Emergence of small states; Social and economic inequalities.	80s: Hegemonic stability and decline; Beginnings of global interdependence; Standstill in IR.	90s: End of Cold War; Proliferation of regional integration and globalization processes; Open regionalism and inter-regionalism; Revival in IR.
<b>Dominant IR theory</b>	Realism/ neorealism; Dependency theory (Latin American IR thought).	Neorealism vs. neo-liberal institutionalism; Regionalism studies.	Rationalism vs. social constructivism.
<b>Small state topics</b>	Definition of small states; Foreign policies: security, territorial boundaries, and national development.	Inclusion of small states in the global economy; Development issues in international organizations; Financial aids to attain development; Democracy.	Accession to the WTO; Regional integration and access to international markets; Socio-economic issues derived from liberalization processes.

Source: Author's own elaboration based on Neumann and Gstöhl (2006)

In the following sections I will assess small states' capabilities, which are inherent to the conceptual implications of neorealism<sup>68</sup> and also liberal institutionalism. Keohane (1969-2006), Vital (1967-2006), and Katzenstein (1985-2006) all scrutinize small states' material capabilities and the impact they could have as composite units of the international system.

Accordingly, Vital (1967) addressed the state's inequalities that derive from small states' limited resources. This author suggested that all the material features inherently assigned to states in IR (size, material resources, economic development, geographic location, and military capacities among others) "determined the extent to which small states can perform resistance rather than vulnerability and be active rather than passive members of the international community<sup>69</sup>" (Vital, 2006-1967, pp.77-78). Yet, the conventional narrative in IR is that small states are deprived of these features and will therefore remain actors with reduced influence in IR (Lewis, 2009 as cited in Cooper & Shaw, 2009). I claim that both should be considered when addressing the political implications of the material inequality of states.

Indeed, the collection *Small States in IR* (Ingebritsen et al., 2006) calls for reassessing some of the features of smallness through the lenses of major IR theory approaches (Bishop, 2012, p.945). In that regard, one could rethink capabilities as a way that small states could exert influence, stemming from particular policy domains, and use them as bargaining power. In fact, Keohane and Nye (1977) build upon this idea to advance the concept of *great issue-specific power* which suggests that small states, when considered at unit level and not the aggregate or systemic level, can exert influence in particular issue areas (Neumann & Gstöhl, 2006, p.8). The case of natural resources<sup>70</sup> has illustrated this matter, wherein some resources have been used by small states to

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<sup>68</sup> In fact, capabilities is related to the concept of power, which portrays them as "potential relationships rather than as properties of a single state" (Waltz, 1979 in Baldwin, 2013, p. 281).

<sup>69</sup> In the *Inequality of States* (1967-2006) Vital focuses on three questions: the practical consequences of the material inequality derived from smallness; the limits of small-states' strength and its capacity to withstand great external stresses and the national policies that small-states can pursue (given their limited resources).

<sup>70</sup> On this matter there is a sense of environmental exploitation which can be a contentious issue. In any case, there is a vivid debate on sustainable or even sovereign forms for the use of natural resources, which have been the main sources of economic development for small states. It is of particular interest for this investigation to explore how some socio-economic representations have been formed thanks to the strength of these natural resource sectors, which main leverage seems to be advancing their interests internationally, while becoming part of the country's image.

further their image internationally<sup>71</sup>. I will discuss over the course of this research the assumption that my two case studies are exhibited as strong socio-economic representations and possess *great issue-specific power*.

Ultimately, Keohane (1969) assessed the strategies used by small states for an increased role in international organizations<sup>72</sup> as a way to ensure their survival in the system. I suggest this could reveal some insights about their behavior in inter-regional agreements. In fact, the categories he laid out, “system influencing” and “system affecting”, are the backdrop of small states in inter-regional trajectories and this elicits their motivation so as to entertain region-to-region negotiations. Indeed, this could lie in an attempt to alter the system (i.e. the multilateral system of trade), by advocating for an extensive use of Special and Differential System (SDT) within the World Trade Organization (WTO) in inter-regional trade negotiations.

In summary, once having assessed the wider landscape of IR scholarship and the different perspectives that stress the question of smallness, I highlight the fact that IR discipline is in a position to revisit the 3 seminal theoretical debates, in accordance with Ingebritsen et al. (2006). For instance, by acknowledging that the inherent position of small states grants them with greater bargaining power to react to external events. This assumption comes from the fact of being agenda-free actors. Additionally, they have innovative roles that bigger players do not benefit from. This means small states can have a key moral duty to confront any power abuses committed by bigger actors (Ingebritsen et al., 2006).

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<sup>71</sup> Bishop uses the cases of some Caribbean states to illustrate this point, which is useful, and to some extent applicable to the two South American case studies I will be assessing. Both Uruguay and Ecuador could have used their relatively powerful sources (either natural resources or industries), which conform to their socio-economic representations, which I suggest are leverage to advance their interests nationally or internationally. I will study this question further in Chapters 3 and 4.

<sup>72</sup> One of Keohane’s ways of assessing small state involvement in international organizations lies in Rothstein’s analysis, which deals with small state’s different behaviors towards international institutions. He sustains that their main motivations are based on security issues. This means that small states membership to international organizations could be the means to achieve security and equality, with the former derived from a potential capacity to counterbalance great powers (1969-2006, p.294). Regarding this point, some analysts argue that systems themselves can be classified as “system influencing”. A state cannot dominate a system by itself, yet it can influence its nature through unilateral action or through multilateral cooperation. Or they can be classified as “system-affecting” in which states can influence the system by banding together or forming alliances, either in multilateral or in regional arrangements (Keohane, 1969-2006, p.295).

Moreover, the institutionalization of smallness and greatness is relevant as per its effects on power. Small states are seen as actors with limited material resources, therefore, the fact of having norms and rules can predispose them to favor institutional discourses, as a way to reassure their relative power within institutions (Neumann & Gstöhl, 2006, p.20). These claims seem to highlight the need to focus less exclusively on material capabilities and more on international institutions and relations (Neumann & Gstöhl, 2006, pp.17-21). I attempt to do so by addressing different debates further in this chapter.

#### 1.1.1.1 The question of power<sup>73</sup>

The main endeavor in IR discipline is understanding power. Different authors have elucidated the sources of power, its nature, and scope. Particularly, what interests this study regarding IR scholarship is to understand if bargaining power is a notion that provides explanatory value to the question of smallness. For instance, the cornerstones of (neo)realism, power and material sources, are relevant criteria to understand smallness. In line with this, the debate about power and small states is necessary in order to avoid a reductionist understanding that state's size is only a function of material attributes and capabilities (Maas, 2008, p.8).

The early developments of IR underwent through a narrower understanding of the *actorness* of the state, which were viewed mostly in relational terms; that is, small states only became relevant as per their dependent relations with other bigger states (Bishop, 2012, p. 945). This assumption was criticized by other disciplines that envisioned a more complex approach of actorness, calling for *structural power*, or the extent to which actors can influence an outcome<sup>74</sup>(Strange, 1996, pp.25-27). In other words, the focus swerved from the power that a state possesses to the power that it exercises, which means thinking of power in relational terms (Mouritzen & Wivel, 2005, p.4). Keohane's *system influencing/system affecting* approaches could be complemented with Strange's

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<sup>73</sup> In this sub-section, power is considered as a question that IR imposes without contemplating a constructivist approach of how power is socially constructed. I will attempt to shed light upon this question further in this chapter.

<sup>74</sup> Indeed, one of the purposes of this study is to elucidate the extent to which small states can influence the outcome of a determined process. In this regard, Strange's approach and the criticism IPE exerts over IR scholarship could provide interesting avenues of analysis to assess my two small state actors within their interregional relationship with the EU.



valuation of power. She stressed that *relational power* as conceived by realists<sup>75</sup> (Dahl, 1961; Hoffman, 1968; Waltz, 1979) is only one factor to consider, which cannot be isolated when it comes to power over outcomes.

Built upon the question of power, small states are characterized by two features: a lack of power (weakness) and its effect being their inability to provide themselves with security<sup>76</sup> (the power *over it*, i.e. over security) (Evans, 1998 as cited in Maas, 2008). Recalling structural realism, it is necessary to look at small states as a category within a hierarchy of states (Evans, 1998 as cited in Maas, 2008). Thereby, as discussed by Strange, the notion of power is relative as it can only be determined in comparison to the overall international system (Strange, 1996; Maas, 2008, 2009). Strange (1996) points out:

Power is still seen primarily as capabilities, as a property of persons, or of nation-states as organized societies, not as a feature of relationships, nor as a social process affecting outcomes. The way the system operates to the advantage of some and the disadvantage of others, and to give greater priority to some social values over others (p.23).

Power is also exerted through institutions, that is by the formation and maintenance of them. In fact, institutions usually reflect power relations; they can also constrain them and make their existence prosper (Baldwin, 2013, p.278). From a sociological perspective, power is defined as “the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests” (Weber, 1947, p.152). In a different token, according to Mearsheimer (2001), power “represents nothing more than specific assets or material resources that are available to a state.”

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<sup>75</sup> She refers to the relation that one state has with another, which grants it power, this being the traditional approach of realism. However, realism does not necessarily assess the outcome resulting from a relation of power. This question will be discussed more in detail further in this section, as I am interested in shedding light upon the extent to which small states can influence that outcome, namely “structural power” (Strange, 1996).

<sup>76</sup> Following (Maas, 2008; Rothstein, 1968, p.29 as cited in Keohane, 1969) what distinguishes small states from ‘other’ states lies in their inability to impose their will on other states. Small [powers] states require international aid and this is a manifestation of a lack of security coming from external threats. Rothstein acknowledges the material and psychological perspectives in regards to security. He looked into the way states react (psychologically) to similar threats (materially) and through it, he illustrated the distinctions of Great and Small powers (Keohane, 1969, p.293).

In brief, the two dominant traditions in power analysis in IR are considered in terms of the *elements-of-national-power* approach, which illustrates power as resources, or possessions, and secondly, the relational power approach which portrays power as an actual or potential relationship, or relational power (Baldwin, 2013). That said, the question of power is only one useful piece of analysis for smallness. For example, considering the neo-realist dimension to small states provides explanatory value to the concept of *balance of power*. This entails analyzing the interactions of small versus great states, but also with emerging states and how their interactions can shape behavior and national preferences towards particular foreign policy outcomes and inter-regional relations.

### **1.1.2 Small states in Development Studies**

The second body of literature that gauged smallness are Development Studies. From a historical-analytical perspective, the independence processes that took place in the 1970s, the end of the bipolar world, and the beginnings of a globalized era impacted the international system. This subsequently created a number of new, independent, “smaller” and much poorer states, each one with their own and different problematics (Sutton, 2011), but with one shared goal: catching up with the (post-war) liberal international economic model. This fact awakened interest in studying economic development and the question of smallness. Thus during the 1980s and 1990s a range of scholars plunged into the endeavor of conceptualizing the notion of smallness. Meanwhile, international organizations provided aid to small states to integrate the global economy, contributing to the spread of the liberal world order; this ultimately resulted in a widespread narrative on the concept of small state (Sutton, 2011).

#### **1.1.2.1 Vulnerabilities**

Insofar as Development Studies focuses on economic features, vulnerability was introduced as a category that distinguishes small states (Bishop, 2012, p.946) and their response to external incentives. According to Sutton (2011), the most implicated international agencies have exhibited a characterization of small states based on conventional agreements, such as population benchmarks. However, some counter-narratives assert that small states are portrayed less by their

geographic or demographic size, wealth, or relative power, but by a superseding condition that distinguishes them: vulnerability<sup>77</sup>.

Bishop (2012) interprets the collection *Profiling Vulnerability and Resilience* (Briguglio, et al., 2010), as an attempt to undergo a theoretical conceptualization of the notions of economic vulnerability and resilience. Based on development economics, he argues that the collection also seeks to provide a quantifiable understanding of smallness as a way to capture some particular difficulties small states face (Bishop, 2012, p.947).

Briguglio's publications deliver a concept of economic vulnerability within development economics which are summarized as follows: "vulnerability refers to the proneness to harm or damage originated from external forces" (2003, p.3) and accordingly, the notion of resilience as "the ability of an economy to withstand or bounce back from external shocks" (Briguglio et al., 2010, p.1). The latter was sought with the aim of mitigating "damage" caused to small states. At last, recognizing specific vulnerabilities that small states may suffer<sup>78</sup>, has been considered as the major achievement of Development Studies (Bishop, 2012).

Along the same lines, vulnerability is considered as "a matter of exposure to international political and economic risk and uncertainty" (Campbell & Hall, 2009, p. 548). In fact, vulnerabilities can permeate small states in diverse forms: from natural disasters and environmental damage to price fluctuations in commodity markets (particularly oil), high levels of migration, but also weak administration and currency crises (Briguglio et al., 2010 as cited in Bishop, 2012, p.948). Additionally, small states undergo other constraints, which are again inherent to their condition of smallness. For instance, "a narrow resource base, tiny domestic market, and an often historically-

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<sup>77</sup> Even if it is not the purpose of this study to unravel the questions of what lies behind international agencies' intervention in small states, the condition of vulnerability could have been put in place so as to justify their actions and their categorization being instrumental for them. Following, Baldacchino and Bertram (2009), vulnerability is seen as "instrumentally useful in the rhetoric of political lobbying and aid justification" (p.146). Moreover, as Baldacchino (2009) sustains "smallness becomes an important quality to peddle if it is deemed to represent a condition of dependency, fragility or vulnerability" (p.26).

<sup>78</sup> Briguglio sustains that vulnerabilities small states can encounter are pervasive and particularly characteristic of their smallness. Additionally, other characteristics such as insularity and geographic distance are factors that make small states susceptible to a range of social, political, and economic shocks (Briguglio, 1995 as cited in Bishop, 2012, p.948).

constituted dependence on primary products for export”<sup>79</sup> (Briguglio, 2003 as cited in Bishop, 2012, p.948). I will reexamine all these characteristics later in this chapter, aiming to elucidate a revisited approach to the question of smallness.

To be anchored in favor of Development Studies and the notions of vulnerability and resilience, one should review some economic features of small states. For instance, small states’ economic openness, which comes from the fact of their markets being small, requires them to position themselves internationally, in order to grow and provide them with enough competitiveness. A second explanation of openness is related to the limited diversification of their economies, which makes them more reliant on international trade than larger states (Cooper & Shaw, 2009, p.3). In this regard, small states haven’t been able to carry out the same developmental and diplomatic strategies as larger states (Bishop, 2012, p.948). Yet, as we will see later in this section, small states have employed their own diplomatic strategies, which have granted them a certain level of international recognition.

Relatedly, the discussion on low against middle and high income states is relevant when assessing smallness. Contrary to intuitive narratives, which state that small states have an economic handicap, Amstrong and Read (2003, p.255 as cited in Bishop, 2012, p.948) supported by the *2010 World Bank Development Report*, sustain that smallness is not related to weak economic performance<sup>80</sup>.

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<sup>79</sup> In a preliminary manner I posit that all the constraints stated above are typical economic features of my two small state case studies, but to a larger extent for Ecuador: for example, the devastating earthquake that occurred in April 2016, the process of dollarization followed by a massive currency depreciation in 1999, consecutive environmental degradation problems (that follow all the extractive projects in the country), fluctuations in the price of oil and other commodities, weak administration in reference to the frequent reforms to the governmental apparatus and recurrent resignation of Ministers, but also a considerable wave of migration after the financial crisis occurred in 1999, among others. On the contrary, Uruguay has had more stability in many of these aspects. Yet it has a tiny domestic market and is dependent on international markets.

<sup>80</sup> The *2010 World Bank Development Report* delivers a strong message about the question of smallness, by showing that most small states have a level of per capita GNP of over USD 975 placing them above the most poor, or the so-called low income countries (WB, 2010, p.368). A majority of small states consider themselves in either the lower-middle income (LMC) category (USD 976-3,855) or upper-middle income (UMC) category (USD 3,856-11,905). Yet a range of small states are in the high-income category (Qatar, San Marino, Kuwait, Cyprus, Aruba, Trinidad and Tobago) with a GNI per capita over USD 11,905. (WDR, 2010). Ecuador USD 3,090 vs Uruguay GNI per capita (2019) USD 16,230 See <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=EC-UY>

The study undertaken by Briguglio et al. (2010) comes to the conclusion that vulnerability is related to the condition of smallness. Yet it differs from other economic notions which are part of those conventional narratives, like growth or development. Thereby, vulnerability does not mean weakness or underdevelopment, as Briguglio (2003) demonstrates a number of small states even if vulnerable, have reached high incomes per capita<sup>81</sup> (p.2). This means that small states can be either rich or poor, but what they share in common, to different extents, is vulnerability within their socio-economic spheres.

The central issue in development literature is focused on fragility derived from the material source of smallness. IR literature, however, being fundamentally centered in the realist tradition, is focused on states' material capabilities which are explored in terms of *relational power*. This refers to small states' lack of power which affects their ability to provide themselves with security. Indeed, the seminal difference in the two schools of thought is seated in different grounds: economic vs security fragility.

In sum, smallness is not an intrinsic barrier to development and economic success (Lee & Smith, 2010, p.1093 as cited in Bishop, 2012, p.949). However, small states are conditioned to being vulnerable to substantial changes in the nature of their development in ways that larger states, either rich or poor, may not be.<sup>82</sup> In fact, Alesina and Spolaore (2005) argue that smallness can produce benefits, and heterogeneity can convey costs over public goods and policies. This means smaller states can have more homogeneous preferences, resulting in more democratic responses. Whereas in larger states with more heterogeneous preferences, it could be more costly to formulate and implement policies.

Notwithstanding small states' vulnerability to substantial changes, Briguglio accounts for this notion as an incentive for adaption. For instance, a state with strong adaptation capabilities strengthens rather than weakens its economy (Briguglio, 1995; Streeten, 1993). This assumption is

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<sup>81</sup> This phenomenon has been named as the "Singapore Paradox", referring to the "seeming contradiction that a country can be highly vulnerable and yet attain high levels of GDP per capita" (Briguglio et al., 2005, p.27). This paradigm assumes that vulnerability is imposed by an exogenous factor, whereas resilience is an endogenous response. Yet endogenous and exogenous factors have been found in both (Baldacchino & Bertram, 2009, p.146).

<sup>82</sup> This assessment will be complemented with other views in the coming sections.

an important point of departure for IPE studies in their willingness to characterize smallness as a potential capacity to exercise greater agency.

***Criticizing the vulnerability paradigm (IPE studies):***

The main criticism of the vulnerability paradigm is over their principal assumption that small states have economic vulnerabilities, which according to Baldacchino and Bertram (2009) is conceptually and empirically inadequate (p.146). For instance, there are some advantages as well as disadvantages that have been attributed to the fact of being small and isolated (Baldacchino & Bertram, 2009). If considered empirically, Briguglio's vulnerability index<sup>83</sup> (2003) shows economic vulnerability to be positively related to per capita income: the more vulnerable the economy, the higher its per capita income (the Singapore Paradox) (Amstrong & Read, 2005 as cited in Baldacchino & Bertram, 2009, p.146); this can beget the assumption that many small economies can solidly emerge in an interdependent globalized world (Amstrong & Read, 2005 as cited in Baldacchino & Bertram, 2009). Grounded in a conventional wisdom, the conceptual risks of the vulnerability approach have been countervailed by introducing the notion of resilience.

The problem of vulnerability is its top-down construction, which assumes that smallness implies economic difficulties as compared to larger states (in the same vein as the Singapore Paradox). Relatedly, proponents presume that the vulnerability-resilience paradigm is centered on the idea that vulnerability results from exogenous factors whereas resilience relies on endogenous responses. According to Baldacchino and Bertram (2009) this was proven false as exogenous and endogenous factors are found in both sides (p.146).

In the following section I will introduce some insights about resilience which will provide the reader with a more apparent understanding on how this notion plays into the field of smallness, by indirectly impacting small states' capacity to exercise agency.

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<sup>83</sup> On the Vulnerability Index see Briguglio, L. and W. Galea (2003).

### 1.1.2.2 Resilience

So far, I have explored the central tenets of economic development studies based on small states' vulnerability. A related line of analysis suggests a more positive approach. Thus, in the next lines I will go through the notion of resilience, which countervails the negative externalities of smallness. According to Briguglio, resilience is "the ability to recover from or adjust to change" (2007, p.105; Briguglio et al., 2010, pp.28-29). This definition contemplates the ability of an economically vulnerable country to cope with its impacts, which implies that resilience can take two forms: The latter occurs when a country adopts policies that exacerbate its inherent vulnerability and weaken the resilience they may generate. A wider approach claims that discourses to inherent vulnerability generate outcomes that were attributed to state size, resulting in a diversion of unequal power configurations (Lee, D. & Smith, 2010). On the other hand, nurtured resilience is developed and achieved when a country builds its resilience<sup>84</sup> through a process of deliberate policy (Briguglio, 2007, p.105).

Proponents calls for a range of measures such as social cohesion, good governance, or adequate macro-economic management to assist small states to regress shocks and attain development (Briguglio et al., 2010, p.30). For instance, international agencies' (such as the World Bank and the Commonwealth Secretariat) assistance is considered fundamental in Development Studies, yet it has not been critically evaluated. Additionally, I posit that these agencies are subject to suffer from dysfunctional behaviors impacting outcomes in recipient states. International organizations create rules and social knowledge. They also create definitions (for instance development) or different categories (for example least developed countries or LDCs)<sup>85</sup>, new interests in actors (promoting the rule of law), and transfer models of political organization (market economies, democracy) (Barnett & Finnemore, 1999, p. 699). Yet the same normative estimation on generalized rules that defines international bureaucracies can also make them unresponsive to their

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<sup>84</sup> Briguglio et al (2006) built a *resilience index* with the purpose of assessing the degree to which economically vulnerable countries, as a group or individually, are coping with economic vulnerability based on the following variables: good governance, macroeconomic stability, market reform and social development (measured by the education and health indices of the HDI years 2000-2002 (UNDP, 2002, 2003, 2004) (Briguglio, 2007, p.107)

<sup>85</sup> See World Bank or United Nations Conference for Trade and Development (UNCTAD).

central aims; obsession with their own rules can come at the expense of primary missions, and could lead to inefficient, pathological behaviors<sup>86</sup> (Barnett & Finnemore, 1999, p. 700).

Vulnerability and resilience are embarked on static prerogatives, without the kind of contextualization required to give them real explanatory and analytical power (Bishop, 2012, p.949). In this sense, although Development Studies provide useful tools to evaluate small states, IPE raises a complementary debate attentive to questions of agency and flexibility. Thus, the next section will contribute to the discussion about smallness through the lenses of IPE, which demonstrates there are new avenues of research with regards to an increased recognition of small state agency<sup>87</sup>.

### **1.1.3 International Political Economy (IPE) and small states**

IPE devoted part of their criticism to vulnerability and resilience as they have been conceived by Development Studies, principally by turning scholars' attention towards a greater recognition of small state agency. Accordingly, IPE takes approaches of both IR and Development Studies so as to provide a revisited perspective of smallness. Encouraged by the limitations and opportunities small states' actorness has historically had within asymmetrical power relations, IPE research has ambitiously studied their engagement in international regimes and institutions and how they have shaped political and economic outcomes (Bishop, 2012, p.950). In this way IPE has succeeded in readdressing the debate towards the agential capacity of small states.

By centering itself in small state agency IPE has reached a higher rung in the study of smallness. Akin to Development Studies, particularly regarding the notion of resilience, IPE advocates for a greater understanding of small state engagement, meaning they can become influential actors in their own right, by building resilience themselves (Bishop, 2012, p. 950). Cooper and Shaw (2009)

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<sup>86</sup> I consider two types of dysfunctionalities can be attributed to this case: bureaucratic universalism and normalization of deviance. See Barnett and Finnemore, 1999.

<sup>87</sup> A related but new question arises at this point: while international agencies recognize small states' vulnerability, to what extent does this hold true for inter-regional negotiations? (e.g. through a recognition of asymmetries and an extended application of SDT).



adjust the understanding of this notion by demonstrating some salient diplomatic strategies small states have used to carve out noteworthy roles within IPE<sup>88</sup>.

Through a number of case studies, the proponents of *The Diplomacies of Small States* successfully demonstrated that small states' resilience goes beyond traditional IR and Development Studies. In light of these claims, they incorporate the notion of *creative agency* (Cooper & Shaw, 2009, pp. 2-4), as a way to reconfigure the narratives about the image of small states (Bishop, 2012, p. 951). Their central tenet is that vulnerability is an imposed and predictable condition that highly constrains the bargaining power of small states. Yet resilience is a flexible condition that enables structural factors to be revisited and reshaped<sup>89</sup> (Cooper & Shaw, 2009, p.4). Relatedly, creative agency is about renewed diplomatic practices that small states undertake in the general domain, thus also reaching global governance issues (Cooper & Shaw, 2009).

A related line of research criticizes the paradigm which asserts that from small state vulnerability stems the inability to effectively manage the challenges they might face. Accordingly, from this inability follows the obligation of the international community to provide aid for development and diplomatic assistance (Baldacchino & Bertram, 2009, pp.141-142). In contrast to this narrative, I will shed light upon how my case studies demonstrated diplomatic capacities in complex policy areas, which granted them international recognition<sup>90</sup>. This suggests that even if conditioned to smallness, many small states have succeed in surviving but also in being recognized in global contemporary affairs. Ultimately, Baldacchino and Bertram (2009) provide a wider landscape that posits this recognition arises from factors of strength which are intrinsically embedded in small societies.

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<sup>88</sup> For instance, Cooper (2009) explored the role of Antigua at taking the US to arbitration at the WTO over the internet gambling dispute. A similar case which is interesting to uncover is the banana dispute, in which Ecuador along with ten other Latin American countries took the EU to arbitration at the WTO over the banana import regime. This case was finally solved in 2012 with the Geneva Agreement. See [https://www.wto.org/english/news\\_e/news12\\_e/disp\\_08nov12\\_e.htm](https://www.wto.org/english/news_e/news12_e/disp_08nov12_e.htm)

<sup>89</sup> Two points capture my attention about this point. Firstly, that vulnerability limits small states' bargaining power, which illustrates the position small states may have either in multilateral or inter-regional negotiations. Secondly, resilience as a flexible condition can allow structural factors to be reshaped, which to some extent is an opportunity for small states to regain "power".

<sup>90</sup> I provide some specific cases of this international recognition granted to my two case studies in the next lines.

Based on Cooper and Shaw's creative agency (2009), Baldacchino and Bertram (2009) call for a more optimistic conceptual approach corresponding to the innate qualities of small states, small societies and their firms, which they have called *strategic flexibility*. This notion contrasts with the vulnerability approach dominated in Development Studies, which is considered to result from the early postcolonial debates about small state "viability" (Baldacchino & Bertram, 2009, p.147). Contrary to this suggestion, strategic flexibility departs from an inductive bottom-up examination of actual behavior patterns among small states and their societies (Baldacchino & Bertram, 2009, p.146). This means, encompassing a micro as well as a macro-level of social and economic interaction. For instance, strategic flexibility considers the economic structure of small-states as a "proactive behavioral adaptation and not a passive response to exogenous world market prices"<sup>91</sup> (Bertram & Poirine, 2007).

Scholarship working in IPE tradition has suggested that vulnerability can be manifested in different types and its debate has focused on a lack of empirical basis to sustain economic vulnerability, as opposed to vulnerability implying environmental exposure coming from natural disasters (Baldacchino & Bertram, 2009, p.147). Nonetheless, the underlying rationales suggest that vulnerability and weakness are not necessarily interconnected and they do not impede the development of creative agency (Bishop, 2012. p.952). This means that small societies do get involved in activities that give them increased levels of economic, political, and social development in return. This is also derived from the fact that these societies get organized in micro-communities (neighborhoods, provinces, etc.) for mutual aid. In light of these claims, vulnerability can also be translated as a source of strength for small economies, as for example market openness can oblige them to develop conditions to be internationally competitive. Yet this discussion does not mislead the central fact that small states remain intrinsically vulnerable (even if rich, with engaged societies, or solid jurisdictions) and this might be obscuring the real utility of going through resilience as a way to surmount their condition of vulnerability<sup>92</sup> (Bishop, 2012).

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<sup>91</sup> For example, Bishop (2012) sustains that small societies have the capacity to adapt at earning multiple sources of income, and are willing to do what is necessary to get ahead.

<sup>92</sup> By questioning the utility of resilience, I am being more critical than what Bishop suggests. "It is far from clear then, that any small state has truly gone beyond resilience and outgrown its inherent vulnerability" (Bishop, 2012, p.952). Is it that international agencies insist on disseminating the use of resilience as an instrument of their political rhetoric that is functional to their existence? For instance, international agencies like the World Bank are explicit about their role as transmitters of norms and principles from advanced market economies to less-developed economies. They

The discussion that Baldacchino and Bertram (2005, 2009) convey, based on the Commonwealth Secretariat (2006) data, is that small states usually have higher GDPs<sup>93</sup> per capita and higher Human Development Index (HDI)<sup>94</sup> ratings than larger economies. This is an ongoing debate that holds true particularly for small island states and some rich European small states (Baldacchino, 2005; Baldacchino & Bertram, 2009; Bertram & Poirine, 2007; Bishop, 2012; Katzenstein, 1985), which at the same time overrides the question of economic vulnerability as stated by Development Studies<sup>95</sup>. According to Bishop (2012), the sources of vulnerability and resilience are politically, institutionally, economically and socially embedded (p.956). Thus suggesting that IPE's lenses are indeed a useful approach through which to evaluate smallness.

It has been exhibited that many small state development strategies are nurtured through their fundamental vulnerabilities and this can result in pervasive economic, political, and environmental impact. Thereby, the real challenge is taking small states out of the intrinsic feature of vulnerability which conditions them as small<sup>96</sup>. In this regard, IPE can deploy a set of tools to understand the political economy of small states, which comes from the recognition of a particular structure of their vulnerabilities, together with their potential agency capacity.

To conclude, IPE is a useful approach to be applied in this study as it draws attention to small states' agency. IPE research has ambitiously studied the role of small states in international regimes and institutions, and how they have shaped political and economic outcomes (Bishop, 2012, p. 950). Similarly, IPE has succeeded in advocating for a greater understanding of small

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are assigned the task of incorporating less-developed economies into the world economy (Barnett & Finnemore, 1999, p.714).

<sup>93</sup> In the discussion about GDP per capita (which is typically based on purchasing power parity) as the indicator of comparison. Nonetheless, and even if it is of universal availability, this marker has its limitations. For example, it puts emphasis on a territorial rather than national approach. Similarly, small economies tend to be badly served by GDP-based analysis, resulting in under or over-evaluations (Baldacchino & Bertram, 2009, p.149).

<sup>94</sup> For more information about the variables this index includes see the discussion on the "resilience index" in Briguglio et al., 2006.

<sup>95</sup> If considering all the traditional variables (such as GDP, trade openness, etc.) and under the criteria of the two international agencies' studies in which development economics base their analysis (WB and ComSec), then the reader could think my case studies (Ecuador and Uruguay) should not be contemplated as small states but rather middle-income/ middle states. Nonetheless, when considering the context, that is, an inter-regional relation, then one can assess them as small states.

<sup>96</sup> A great part of Development Studies' rhetoric has been built upon this assumption, which is something I am willing to discuss throughout this study.

state agency, meaning they can become influential actors in their own right by building resilience themselves (Bishop, 2012).

Vulnerability and resilience are based upon static prerogatives within Development Studies, without the kind of contextualization required to give them real explanatory and analytical power. Hence, the main methodological flaw assigned to Development Studies is the subjectivity of the qualitative approach. As Bishop (2012) suggests: “what to measure and how to measure? what can this quantification tell us substantively?” (p. 950). Indeed, the most critical issue for this scholarship is the lack of qualitative, historical, and institutional understandings, which can be surmounted with a political economy approach (Bishop, 2012, p. 949).

On one hand, Development studies provide useful tools to assess the vulnerability-resilience paradigm, which relies on the suggestion that vulnerability is exogenously imposed, whereas resilience is endogenously created as a response (Baldacchino & Bertram, 2009, p.146). On the other hand, the main challenge for IPE is looking deeper into these kind of questions and conferring small states with more flexibility and creativity to determine their own destinies. Based on these issues, I am interested in bringing new avenues of research and contributing to a new theoretical journey for smallness studies. I therefore explore the constructivist approach in the next section.

#### **1.1.4 Constructivism and small states**

In this section, I am interested in examining the contributions of constructivism<sup>97</sup> to the study of small states. In particular, I attempt to elucidate the preferences, values, and identities small states have had in inter-regional trajectories.

The attempt to apply the constructivist approach to the study of small states remains at a nascent stage (Lee & Smith, 2010). Yet it could carry the relational question further away from the analytical issue of smallness and towards an understanding of socially-based interactions. To begin with, Smith et al. (2005) acknowledge that the traditional fields of IPE and IR have swerved

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<sup>97</sup> For example, Wendt (1999) divides the theoretical views of IR into those that insist on the “brute material forces” as sources of power and those who consider power as “constituted primarily by ideas and cultural contexts” (p.97).

epistemologically away from states and realist notions (interest) towards a socio constructivist perspective (ideas, identities). In this regard, they reckon that moving away from the epistemological status of small states makes it possible to account for the discourses that produce particular preconceptions of smallness and to think about the relationship between these discourses and the specific practices that stem from state identities (2005, pp.ii-iii). In the same vein, Lee and Smith (2010) appraise the discursive power resulting from this socio-constructivist stand and away from the prevailing material interpretations of small states; that is, on the nature of smallness and its consequences (p.1094).

Lee and Smith (2010) are interested in the discourse of smallness which delivers a language of either opportunities or hindrances, which determines the place of small states in IPE (p.1095). In other words, the language used is the one that defines the narratives about small states (i.e. one based on vulnerability, weakness or lack of power), while generating the effects that are attributed essentially to smallness (Lee & Smith, 2010). This discourse construction can be perceived as a prescription for small states to be categorized as such. For example, the asymmetrical power relations that make day-to-day smallness are seen as strategies undertaken by political actors that are consistent with the language of vulnerability (Lee & Smith, 2010, p.1095). Indeed, both international institutions and small states acknowledge the difficulties of their asymmetries and the subsequent demands stemming from these narratives, like the application of Special and Differential Treatment (SDT) or a differentiated regime for smaller members of international economic organizations.

In a different manner, Campbell and Hall (2009) focus on how small states with cultural homogeneity and solid national identity have built institutional frames, resulting in advantageous socio-economic performance (p.547). Their contribution within small states' studies has centered the debate on culture and national identity as important elements in understanding the political economy of small states, as opposed to classic narratives that address economic and geopolitical vulnerabilities (Briguglio, 2003, 2007, 2010; Katzstein, 1985).

Campbell and Hall's (2009) innovation is that culturally homogeneous small states are more likely to develop institutional capacities to cope with vulnerabilities that are originated by external

economic factors. In fact, they explain this homogeneity can trigger the formation of national identity while favoring the possibilities of cooperation, flexible maneuvering, and collaboration in state action in order to advance national interest (p.548).

Relatedly, these scholars contemplate some categories that will be discussed in this section, like size and vulnerability, which are complementary to the literature developed by Alesina and Spolaore (2005), Baldacchino and Bertram (2009), and Briguglio (2003, 2007). Nonetheless, they elaborate new components to advance their argument: cultural homogeneity<sup>98</sup> and ideology of social partnership (Campbell & Hall, 2009, p.548), as will be discussed further in this chapter.

Drawing on constructivism is useful to understand the origins of national preferences and its consequences in small states. For instance, Gellner (1983) suggests that an educational system could facilitate cultural similarities and the formation of a shared identity. Similarly, some other factors like language, religion, or ethnicity were likely to shape national identity, thus implying that it is a socially constructed factor (Gellner, 1983). Interestingly enough, Gellner (1983) stressed that a strong national culture plays a role in a successful industrial society. That is, cohesive societies are more likely to coordinate policy and have readiness to undertake efforts for the common good, which is directly related to a strong national identity among people with common cultural features (Campbell & Hall, 2009). Additionally, Gellner (1983) claimed that industrial societies require social mobility in order to allow industrialization and socioeconomic development<sup>99</sup>. In summary, a common identity enhances the chances for more flexible responses to any vulnerabilities a population may confront (Gellner as cited in Campbell & Hall, 2009, p.552).

Ultimately, a common culture, cooperation, and a strong national identity are conditions for a state action based on national preferences. The conventional narrative suggests that an absence of

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<sup>98</sup> Refers to the degree to which a country's people share a common set of ethnic, linguistic, and religious characteristics (Campbell & Hall, 2009, p.548).

<sup>99</sup>Gellner's reference to industrial societies implies that the shared objectives are to be defined within industrial and trade issues. However, to what extent is this possible in societies whose economies depend on the exploitation of primary goods (fruits, beef, dairy, commodities) like in the case of Uruguay and Ecuador? In theory this sounds promising, but in reality the shift to an industrial model of economic development has been far from attained. This discussion is not on the core of this study, yet some lines are drawn with a focus on political trade dependence. See Chapter 3.

cultural cleavages allows individuals to focus on national problems, having a positive effect on socioeconomic performance (Campbell & Hall, 2009, p.552). At best, in a common culture there is no such conflict based on ethnic, religious, or linguistic differences; conversely, a combination of nationalist and class cleavages can result in political clashes<sup>100</sup> (Gellner, 1983).

In brief, Campbell and Hall's (2009) main thesis can be summarized as follows: "the greater the perceptions of vulnerability and strong national identity, the easier it is to forge an ideology of social partnership and thus the institutions that influence socioeconomic performance" (p.554). However, leaders' mistakes can undermine the positive effect of current institutions and policies. But if institutions facilitate cooperation, leaders can have more adequate responses<sup>101</sup>. Finally, Campbell and Hall (2009) acknowledge their claims are specific to democratic capitalist societies and therefore are not essentially operational to societies with fragile democracies. Yet small size, even in advanced societies, can lead to corruption and rent-seeking and weaken socioeconomic performance<sup>102</sup> (Campbell & Hall, 2009, p.554).

To sum up, each of the schools of thought reviewed in this section are centered on different preoccupations. However, having an interdisciplinary dialogue is useful and necessary to further the insights about small states issues. Indeed, as Smith et al. (2005) sustain the lack of a clear smallness definition has opened up more questions. What pertains this study is the impact of smallness in inter-regional negotiations. Thus, should small states be categorized along

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<sup>100</sup> The case of Ecuador stands for a political polarization with much more ideologized stances in regards to the inter-regional negotiations. Whereas in Uruguay, it seems that what played out were tacit deals about non-negotiable policies (the *Frente Amplio* legacy: cannabis and abortion legalization and same-sex marriage) against inter-regional negotiations.

<sup>101</sup> Leaders with strong character (Rafael Correa) and pragmatism (Tabaré Vasquez), both committed a lot of mistakes that potentially undermined institutions and an ideology of social partnership. Indeed, institutions in Ecuador were "tailored-made" (the Ministry of Trade was established mainly for the inter-regional negotiations), whereas Uruguay had institutional continuity which to an extent were also created within the purpose of opening markets (the Ministry of Foreign Affairs and the Ministry of the Economy are located in same building and work together).

<sup>102</sup> Quality of democracy is indeed another piece of discussion. While Uruguay is recognized for being a strong democracy (subject raised several times by interviewees during my fieldwork), Ecuador has less of a reputation (this topic was not raised in interviews). Also, cronyism is an issue in Uruguay ("we all know each other" implying that favors can be easier in an environment where everyone knows each other) and in Ecuador ("palancas" are very common, which is to appoint friends to head institutions so as to advance particular interests). At best, did quality of democracy intervene in the construction of national interest and therefore, in inter-regional trajectories? Unfortunately, proving this hypothesis is beyond the scope of this study.

geographic, economic, institutional, or capacities terms? I encompass such a discussion in the next sections.

## **1.2 Categorizing small states: a conceptual divide**

In this sub-section, I undertake a discussion on the categories that have been contemplated in the different theoretical perspectives that have dealt with smallness, giving a special focus to IPE. In doing so, I seek to elucidate renewed dimensions to be part of an adapted definition of small states, which will be one of the contributions of this study.

According to Maas (2009), there are two streams that draw the lines of the smallness debate: a quantitative (size, population, resources, etc.) and a qualitative one that grants small states with more subjective features<sup>103</sup> (p.74). If considering the systemic basis, it is not the size per se, but the fact that small units are differentiated from larger ones by the effect size has on them (Maas, 2008, p.2). In fact, there are some scholars that consider the relevance of the individual level, given that some actors become meaningful at this level, as opposed to the systemic approach traditionally considered in IR (Keohane & Nye, 1977). Although the actual size does play a role, what makes states small is not as much its measurable smallness but a further subjective understanding of themselves<sup>104</sup>. Also, their capacities and vulnerabilities at being small within an unequal system dominated by a few great powers (Gibert & Grzelczyk, 2016, p.3).

To begin with, the quantitative criteria focuses on size and population which are the two physical categories that are easily quantifiable. However, the difficulty their proponents have faced is setting the cut-offs<sup>105</sup>. Scholars consider that there is an arbitrary formulation to decide on these

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<sup>103</sup> In fact, these two currents (qualitative and quantitative) correspond to the traditional IR debate that opposes material and subjective perspectives. The study of smallness shouldn't be an exception in this regard, as both are to be considered as comprehensive understandings of the political and economic implications small states have in world politics.

<sup>104</sup> I do endorse the constructivist turn of this argument. Indeed, I seek to shed light upon this theoretical approach to better understand the implications of smallness within inter-regional trajectories.

<sup>105</sup>The work done by the Commonwealth Secretariat (1985) establishes a million population as the cut-off that would qualify as a small state (Clarke & Payne, 1987), which in turn fulfills the requirements to group together the small states of the Commonwealth. Similarly, a population cut-off of 1.5 million people has been the benchmark applied by the World Bank. In turn, Vital sets 10 to 15 million population and as a more flexible measure (1971). That said, in the academic literature the definition of small states ranges between 1.5 million or less to 15 million. Indeed, these numbers evidence the arbitrary basis in which different streams are utilized to cover particular research needs.



cut-offs, which in turn uncovers the necessity of looking into small states in comparative terms (Gibert & Grzelczyk, 2016, p.76). At best, I endorse the proposal about the definitional challenge in order to underpin more flexible thresholds.

The second stream deals with qualitative criteria upon which various approaches have been unfolded: firstly an influential approach, secondly a behavioral one, and thirdly the approach this study attempts to build upon which is based in inter-subjectivity. The first argument takes significance within a historical perspective, which is useful to understand the maintenance of a system (status-quo) or its restructuring where small states, according to Vital (1971) are unable to do so. The second approach foresees small states as a group of states having specific behavioral patterns. For example, limited protagonist roles in international relations, favoring international organizations, or supporting international law; all these places them within a distinct category of smallness (East, 1975, p.160 as cited in Maas, 2009). Interestingly enough, the question that remains within this discussion is about the causes of these different behavioral patterns: are they a typical trait of smallness or are they the consequence of having less capacity to initiate action?<sup>106</sup> In that regard, some voices advocate looking at small states' foreign policies, which can potentially provide new insights on why small states have different behaviors than larger states. First and foremost, consider that both actors operate under different circumstances. Even if this question remains unanswered (Maas, 2009, p.78), one should expect size to affect a state's behavior. Finally, the third approach conceives small states as actors with leverage over their own rights and with inter-subjective capacities, that is, as social constructs that can exert clout over different institutional forms.

### **1.2.1 The smallness quantitative – qualitative divide**

In this sub-section I assess some categories within the large universe which form part of the smallness literature<sup>107</sup>. In fact, although a broad overview of categories has resulted from a previous assessment (See Appendix 3), I will only examine a selection of them, based on the two

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<sup>106</sup> One insight provided by Maas (2009) is that size and behavior should be treated as independent variables, which means they are not causally connected. Therefore, other categories should be introduced to this debate as is discussed later in this section.

<sup>107</sup> They pertain to all schools of thought contemplated in this study (IPE, IR, Development Studies and Constructivism).

overarching criteria that have been used in the literature: namely the quantitative and qualitative. Indeed, this choice responds to my particular research needs, that is, exploring the categories that are intuitively relevant to illustrate my case studies. Far from being an arbitrary selection, it merely results from the empirical undertaking to be applied in the final comparison.

Firstly, the quantitative criteria include several categories: size, population, market size, trade openness, economic integration, among others. As such, these categories are more widespread within IR scholars and Development Studies, and correspond to the material basis of small states. Yet they can limit the preferences and the influential capacities of small states.

Secondly, the qualitative criteria correspond to behavioral categories that delve into more complex understandings of small states and which may affect their conduct in the first hand, that is, their agential capacities. For example: economic and political vulnerability, international viability, resilience, creative agency, among others. They are opposed to the practical implications derived from the material characteristics of small states<sup>108</sup>.

Lastly, I explore further inter-subjective dimensions which have had more a limited assessment in smallness literature<sup>109</sup>. For example: scale, pragmatism, self-perception, and autonomy which were selected to meet my research needs. In this regard, I expect them to provide some elements of analysis to be included in a renewed definition of smallness and to give meaning exclusively to small states in their agency capacities within institutionalized inter-regional trajectories.

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<sup>108</sup> It should be mentioned here that the two types of criteria (quantitative and qualitative) can have political and economic consequences to both small and large states. That is, they are not exclusive to smallness. This creates a methodological challenge for the comparison that will be undertaken in Chapter 5. Yet this is precisely the clout I am willing to unravel so as to have a better understanding about small states within inter-regional trajectories.

<sup>109</sup> In fact, Thorhallsson (2000) proposes a multifunctional framework, including six categories, for defining the size of states within the European Union (p.20). Nonetheless, there is still much to be done to assess non-European small states.

### 1.2.1.1 Quantitative categories

#### i. Size

One of the main challenges of defining smallness is that there is no agreement about what characteristics determine a state's size. In other words, a universally agreed upon definition of small states is constrained by a lack of consensus about its key qualities (Maas, 2009, p.70). Conversely, the question about what determines the size of a state does not only pertain to the study of small states. Yet, as size is a defining feature, it is relevant to understand small states. In line with this suggestion, size is a useful category for the distinction between small and big states (Maas, 2009).

Some attempts to define size have been forthright, with size referring to and measured through a country's arable land mass and population (Campbell & Hall, 2009, p.548). Yet, states with an extensive territory can lack power. Thus, territory does not forcedly instill states with strength in the same manner as a large population or a solid economy does (Thorhallsson, 2018, p.18). The size of the economy (GDP) is also commonly used to define the state's size (Archer & Nugent, 2002 as cited in Thorhallsson, 2018). However, territory and economy are not practical on their own. They require an assessment together with other more salient categories. Economists have considered state size as an exogenous factor. However, in order to assess international economics it is necessary to observe the borders across which exchanges occur. This is to say that national borders are human constructions and therefore the formation and change of those political borders can be studied by using some IPE tools (Alesina & Spolaore, 2005).

A different approach on size has been examined by Alesina and Spolaore<sup>110</sup> (2005) who question themselves about the determinants of the size of nations, for example if size matters for economic success (p.1), by analyzing the connections of country size, production, and economic growth among others. Thus, their main claim is that "whether country size matters for economic prosperity depends on a country's degree of economic integration with the rest of the world" (Alesina & Spolaore, 2005, p.81). For this purpose, Alesina and Spolaore stress a distinction between the

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<sup>110</sup> These authors do not focus exclusively on small states, but in the political and economic implications of a nation's size. See Alesina, A. and Spolaore, E. (2005). The size of nations. MIT Press.

political size of a state and the size of its market. They argue that the extent to which these two concepts concur is a function of the degree of openness of international markets (2005).

In light of these rationales, Alesina and Spolaore (2005) contend that “the sizes of states are due to trade-offs between the benefits of size and the cost of heterogeneity of preferences<sup>111</sup> over public goods and policies provided by the government” (p.3). In fact, these authors carve out into the advantages of size, for example the provision of public goods, which has a material dimension (geographic proximity) and an ideological one (similar preferences). These dimensions also account for the heterogeneity of preferences of a state. For instance, these scholars explain that geographical distance acknowledges how distant individuals are from public goods and the ideological dimension exhibits how close public goods are to individuals’ preferences (Alesina & Spolaore, 2005, p.19). Indeed, political jurisdictions that are geographically connected result in individuals who live closer in space and share preferences that are more alike. That is, individuals with similar preferences, income, religion, and ideology usually live close to each other, and this accounts for a positive correlation between geographical and ideological proximities (Alesina & Spolaore, 2005).

Within a larger landscape, heterogeneity can be thought of in further terms. For example, typically more diversity exist within a larger state, in terms of preferences, cultures and languages. Yet the reader must draw attention to the importance of evaluating the heterogeneity of preferences in different case studies<sup>112</sup>. On one hand, it implies that very diverse groups of individuals within a state should find agreements on the matters pertaining to a set of policies. Thus, a larger heterogeneity can imply less satisfaction among individuals regarding those policies (Alesina & Spolaore, 2005) and this can have repercussions on the governance levels of that state. On the

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<sup>111</sup> Heterogeneity refers to very diverse groups of individuals that should agree in different public matters; for instance: different sets of governmental policies, such as redistributive schemes, public goods, foreign trade, defense policies, etc. (Alesina & Spolaore, 2005, p.4). In regards to politics, Alesina et al. (2004) and Di Tella and MacCulloch (2005) evaluate partisan heterogeneity of preferences and claimed that left and right differ in the happiness loss they experience from inequality, unemployment, and inflation among others.

<sup>112</sup> To some extent, I am assuming heterogeneity occurs in Ecuador as per being socially diverse (even the 2008 Constitution recognizes it as pluri-cultural and multiethnic state). Additionally, there are marked territorial divisions, typically due to regions: Sierra vs the coast vs the Amazon region and the Galapagos Islands. Likewise, Uruguay stands in a more or less similar situation but on a different scale. First of all, from the fact that the Uruguayan population is smaller. However, the problem Uruguay faces is also territorial as it is extremely centralized in the capital city, Montevideo.

other hand, Thorhallsson (2018) argues that small size can lead to a diminished relative well-being and to a perception of increased insecurity, but it is more likely that resources are better distributed among citizens and this results in a greater satisfaction for them (p.19).

Finally, Alesina and Spolaore (2005) stress that some of the “material” benefits of size, like per capita costs for public goods<sup>113</sup>, typically decrease with a larger number of taxpayers (p.3). The authors also make the succeeding observations: larger states also have greater military power and greater protection against external aggressions; the size of the state impacts the size of the economy (mainstream economic theory posits that larger economies increase productivity thereby making larger states richer); bigger countries can provide regional insurance within the same state; and they can build redistributive structures to transfer wealth from richer to poorer individuals and regions (2005, pp.3-4, 81-82). Nonetheless, these claims are offset as these authors further their study based on subjective components such as the heterogeneity of preferences augmenting it with a larger size of a state, the pool of ideas, or the knowledge available in a state.

## **ii. Population**

Which population threshold can be considered as small? The thresholds to distinguish small states have been far from agreed upon and they continue to be an arbitrary term<sup>114</sup> (Baldacchino & Bertram, 2009). For example, most studies in political science and economics categorize small states as the ones having resident populations under 10 or 15 million (Armstrong & Read, 2004; Jalan, 1982; Katzenstein, 1984, 1985; Kuznets, 1960; Ross, 1997; Vital, 1967). Moreover, Baldacchino and Bertram note that some international agencies within Development Studies have adopted definitions of small states populations to make them comprise less than 1.5 million people, as in the case of the Commonwealth small states (Butler & Morris, 2017; Commonwealth Secretariat, 2006). Yet these agencies seem eager to adopt more flexible population thresholds according to particular policy goals. Certainly, the establishment of these thresholds have political and economic implications, as the larger the population the more heterogeneous the preferences, the more difficult to define largely acceptable economic policies.

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<sup>113</sup> The economic definition of public goods argues that its consumption by one agent does not prevent other agents/users from consuming it. See Samuelson (1954).

<sup>114</sup> Vital claims that population thresholds are “frankly subjective, if not arbitrary” (1967, p.8). He also suggests that these definitions are advanced to make the identity of his study clear and not with manipulative analytical purposes (Vital, 1967,p.9)

According to Thorhallsson, population size can result in some static advantages, disadvantages, and also needs. For instance, if a state counts a small population, whether it is a large territory or not, whether is rich or not, a small population claim particular needs and challenges for that state (2018, p.18). From a material stance, a small population signifies, for example, limited personnel to enroll in a large military force with vast capabilities. However, from a more subjective perspective, a small population can produce constraints (Corbett & Connell, 2015 as cited in Thorhallsson, 2018) but it can also develop enhanced diplomatic skills in diverse policy domains. As discussed before, this diplomatic recognition can drive political opportunities, notably within international negotiations.

### **iii. Market size**

One of Alesina and Spolaore central claim's regarding the advantages of size, is the market, which has an impact in economic success (2005, p.82). Some of the positive externalities market size has on the economy are specialization or increased productivity<sup>115</sup> derived from larger opportunities of interaction among economic agents (Alesina & Spolaore, 2005). Market size also has a crucial role on industrialization models: the bigger the market, the more attractive to investors, which in turn helps to reduce fixed costs and subsequently promote development (Murphy et al. 1989 as cited in Alesina & Spolaore, 2005, p.82).

Without attempting to override the classic economic theory, it is manifest that none of these arguments favor small states. Hence, it is necessary to consider other categories such as market openness. Namely, in an *autarky*<sup>116</sup> a small state by principle has a small market and consequently a low demand for output and reduced production (Alesina & Spolaore, 2005). This implies that the benefits of market size are a function of trade regimes, where small markets can benefit from free trade by accessing larger markets. Conversely, in a world of trade barriers large size is critical to the benefits of trade. In brief, size affects market and affects the political economy of a state by constraining its autonomy, notably to pursue its own development policies.

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<sup>115</sup> In the literature of determinants of income per capita and growth, Romer (1986), Lucas (1988), and Grossman and Helpman (1991) developed models of growth, whose main thesis was that a larger economic size would in principle increase productivity.

<sup>116</sup> It refers to a world with no economic relationships among states.

#### **iv. Trade openness**

This is one of the crucial categories to illustrate my case studies, that is, whether this motivates small markets to participate in interregional trade negotiations. Indeed, trade openness or international economic integration<sup>117</sup> is related to the size of a state (Alesina & Spolaore, 2005, p.218) and this has diverse implications. Indeed, in a world of trade restrictions, the size of a state determines the size of its market. Yet, according to Alesina and Spolaore (2005), with complete free trade, the market size and a country size are not correlated, that is, for every state, the size of the market is the world (p. 218). Secondly, as the world integrates more economically, the trade-off between heterogeneity of preferences and economy of scale inclines in favor of small size as within trade openness small states can also prosper (Alesina & Spolaore, 2005, p.219). Ultimately, going back to the relation between state size and economic success: as the world economy integrates, the size of states should matter less for prosperity. Whereby with trade liberalization and market integration, the political borders should not affect the market size. The process of European integration particularly illustrates this<sup>118</sup>.

Finally, the notion of vulnerability, assessed by Development Studies, drives small economies as they are particularly exposed to external shocks (Briguglio, 1995; Streeten, 1993). Yet Baldacchino and Bertram (2009) contend that contrary to this common narrative, trade openness, even if exposed to volatility, can render small states strong as it obliges them to reach higher competitiveness standards within open markets<sup>119</sup>. Concurrently, this category could be deemed as one of the pivotal motivations of small states to get engaged in inter-regional negotiations.

#### **v. International economic integration**

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<sup>117</sup> Alesina and Spolaore use both terms (trade openness and international economic integration) interchangeably. However, as in this study we are considering an inter-regional relation (EU with MERCOSUR and Andean region, respectively) we distinguish nuances between both terms: the former refers strictly to free market, and political dialogue and cooperation are to be included in the latter.

<sup>118</sup> See Mitrany, 1976.

<sup>119</sup> I expect to build upon this argument in order to sustain that the cases of the agro and fisheries in Ecuador and the beef sector in Uruguay have created positive externalities from trade openness, which has turned them into salient socio-economic representations.

Alesina and Spolaore (2005) sustain that the real question about small states is not about their size, it rather lies in their heterogeneity of preferences. If we consider the preference of a small state, typically being economic integration (based on the economic premises discussed above), then as small states become more integrated in the world economy their size should probably matter less for attaining economic success. Thus, the conventional narrative should continue as follows: in a context of economic globalization, the political notion of a small state is overshadowed. In other words, the political borders become blurred within a context of economic integration.

Indeed, a distinction should be raised between the political size of a state and the size of its market. The extent to which these two components coincide depends on the degree of integration to international markets (Alesina & Spolaore, 2005). A feasible economic size of a state is related to the trade regime; while small states may struggle in a world with trade restrictions, they may be well-off in a context of free trade. This implies that the economic cost of being small is reduced as economic integration increases. Consequently, Alesina and Spolaore argue that small regions (ethnic minorities and border regions in larger countries) seek independence as economic integration increases (2005, p.83). Ultimately, they argue that this may increase the demand of political autonomy<sup>120</sup>, which can be summarized as follows: economic integration should be accompanied with political disintegration within a state<sup>121</sup>. In other words, increased economic integration favors the creation of smaller states, and smaller states aim to support integration (Alesina & Spolaore, 2005, p.83). By the same token, as small countries are strong supporters of free trade, a large part of their economies become free-trade dependent. Yet these authors have tried to unravel this paradigm by assessing the inverse source of causality, that is, as the world economy becomes more integrated, the benefits of the large size of markets tend to blur (Alesina & Spolaore, 2005, p.94).

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<sup>120</sup> This is crucial for cases where political borders are vulnerable. However, in states with defined borders this can hardly become a reality. The inverse source of causality, that is, small countries being strong supporters of free trade because a large part of their economies are free-trade dependent, which has been the paradigm of smallness. Yet Alesina and Spolaore have tried to uncover it.

<sup>121</sup> This claim contrasts with the functionalist perspectives of European economic integration. According to Mitrany (1976), a rise in economic integration would subsequently lead to political integration at the regional and global levels. Accordingly, Haas (1958, 1964) sustained that an increase in economic integration would result in more centralized policy coordination and thus deeper political integration. Yet Alesina and Spolaore emphasize their claim that trade liberalization and an open market economy allows small states to prosper economically (2005, p.85), but can proliferate their political claims which subsequently could lead to polarization.



### **1.2.1.2 Qualitative categories**

These are behavioral categories which provide more complex understandings of small states and may affect the way they relate with other actors. For example: economic and political vulnerability, international viability, resilience, creative agency, among others. They oppose the practical implications derived from the material characteristics of small states.

#### **i. Economic success and economic vulnerability**

So far, the relationship between country size and economic success has been measured by growth per capita which depends on the state's trade regime (Alesina & Spolaore, 2005). To be anchored in favor of this author, small states' economic success is conditioned to their engagement in economic liberalization, whereas larger countries get more economic advantages in a world of protectionism. In light of these claims, the core of Alesina and Spolaore's argument is that states can afford to be small if they have open economies. In fact, this illuminates the controversial debate about free trade and economic growth. Alesina and Spolaore suggest that state size mediates the correlation between trade and growth (2005, p.168). However, Rodriguez and Rodrik (2001) sustain that there is no solid empirical correlation between trade and growth. At best, Cameron (1978) and Rodrik (1998) (as cited in Thorhallsson, 2018, p.19) maintain that the most open economies usually have strong welfare programs and considerable government spending insofar as they satisfy the domestic groups' most vulnerable from the effects of international economic fluctuations.

The same conditions that allow small states to achieve economic success can turn into sources of economic vulnerability, especially when stemming from an open trade regime. Following Briguglio (2007), this fragility is originated by inherent and permanent economic qualities<sup>122</sup>, which are human-induced measures that exacerbate the inherent vulnerability of small states and weaken the resilience they may generate. Conversely, Bertram and Poirine (2007) suggest there is a particular dynamic taking place within small states' domestic economies in spite of the lack of

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<sup>122</sup> These qualities are, among others: a high level of economic openness make states susceptible to external economic conditions; dependence on a limited offer of exports and a lack of economic diversification as well as a dependence on strategic imports (capital supplies for industries) (Briguglio, 2007, pp.102-103).

control resulting from its high degree of openness. That is, as their environments are altered, so are their economies (p.333). If they embrace a transversal perspective, small states' economies can gravitate from one sector to another. This "rapid response capability" according to Bertram and Poirine (2007), responds to a necessary opportunity, particularly when small states confront high levels of domestic economic specialization.

In sum, economic openness can determine economic success while being a source of economic vulnerability. This dichotomy is at the core of small states' preferences. In economics it has been estimated quantitatively, by calculating the cost of free-market against protectionism, without appraising the lack of empirical consistency between trade and economic growth<sup>123</sup> as some scholars sustain (Rodriguez & Rodrik, 2001; Lee & Smith, 2010). Yet this research aims to evaluate this dilemma in qualitative/ subjective terms by considering some categories such as creative agency or vulnerability itself, and small states' perceptions in terms of political clout to alter determined outcomes.

## **ii. Political vulnerabilities**

This category enshrines the discussion entertained along this chapter on small states' definitional divide between (behavioral) capacities and (influential) relations. As some scholars suggest, there are some behavioral patterns that characterize small states; for example, a limited protagonist role in international relations, supporting international organizations and international law (Baldacchino & Bertram, 2009). However, according to Maas (2009) these presuppositions are problematic as size and behavior are not necessarily correlated. However, within this study, I do expect these two categories to be related, that is, size affecting the political and economic behavior of my case studies<sup>124</sup>.

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<sup>123</sup> One of the conventional narratives that categorize small states is a condition of underdevelopment stemming from their small size, which according to Lee and Smith typically leads to the predetermined view that smallness is a barrier for economic success (2010, p.1093). Thus, small states are recurrently perceived as dependent and peripheral, and their small economies viewed as unable to bear the pace of large states and the pressures of the world economy (Lee & Smith, 2010).

<sup>124</sup> I will shed light upon this relation by examining if some similar patterns can be observed in my two case studies during inter-regional negotiations with the EU.

Following Vital, a small state is more vulnerable to external pressures and therefore more limited in the political options available; this stems from the insecurities, stress or weakness a small state experiments with so as to exercise an autonomous political action, and this results in more restricted connections between domestic and external affairs (1967-2006, p.77). Thereby, it is expected that the smaller the human and material resources of a state, the greater the constraints it has to overcome to maintain valid political options. Consequently, the smaller the state, the more difficult it is to become an autonomous actor in world politics (Vital, 1967-2006).

The case of the Ecuadorian conversion to the US dollar (dollarization) which occurred in 1999 clearly illustrates this dichotomy. That is, having limited material resources (US dollar as the national currency) created more constraints to maintain valid political options internationally and less capacities to negotiate in international capital markets (Chiriboga, 2019). Due to dollarization, Ecuador has a limited monetary policy, which has placed the country in a position of increased political vulnerability. At the domestic level, Ecuador does not have all the financing mechanisms available, such as the possibility of making its exports more competitive and injecting resources into the economy through the primary creation of money (printing money)<sup>125</sup>. All these contribute to a greater international political vulnerability, as the country is in a weaker position to negotiate in capital markets and with multilateral financial institutions<sup>126</sup>. Indeed, Chiriboga analyses currency from a sociological perspective. He contends that not having one's own, sovereign currency is an aggravating factor to a condition of smallness<sup>127</sup>. Except for in the Eurozone, there is no big state without its own currency. All dollarization cases have occurred in small developing states<sup>128</sup>. That said, dollarization in the Ecuadorian case corresponds to a consolidation of a hegemonic currency.

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<sup>125</sup> Personal discussion with Andrés Chiriboga, based on his article “A sociological approach to dollarization and culture in Ecuador”, 2019.

<sup>126</sup> In fact, “this has an impact on interest rates. That is, when there are no alternatives for financing, international markets can abuse. Its ability to lower and raise bond interest rates, in part, has to do with a state's monetary policy capacities, among other things. This is a bargaining element, which destroys national self-financing mechanisms. The only option for a small state is to be left in a weak position to negotiate. This is actually happening” (Personal discussion with Andrés Chiriboga, own translation, emphasis added). Yet this discussion needs to be nuanced with the case of the Eurozone, as some small European states that are part of the Eurozone have also limited monetary space and might not be confronted with increased political vulnerabilities. However, this debate goes beyond the scope of this study.

<sup>127</sup> For instance, money has boosted a transition to a society where market power predominates, in other words, the case of dollarization exposes that “money destroys social relations” (Chiriboga, 2019, p.117).

<sup>128</sup> In the case of Latin America and the Caribbean, Ecuador and El Salvador use the dollar as the national currency.

In brief, I have attempted to provide some insights on the connection between a small state's political vulnerability (behavior) and its influential capacities. So far, this connection seems to be probabilistic rather than deterministic. The case of Ecuador's dollarization is illustrative. That is, Ecuador has reduced capacities, in terms of leverage, both nationally and internationally, from the fact of having limited monetary policy, and smallness being an aggravating factor. Yet the absence of monetary policy resulting from dollarization is not an inherent condition of smallness, but it has its effects in several areas within economic policy (monetary, fiscal, trade).

### **iii. Resilience**

Resilience is the capacity to adjust to change (Briguglio 2007, p.105; Briguglio et al., 2010, pp.28-29). Said differently, this notion is about the ability to cope with the impacts of vulnerability (either economic, political, or environmental) and in turn, to cope with its negative externalities. A state can either build its resilience by implementing its own policies (nurtured resilience) that help to overcome a situation of vulnerability, or it can adopt policies that exacerbate its inherent vulnerability while it weakens its resilience capacities (Briguglio, 2007). In regional integration, resilience is the capacity to cope with politicized environments, which in the Latin American case has given place to the emergence of renewed integration schemes within a context of multipolarity (Dabène, 2012).

Hence, Payne sustains that "small states are mostly acted upon by much more powerful states and institutions" (2009, p.280), which makes vulnerabilities turn into the most visible exhibitions of smallness, instead of converting them into opportunities. Yet other narratives have advocated for a renovated image of small "weak" states in a system controlled by the strong (Cooper & Shaw, 2009; Payne, 2009). Nurtured through a renewed focus on what small states "can actually do and have done" to survive in global politics. Indeed, this line of argument has been opened up by Briguglio who has switched the question of vulnerability to place resilience at the center of analytical attention (Payne, 2009, p.280).

A perspective from IPE upholds a complementary approach to address the questions of agency and flexibility, conferring greater recognition to small states' agency. That said, Payne deems vulnerability as a condition and resilience as a strategy (2009, p.279).

Along the same lines, one should put forward the two typical categorical frames of smallness (vulnerability and resilience) and link them together instead of making them compete. So far, smallness continues to generate vulnerabilities in different areas: political, economic, social, and environmental. Thus, vulnerability still seizes the underlying condition that characterizes small states' different trajectories (Payne, 2009, p.281). Yet it could be shaped as a political opportunity as it is transformed into enhanced diplomatic and negotiating capacities. Indeed, a skewed attention on vulnerability can rapidly lead to reduced political viability and inappropriate foreign policy decisions.

The presumption that resilience may empower small states is endorsed by the studies published by Cooper and Shaw in their collection "*The Diplomacies of Small States*" (2009). It suggests that a distressed diplomacy that has condemned small states has failed to succeed (Payne, 2009, p.282). Concurrently, active diplomacy by some small states (African Cotton diplomacy<sup>129</sup> or the Latin American banana exporting countries) have fruitfully advanced their claims within the WTO. This illustrates how they have attempted to exercise enhanced capacities within international negotiations. These battlefields have given sense to the concept of resilience (Payne, 2009, p.283).

From a more critical perspective, Bishop (2012) has looked at the most salient resilience scholars who equate vulnerability with weakness through critical lenses. Subsequently, he proposes that people within small societies engage in productive activities that generate economic, social, and political development, yet they remain under conditions of intrinsic vulnerability. This is why, according to Heron (2019), the claim that small states that have gone through resilient activities have overcome its inherent vulnerability is wishful thinking. Finally, Joseph (2013), while assessing environmental policies, argues that resilience is a form of "embedded neoliberalism", that is, a situation when each state is granted the individual responsibility to implement its policy

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<sup>129</sup> Stands for Benin, Burkina Faso, Chad, and Mali.

framings for adapting. That said, resilience will suit neoliberal forms of governance<sup>130</sup> (Joseph, 2013, p.38).

Finally, rethinking resilience means to use it as an autonomous policy goal with flexible ways of approaching developmental choices small states want to pursue in their own right. This should raise small states' awareness of the extent to which resilient policies could be responding to fixed policy preferences typical of advanced liberal societies, following Joseph (2013). Conversely, these prerogatives are to be used to build small states' agential capacities. In the same manner, considering pragmatism instead of resilience could be a way to approach small states' behavior to attain their best choices within an inter-regional trajectory.

#### **iv. International Viability**

I explore international viability mainly from David Vital's perspective. This scholar undertakes an analysis based on small and independent states to understand the political consequences in contemporary world politics (1969-2006). He questions to what degree and under what circumstances small states are internationally viable. In fact, by sustaining that some states are not in a capacity to be viable actors in international politics because they cannot afford to have opposition to their purposes<sup>131</sup>, which comprises political survival (Vital, 1969-2006, p.82). He pursues the explanation more in depth as to explain what can be conceived as viability: "an aptitude to alter the course and reconsider political and economic arrangements" (Vital, 1969-2006), this being a test of political independence at a first stance. However, he also considers a second level of viability, which is a more rigorous test for a state, that is, the ability to carry out such reconsiderations (political/ economic) no matter the opposition. For instance, the capacity to abide

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<sup>130</sup> In fact, Joseph (2013) argues that "resilience supports the organizational structure of the advanced liberal societies through its assumptions about social relations, and it supports the idea of the neoliberal subject as autonomous and responsible" (p.40).

<sup>131</sup> To illustrate this this argument Vital questions if El Salvador is internationally viable. A small state in Central America, with strong political and economic ties with the US. Indeed, El Salvador exerts a passive foreign policy (or what he calls non-policy) which at the same time provides this state with serenity. Said differently, its calmness is determined by its international passivity (Vital, 1969-2006, p.82). He pursues that a small client state can rebel against power with no such repercussions because of the conventions of legal equality (sovereignty) and international behavior.

to purposes that are in line with the national preferences<sup>132</sup> while bearing opposition (Vital, 1969-2006).

Different states are internationally viable to different degrees. Major powers are viable in absolute terms, whereas for small states, viability is a relative category that depends and gravitates according to the circumstances (Vital, 1969-2006, p.83). In fact, where the degree of opposition is large and the capacity of the state to overcome is reduced, the core of national interest must be reconsidered; in other words, international viability can impact national preference formation (Vital, 1969-2006). As a consequence, the cost of independence and sovereignty (at the second level of viability) can be extremely costly in human and material terms, and small states' governments frequently face heavy sacrifices to overcome them, sometimes resulting in passivity (Vital, 1969-2006).

Accordingly, the maintenance of a small state is anachronic as its political autonomy cannot be sustained in long run in contemporary affairs (Vital, 1969-2006, p.84). In IR literature, a possible way out for small states is forming alliances, associations, or regional blocs<sup>133</sup>, and thereby inter-regional relations become relevant. Notwithstanding, coalitions as such require political leadership and the assemblage of the national preferences of all members, which is an idealistic stance. Therefore, forming alliances could entail a possible loss of political and national identity, by the transfer of their domestic power and the loss of their political identity to solve their internal problems. That said, within conventional IR thinking, there is reduced prospect for small states to vindicate their places<sup>134</sup>.

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<sup>132</sup> In 2009 Ecuador abandoned “region-to-region” negotiations between the EU and the CAN, demonstrating its capacity to take that decision in line with its national fixed preference. This was an important test of viability of political independence.

<sup>133</sup> Echoing the literature about the different forms of governance, both multilateralism and [inter]regionalism are two forms in which small states would enhance their bargaining power.

<sup>134</sup> In fact, this is what happened with the CAN in regards to the trade negotiations with the EU. An external reordering took place in the early 2000s: the signature of the Peru and Colombia- US FTA, Venezuela left the bloc in 2006, among other things. To some extent, a similar crisis, starting in 2020, is occurring in MERCOSUR. This bloc wants to continue trade negotiations on a two level pace, notably as Uruguay is willing to advance, while Argentina is much more hesitant about opening trade.

In sum, the survival of small states in contemporary world affairs is uncertain and depends on a series of external factors that reduce their clout. However, Vital stresses the essential factor to surmount political constraints lies in human capacity and the cohesion of a society (1969-2006, p.87) which echoes the constructivist view. Along these lines, inter-subjective features can enable small states to build their international viability in inter-regional trajectories, as will be discussed in the next lines.

### **1.2.2 Inter-subjective smallness dimensions<sup>135</sup>**

IPE studies have challenged the traditional smallness currents by anticipating a greater significance of small states, through renewed ways of international participation or empowerment to surmount their weakness in relation to central powers<sup>136</sup>, rather than remaining as passive actors (Lee & Smith, 2010). Yet what has prevailed is a widespread conception that small states have reduced or no influence on rule-making in the international political economy (Lee & Smith, 2010), or the consideration of small states as marginal actors within multilateral entities such as World Trade Organization or the International Monetary Fund (Grynberg & Remy, 2007; Tulloch, 2001). However, the following inter-subjective dimensions can lead to an increased participation of small states in inter-regionalism and as ways to increase their political leverage. That said, inter-regional negotiations could provide greater opportunities for small states to be borne out as creative agents.

#### **i. Creative Agency and Strategic Flexibility**

The following dimensions will contribute to a better understanding of small states' inter-subjective roles and ways of interaction. In fact, a portion of IPE literature that builds upon the IR tradition attests to some of the abilities of small states. I expect them to bring new insights in order to shed light upon the fact that even if conditioned by smallness and vulnerability, small states can be credited with agential capacities which places them in enhanced positions to exert their own policies.

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<sup>135</sup> The reader should notice thereafter the use of dimensions instead of categories, has been a deliberative choice of the author with the aim of insisting in a broader reference, than the traditional categories studied in the literature.

<sup>136</sup> Examples that illustrate this is small states' active participation and their capacity to generate coalitions in the UNCTAD and in the WTO. Indeed, I highlight that UNCTAD resulted from a coalition of mostly small states' (Non-Aligned Movement or NAM) agency capacity to bring forth a claim for treating trade and development as two concomitant objectives.



More recent contributions have sought to complement IPE with a constructivist perspective, claiming that small-states are actors with an increased weight (Heron, 2019). Lee and Smith (2010) uphold the need to reject the material determinism of power politics prerogatives in favor of a constructivist approach, which offsets the material weight towards the exercise of smallness agential capacity.

Development Studies have depicted the notions of vulnerability and resilience, by putting them at the forefront of the study of small states and therefore claiming a change of mindset about smallness (Payne, 2009). Whereas IPE has raised a complementary debate attentive to questions of agency and flexibility, thus acknowledging that small states can become influential actors in their own right, as they can build resilience themselves (Bishop, 2012; Cooper & Shaw, 2009; Payne, 2009) through the use of striking diplomatic strategies.

Through the lenses of IPE, the notion of creative agency has helped to reconfigure the narratives about the image of small states (Bishop, 2012). Notwithstanding that vulnerability is a condition of small states which constrains their bargaining power, resilience is a flexible notion that can shape structural factors (Cooper & Shaw, 2009). In fact, resilience can go beyond the traditional understandings of IR and Development Studies. Similarly, a parallelism can be drawn between resilience and pragmatism, as both can be strategically used by small states as responses to a stimulus in the different areas of social and political life.

Cooper and Shaw draw on the concept of resilience and contrasts it with vulnerability to stress the creative agency of small states (Heron, 2019, p.162). In fact, creative agency concerns renewed diplomatic practices that small states undertake in key areas of IPE (Cooper & Shaw, 2009). In other words, it is about resilient small states who become significant actors in those areas, including issues pertaining to global governance.

Mendez and Turzi (2020) discuss the interactions among ideas, identity, agency, social facts and self-fulfillment. They posit that identity is formed by a range of ideas that conditions agency (2020, p.28). That said, agency, either collective or individual, they argue, is creative or entrepreneurial,

as it produces social or institutional facts. Along the same line of analysis, Ingebritsen et al. (2006) sustain that creative agency occurs when a particular actor alters either the ideas or identities that are carried out from the past, in a sort of *norm entrepreneurship*, through a positive reputation, either by building upon their good image, for example within multilateral organizations, in order to gain followers.

According to Wendt (1999), identity matters as it facilitates collective action against opponents to particular ideas (p.293), which can accordingly impact foreign policy. Thereby, national identity is a tool for creating a discourse with the strength of mobilizing and demobilizing socio-political groups<sup>137</sup> (Mendez & Turzi, 2020, p.32). In the same token, creative agency can have effects in both national and international venues. As will be discussed in the cases of Ecuador and Uruguay<sup>138</sup>, many small states have been recognized for their actorness in global affairs. In fact, this recognition arises from factors of strength which are intrinsically embedded in small societies (Baldacchino & Bertram, 2009). Similarly, these authors assert the internal and external agential capacity of small states and their societies; many of them have demonstrated successful involvement in international diplomacy which have granted them international recognition.<sup>139</sup> These agents (call them small states) have also been protagonists in multilateral action as “international rule innovators” (Dominguez, 2007, p.85) who have demonstrated “transformative capacity in leading new processes of cooperation and sectoral integration” (Riggiorozzi & Tussie, 2017, p.17).

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<sup>137</sup> In fact, the socio-economic representations in Ecuador were creative agents as they shaped the collective ideas concerning the trade agreement with the EU. That is, in the midst of a political environment that was contrary to free-trade, these strong socio-economic representations played a significant role.

<sup>138</sup> These small states have demonstrated diplomatic capacities and having a professionalized diplomatic corps to cope with some complex policy areas while they have granted them international recognition.

<sup>139</sup> Uruguay is a good example of this. For instance, it is one of the top per capita contributors to the United Nation’s peacekeeping worldwide among countries in Latin America. In fact, there is a National School for Peacekeeping Operations, located in Montevideo, which Secretary-General Ban Ki-moon congratulated when he visited the country. The Secretary General also addressed to the Uruguayan Parliament by sustaining that the country provided what he called a “special brand of Uruguayan leadership and global example”. According to official UN information, more than 25,000 Uruguayans have served in 21 peacekeeping missions since 1951. From 2011 to 2017, Uruguayans served with more than 900 peacekeepers to the UN mission in the Democratic Republic of the Congo (MONUSCO). See <https://news.un.org/en/story/2018/02/1003401> Finally, Uruguay’s participation in the UN Security Council as a non-permanent member in 2016-2017 resulted in strong international recognition. Regarding Ecuador, we can notably take the case of the political asylum granted to Julian Assange in Ecuador’s Embassy in London, from 2012 to 2019, through which Ecuador defied the traditional hegemonic powers. Even if this diplomatic strategy was two-fold, from the fact it awakened discourses in favor and against, it was a way to demonstrate a small state’s relative autonomy in international affairs.

Contrary to the vulnerability perspective, Baldacchino and Bertram (2009) call for a more optimistic conceptual approach corresponding to the innate qualities of small states, small societies, and their firms, which they have named *strategic flexibility*. This notion examines the actual behavioral patterns among small states and their societies (Baldacchino & Bertram, p.146) in order to understand the micro as well as a macro-level of social and economic interaction. Bertram and Poirine's (2007) approach to strategic flexibility consider small states' economic structure as adaptive and not a passive response to external incentives; whereas Bishop (2012) sustains that small societies have the capacity to adapt to earn multiple sources of income, and are willing to do what is necessary to get ahead.

Indeed, the underlying rationales developed in IPE suggest that either vulnerability nor weakness impede the ability to carry out strategic flexibility (Bishop, 2012, p.952). Both notions discussed so far entail small societies getting involved in activities that will provide in return increased levels of economic, political and social development based on mutual aid and organization at different levels. Therefore, vulnerability can also be translated into a source of strength for small economies, as for example market openness can oblige them to develop conditions to be internationally competitive.

In sum, IPE has advocated for a greater understanding of small states' agency, meaning they can become influential actors in their own right, by building resilience themselves (Bishop, 2012, p.950). I am interested in drawing on these issues in order to confer small states with the flexibility and creativity necessary to exert their destinies within inter-regional trajectories.

## **ii. Ideology of social partnership**

According to Baldacchino and Bertram (2009), the negative impact of vulnerabilities is countervailed with the political ability to respond to the challenges of the international political economy, which could likely involve institution building<sup>140</sup> as well as its leader's ability to

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<sup>140</sup> The reader should note that Katzenstein (1985) focused on small democracies, typically European states, which explains his emphasis on the institutional responses those states used to face their smallness. Similarly, Campbell and Hall (2009) conducted their research to illustrate the case of Denmark. This poses an alert to my study, which focuses

facilitate an ideology of social partnership (Campbell & Hall, 2009, p. 550). In fact, this category exhibits a state's willingness to cooperate for the common good (Campbell & Hall, 2009, p. 548). Moreover, these authors delve into the occurrence at the national level, that is, the extent to which social classes, culture, and identity played a role in developing an ideology of social partnership<sup>141</sup>.

Ultimately, a common culture, cooperation, and a strong national identity are conditions for a state action based on national interest. The conventional narrative suggests that an absence of cultural cleavages allows individuals to focus on national problems<sup>142</sup>, having a positive effect on socioeconomic performance (Campbell & Hall, 2009, p.552) (See discussion about constructivism).

### **iii. Great issue-specific power**

One of the major achievements of IR is calling for a reassessment of some features of smallness, what Ingebritsen et al. attempted in *Small States in IR* (2006). That is, a revisited way of thinking about capabilities, through which small states can exert influence in particular policy domains and use them as bargaining power. In fact, prior to Ingebritsen's publication, Keohane and Nye (1977) had already advanced the notion of *great issue-specific power*, which suggests that small states can exert influence in particular issue areas when considered at unit level rather than at the aggregate, systemic level (Neumann & Gstöhl, 2006, p.8). The case of natural resources<sup>143</sup> is illustrative, as some have been used by small states to further their image internationally<sup>144</sup>.

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on significantly different cases, that is, younger democracies with a multicultural and pluri-national character (in the case of Ecuador), with fragile societies and economies largely dependent on external markets.

<sup>141</sup> I posit that the ideology of social partnership can interplay with the strong economic and social representations which seem to be seminal part of my two case studies.

<sup>142</sup> Ideology of social partnership is a notion that helps to unravel the cleavages on both the Ecuadorian and Uruguayan political class, which inhibited state action based on national interest; that is, to which extent this enabled or disrupted the negotiation process with the EU. The case of Ecuador stands for a political polarization with much more ideological stances in regards to the inter-regional negotiations. Whereas in Uruguay, it seems that what shaped inter-regional negotiations with the EU were tacit deals about non-negotiable social policies (the Frente Amplio legacy: cannabis, abortion, and same-sex marriage legalization).

<sup>143</sup> On this matter there is a sense of environmental exploitation which can be a contentious issue. In any case, there is a vivid debate on sustainable or even sovereign forms for the use of natural resources, which have been the main sources of economic development for small states. It is of particular interest for this investigation to explore how some socio-economic representations have been formed thanks to the strength of these natural resource sectors, whose main leverage seems to be advancing their interests internationally, while becoming part of the country's image.

<sup>144</sup> Bishop uses the cases of some Caribbean states to illustrate this point, which is useful, and to some extent applicable to the two South American case studies I will be assessing. Both Uruguay and Ecuador could have used their relatively powerful sources (from the agricultural and fisheries sectors) that conform to their strong socio-economic

Yet when delving into the systemic level, it seems there a sense of moral greatness (Neumann & Gstöhl, 2006, p. 8) or perception that limits Keohane and Nye's notion. For instance, some specific issue areas even if perceived as great, have not been transformed into *great-power* status in the conventional sense. That is, the resources will not expand into other areas and to a higher degree so as to be recognized as a great power at the systems level (Neumann & Gstöhl, 2006). The sense of perception about *great issue-specific power*, lies in conventional presuppositions about the greatness of some states (traditional great powers). However, greatness has also been quantified by measuring a state's means of power, military and power resources (natural resources), which are tangible means, against symbolic means like influence in international organizations or diplomatic means, including representation and negotiation capacities. In brief, the estimates of a state's overall power tend to be controversial (Baldwin, 2013, pp.275-276).

I posit that these two compelling but opposing views (systemic vs unit) reflect the feasibility for small states to use *great issue-specific power* and the extent to which these issue areas can turn into means to influence inter-regional negotiations. Ultimately as Thorhallsson (2006) argues, due to trade openness or over specialization, small [European] economies develop a strong corporatism, impacting their foreign economic policy<sup>145</sup>. That said, the degree of autonomy small states have in the definition of their foreign policy is a piece of discussion that can engage contributions to their research agenda.

Along the same lines, through the study of European small states, Thorhallsson (2006) sustains that size, as well as other special features like small administrations<sup>146</sup>, are to be considered when shedding light upon negotiation strategies small states use (p.218) as they impact their behavior, domestically and internationally. Thereby, small states' strategies usually put in advance those

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representations and which I suggest are used as leverage to advance their interests regionally or internationally. I will study this question further in Chapters 3 and 4.

<sup>145</sup> By exploring the European integration process, Thorhallsson explains that size and behavior were related factors that explained small states' decision-making in areas such as common agricultural policy and regional policy. In fact, he contends that smaller states "have different approach towards the Commission and their negotiating tactics differ from the negotiating tactics of the larger states in the Council of Ministers, the European Council, and in bilateral negotiations with the Commission" (Thorhallsson, 2006, p.128).

<sup>146</sup> According to Thorhallsson, a new variable is to be considered, that is the size of a state's administration is useful to explain the international behavior of European member states towards EU institutions (2006, p.219)

sectors of high relevance, while sectors of less importance are reactive, given they lack sufficient resources and staff to engage in all international negotiations<sup>147</sup>.

To sum up, the analysis of power distribution in different issue areas is an opportunity for the expansion of research and the understanding of the international/ inter-regional behavior of some non-traditional actors such as small states. Similarly, ideology of social partnership and creative agency are to be analyzed more in depth in the upcoming empirical chapters that follow this study.

### **1.2.3 Revisited smallness dimensions**

This sub-section is intended to explore smallness' dimensions that have not been extensively assessed in the literature and which make part of this study's contribution towards a revisited definition of small states. The choice of this mix of categories draws attention to the particularities of each of the two case studies, while attempting to be scaled-up in the future.

#### **i. Scale and Self-perception**

Anchored in constructivist perspectives, various voices have raised two non-conventional/ subjective categories into the study of smallness, (Caetano, 2019; Davtyan, 2021; Gibert & Grzelczyk, 2016; Hannerz & Gingrich, 2017; Mouritzen & Wivel, 2005). In this regard, Geser (2001 as cited in Neuman & Gstöhl, 2006) distinguishes three kinds of small state notions; the first one entails objective features such as size or territory, falling in the lines of the quantitative criteria previously discussed. The two others are under qualitative criteria, on one hand, a relational sense in which smallness is relative if compared to other states (within MERCOSUR the best example is Uruguay and Paraguay as opposed to Argentina and Brazil). On the other, smallness as a question of self-perception, or the extent to which some of a state's fixed or material features are to be considered as small (Geser, 2001 as cited in Neuman & Gstöhl, 2006, p.29). Similarly, Keohane argued that to understand the role of small states, it is required to address the very perception of their roles. In other words, the role or interests of a small state do not always depend on systemic or structural constraints (Keohane, 1969).

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<sup>147</sup> I will look deeper into these *great issues-specific power* questions in Chapters 3 and 4.

For instance, Uruguay's self-perception of a "small country between two giants" is to be added to a rigorous perception that the geographic and demographic scale<sup>148</sup> of states do not always match their economic performance, especially in regards to trade flows, but also in regards to the evolution of gross domestic product (Caetano, 2019, p.19). According to Gibert and Grzelczyk (2016), smallness comes from their own perception, in other words, actual size has an impact on state's self-perception which will bear as a small population and low income, though this is not always the case, as many small states have a high gross domestic product. In brief, some features of smallness depend on the perspective they have of themselves when compared to others, thereby giving sense to comparative processes.

Concurrently, the geopolitical dimension is to be scrutinized through the lenses of self-perception. How does smallness fit into a geopolitical logic? For Gibert and Grzelczyk (2016), self-perceived smallness can be very eloquent in the different ways small states conceive of their places in the international scene and shape their foreign policies (p.3). To better grasp these perceptions, one needs to understand the position leaders want their states to achieve, the constraints and opportunities of the international system, and how they seize the material power of their states (Davtyan, 2021, pp.13-14). Considering again Uruguay's case, a scholar claimed that "its foreign policy strategy is to never get married either with Brazil nor with Argentina, and to play in a pendulum logic, to be a bridge"<sup>149</sup>. Uruguay, being a state with enormous restrictions, is incapable of imposing prices or rules, so it has to pursue moderation, as it is located in the same geostrategic node where the two great South Americans stand<sup>150</sup>. That said, one could add that inter-regionalism could be used as a strategy for small states to barter clout, while finding the position that best suits their needs. In other words, inter-regionalism could also be considered as a process of geopolitical learning that helps them redefine their own perceptions of smallness.

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<sup>148</sup> In fact, Hannerz and Gingrich (2017) argue that the absolute demographic measure is rapidly transformed into a sense of relative smallness, thus, relevant comparisons become evident (p.5).

<sup>149</sup> Fieldwork carnet, February 21, 2020. Following these lines, "buffer constellations" or states are deemed so when their "relative smallness" is designed in relation to more than one major neighboring power whose general interest tends to be different from each other (Hannerz & Gingrich, 2017, p.9).

<sup>150</sup> Fieldwork carnet, February 21, 2020.

Following the subjective lines, the definition of small states up to the present is not about size or territory, it is rather an issue of scale, which is a social construction<sup>151</sup>. As Caetano (2019) refers to scale, he evokes the priest Gilbert Perret's<sup>152</sup> thoughts: "Uruguay has an area equal to that of Belgium, Holland, Switzerland, Denmark, and Greece put together..." (p.17). This sustains the idea that smallness is not a matter of territorial surface. Yet according to Lambach (2021), it seems that mainstream IR theory has overvalued territory at the expense of other socio-spatial ontologies. Consequently, there is a foreseeable need to draw lines among the multiple subjective scales that coexist in the geopolitical/systemic level, demanding a more precise analysis. Hannerz and Gingrich (2017) eloquently raise some interconnections: cronyism/nepotism and smallness; that is, having a smaller population to recruit for several positions turns into a higher probability for cronies or relatives to be appointed in state agencies or other institutions<sup>153</sup> (pp.18-19).

As demonstrated, scale is a category that highlights Uruguay's smallness, yet it can scarcely be used for Ecuador. Consequently, I set aside this category for the analysis that will be further entertained, while self-perception could potentially be an operational category that brings contributions to a renewed definition of small states.

## ii. **Pragmatism and smallness**

Pragmatism in social sciences has been mainly studied through a philosophical prism<sup>154</sup>. Yet there is a body of literature covering an insightful debate about the efforts to bring pragmatism to IR scholarship. In fact the three main IR currents<sup>155</sup> intersect with some notions of philosophical pragmatism, as discussed by Ralston (2011). Albeit, there have been no compelling efforts to draw causal mechanisms between pragmatism and smallness.

Thereby, the following lines map out part of the discussion on pragmatism in the social sciences literature, through the works of Bauer and Brighi (2009), Ralston (2011), Tavits (2007), and

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<sup>151</sup> Fieldwork carnet, February 21, 2020.

<sup>152</sup> Gilbert Perret is a French national priest that established himself in Uruguay in 1897.

<sup>153</sup> As discussed in the empirical chapters, the relation cronyism/smallness was present among the different interlocutors' narratives in both of my case studies.

<sup>154</sup> Based on John Dewey's and Richard Rorty's philosophies.

<sup>155</sup> See discussion in Chapter 3.



Festenstein (2016). First and foremost, a pragmatic action ought to be guided not by a priori principles, but by an assessment of the constraints and opportunities in a given context (Baert as cited in Bauer and Brighi, 2009, p.48). Moreover, a simple understanding of pragmatism<sup>156</sup> elicits a quite basic question: what proves to be useful in a particular situation? (Ralston, 2011, p.74). According to Tavits (2007), economy and practicality see pragmatism as “getting things done” (p.154). Whereas in foreign policy, pragmatism is viewed as a non-ideological stance, through which political actors consistently seek to take advantage of the opportunities that come their way (Baert as cited in Bauer and Brighi, 2009, p.48). In the economic sphere, pragmatism designs a policy in which a state, regardless of its size, looks to maximize economic benefits, either in trade or investment issues, disregarding any confrontations between political actors (Kuik, C. C.,2008, p.167). In fact, Ecuador’s MTA with the EU was rooted as an economic and social fact, which surmounted a political polarization and was a proof of continuity of the country’s international insertion choice, as well as the maximization of the most urgent economic needs to avoid the country’s fall into social chaos.

In the same vein, pragmatism is commonly thought to view politics as mainly a matter of collective problem-solving, downplaying core political phenomena such as power and conflict (Festenstein, 2016). However, pragmatism is not hesitant about theories and norms, it rather takes them as tools for deliberation and practical solutions (Festenstein, 2016, p.15).

This presupposition can be anchored to the smallness debate, particularly with the notion of resilience referred as “the ability to recover from or adjust to change” (Briguglio, 2007, p.105; Briguglio et al., 2010, pp.28-29), which can underpin a pragmatic stance, as well as countervail the negative externalities of smallness as a way to cope with vulnerability. Payne (2009) sees resilience as a strategy of governmental authorities (p.279). Thus a parallelism can be drawn between resilience and pragmatism, as both are also endogenous responses to a stimulus in the different areas of social and political life.

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<sup>156</sup> In etymological terms, in the Greek roots “pragma” stands for “things, facts, affairs and action”. Our words practice and practical come from this root (Thayer, 1968, p.5; James, 1981, [1907], p. 42, as cited in Ralston, 2016, p.75).

According to Bishop (2012), the sources of vulnerability and resilience are politically, institutionally, economically, and socially embedded (p. 956). Yet IPE has succeeded in advocating for a greater understanding of small states' agency. Meaning they can become influential actors in their own right by building resilience themselves. In this case, a small state can build its resilience by implementing its own policies, along the same lines as the pragmatic stance suggests.

Throughout this discussion, I raise the fact that pragmatism and smallness are two categories that have not been interlinked in academic debate. While there are windows of opportunity to collect more empirical evidence to provide wider significance to the potential connections between these two categories, so far, the scarce theoretical grounds limit the comprehension of pragmatism to exclusively categorize small states.

### **iii. Autonomy**

Autonomy and smallness have been assessed through an approach to each region and have been introduced recently in the debate<sup>157</sup>. For instance, Haugevik and Rieker (2017) study European small states' responses to autonomy in a changing political landscape, in which small states might have a larger voice. Tang (2018), by taking the case of Southeast Asian small states, distinguishes three conditions that states are inherently in search for: autonomy, security, and development. This scholar analyses situations in which these three concerns are met, sometimes reinforcing each other. Finally, in the case of Latin America, the study of autonomy in foreign policy can be underlined as a contribution to IR discipline, notably with the emergence of ECLAC's dependency theory (1950)<sup>158</sup>. Concurrently, Jaguaribe et al. (1969) developed the precepts of autonomous development in Latin American integration. They laid down a definition of autonomy at the national and regional level, claiming that "both the availability of conditions that allow free decision-making by individuals and agencies representative of the system, and the deliberate resolution to exercise those conditions" (1969, p.66). Finally, Russell and Tokatlian (2003)

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<sup>157</sup> The reader should note that the concept of autonomy appeared in the 1970s. For an extensive discussion see Briceño Ruiz and Simonoff (2017) and Blaney (1996).

<sup>158</sup> See Bianchi & Salviano (1999).

explored the various uses of the concept of autonomy in the South American cone region<sup>159</sup>; whereas López Burian and Míguez (2021) scrutinized the quest for autonomy in South America, taking the case of MERCOSUR. Yet only the latter does so from the lens of a small state<sup>160</sup>. That said, there is a window of opportunity to define the prospects of autonomy within the study of smallness.

In general terms, Latin American small states, as conceived by Leslie E. Wehner (as cited in Baldacchino & Wivel, 2020) have diversified their foreign policy strategies, including relations with neighboring countries, participation in regional integration schemes, and foreign policies that gravitate between dependency and autonomy with regards to regional powers (p.259). In terms of the latter, Brazil, to some extent Argentina, but also the US, and more recently China

In this context, Míguez (2021) sustains that autonomy implies self-determination in areas where hegemonic interference remains, which includes all areas where social, economic, political, and cultural life are expressed. These areas go hand in hand with the never-ending discussion of asymmetries in the global, regional, inter-regional, and sub-regional levels. For instance, these different governance forms are devoted by small states to offset the risks of an increasing lack of political voice and agency.

The contribution of “autonomy” to IR debate stresses questioning the status quo and reducing the asymmetries in the international system through peripheral state’s agency (Míguez, 2021). Therefore, one should examine the possibilities for autonomy and agency to reinforce each other through its different components: national viability, availability of human and natural resources, a

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<sup>159</sup> For instance, they introduce the notion of relational autonomy, conceived as “the capacity to establish and enforce policies that better serve the national interest” (Russell & Tokatlian, 2003, p.181).

<sup>160</sup> The reader should note that strategies used by regional powers (Brazil and Argentina), as discussed by Míguez (2021), do not differ much to what small Latin American states have conceived as autonomy in the last 15 years. Namely, diversification as an international integration model to increase autonomy. Evidence supporting this is the formation of UNASUR, ALBA, CELAC and other regional fora to counter traditional hegemonic power, but also inter-regional relations with partners like the EU that can be part of the same strategy of diversification. Míguez delves into the diversification of foreign relations, Argentina and Brazil did so through an independent foreign policy based on the defense of sovereignty and national interest, also by bringing together diversification in a multipolar scenario and reinforcing autonomy.

development project, solidarity-based integration<sup>161</sup>, and international leverage, according to Jaguaribe (1979) and Puig (1980, 1986). Certainly, the reader could distinguish some of these components in the inter-regional trajectory of South American states with the EU, which are discussed throughout the study and notably in the empirical chapters.

Ultimately, nurtured through individual state's autonomy, emerged the notion of regional autonomy. Latin American states searched to break the structural dependency that characterized their economies by favoring social and political agendas over the trade priorities that, among others, have been imposed by the Washington Consensus and the International Monetary Fund (IMF) (Míguez, 2021), as conditions to access their credit lines in the midst of debt crisis. According to López Burian and Míguez (2021), as a result of this contestation, autonomy was at the center of the regional integration agenda and appeared as a collective container to keep the domestic policy space required to break with the political trade dependence<sup>162</sup>. Thus, the importance of thinking of MERCOSUR, and to a lesser extent of CAN, as spheres of containment and autonomy. Within them, inter-regionalism is inscribed as a space where more balanced relations are formed.

López Burian and Míguez (2021) contend that during the last 30 years of political life, Uruguay approached an idea of autonomy. It responded, among other factors, to a fear of being trapped in asymmetric bonds, for instance with the US. This fear resulted in a diversification of its international insertion strategy that seeks to establish relations with a greater number of states, both developed and developing<sup>163</sup> (López Burian & Míguez, 2021). While Bonilla (2009) recognizes vulnerability as characteristic in Ecuador's foreign policy during 1979-2005<sup>164</sup>,

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<sup>161</sup> Puig conceived it as a type of integration, which prioritizes cultural political aspects and shared values, as prospects of integration (1986).

<sup>162</sup> See discussion in Chapter 3.

<sup>163</sup> Interestingly enough, López Burian and Míguez (2021) sustain that it was during the period 2003-2015 that Uruguay and the region gave priority to a project of regional autonomy. That is, during the same time inter-regional relations with the EU occurred. In fact, throughout the second government of Tabaré Vasquez (2015-2020), Uruguay reaffirmed its support to negotiations with the EU while keeping its political autonomy. In other words, Uruguay succeeded in positioning itself with a certain degree of autonomy by strategically remaining in Unasur and not joining Prosur or the Lima Group.

<sup>164</sup> During the analyzed period, Ecuador was characterized by weakness regarding the international order, vulnerability to all kinds of influence in the domestic politics, fragile institutions, and contradictory decision-making (Bonilla, 2009, p.167).

Jaramillo Jassir (2020) endorses a transformation of the country's foreign policy which relied on a regional balance of power and a reduction of the perceived vulnerabilities, and as a consequence of a change of identity<sup>165</sup>. In brief, Ecuador got attached to an ideal of regional autonomy, along similar lines that Uruguay did during the (Jaramillo Jassir, 2003-2015).

After looking at official data on small states, one can acknowledge that neither Ecuador nor Uruguay are part of international agencies' categorizations. As a matter of fact, the World Bank classification (2017) uses the population threshold of 1.5 million or less to categorize smallness (used in the past by the Commonwealth Secretariat). Consequently, the World Bank's list comprises only 50 member states. Nonetheless, anchored in the categories of self-perception and scale, it happens that some larger states can be seen as small in a relative manner. In other words, Ecuador and Uruguay are small to the extent that they are studied in particular venues (inter-regional, sub-regional). While Uruguay is considered small both within MERCOSUR and in front of the EU, Ecuador is deemed relatively less small in relation to its Andean partners and to the EU. In fact, self-perception among its socio-economic representations made Ecuador elude to the vulnerability trap, while enabling the conditions to subscribe to an agreement (as discussed in Chapter 3).

#### **1.2.4 (Redefining) smallness**

The main presupposition for a renewed definition of smallness is rooted in the third approach evoked in this chapter: small states are expected to be actors with leverage over their own rights and inter-subjective capacities, that is, social constructs that can exert clout over different institutional forms. In fact, one of the purposes of this research is to extend over this presupposition, anchoring the discussion in an interregional context and shedding light upon the motivations small states have. One can certainly assume that these actors, moved by material and subjective preferences, are pinpointed as influential players due to some of the dimensions that have not been extensively assessed in the literature. Therefore, this study will contribute with a revisited definition of small states in the following chapters.

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<sup>165</sup> During the so-called "citizen revolution", Ecuador gravitated from a weak state to a rising leader by upgrading its visibility in particular areas (Jaramillo Jassir, 2020), irrespective of the cost of autonomy from the fact of being a peripheral state.

As per this chapter, one can conclude by stressing that there are clearly a number of tensions within different smallness approaches. I have outlined how the core concepts of the early small state studies like vulnerability and weakness (or lack of capacity) have dominated the smallness narrative ever since. Yet, early literature's conceptions should not be perceived as a threat. On the contrary, they are windows of opportunity to contribute to the elaboration of renewed prospects for the smallness debate.

What seems true, according to Payne (2009) is that “no firm category of analysis will ever be carved out in the field of study of small states” (p. 279). For example, he contends that there are no typical features concerning the diplomacy of small states. Although, this doesn't mean the study of smallness should be left in the shadows, as there is some evidence indicating the renewed capacities of small states in international affairs, which I have explored. Namely: pragmatism or even creative agency.

Furthermore, scholars have recognized how the focus on smallness has shifted over time, and the associated challenges have turned into opportunities, either in conceptual terms, in diplomatic relations, or even in the way they exercise power (Badie, 2018, 2020; Maas, 2009; Payne, 2009; Thorhallsson, 2018). A renewed approach to small states can carry them from being mere “empty vessels” following Smith et al. (2005), to being active international policy-makers. I argue that it is through these renewed approaches that small states can be brought into being active actors within world politics. In fact, IPE studies should devote more attention to the degree of creative agency small states can exercise for the sake of their own benefit as empowered and autonomous actors.

## **CHAPTER 2 : TENSIONS BETWEEN LATERALISMS AND THE DYNAMICS OF EU'S EXTERNAL RELATIONS**

This chapter addresses commercial multilateralism, emphasizing on the WTO legal framework, to uncover the room of maneuver for the application of Special and Differential Treatment (SDT) on inter-regional negotiations. In doing so, I first I discuss the different types of “lateralisms” and the tensions existing among them, in order to shed light upon the critical context of trade governance in which the EU-South American inter-regional trajectories are inscribed.

The second part of this chapter is devoted to an analysis of the EU's external relations, it focuses on the discussion between the European normative and market power, as the main strategies of the EU to project its power as an international actor. Additionally, it appraises the EU's elusive pursuit of pure inter-regionalism and other forms of trade governance. Ultimately, the appraisal of these dynamics allows a better understanding of the EU's flexibility in undertaking negotiation processes with asymmetrical trade partners.

In doing so, this chapter is guided by the following questions: What are the sources of the EU's external relations? and tries to elucidate on other sub-questions: to what extent WTO provisions limit or drive a discriminatory system of trade? What are the main tensions between the different *lateralisms*? to what extent politicization of trade policy on one side, and institutional changes that resulted from the Lisbon Treaty, on the other, impacted flexibility in the EU's inter-regional trajectories?

### **2.1 Commercial multilateralism and the WTO: Article XXIV, the Enabling clause and the principles of SDT**

This sub-section assesses the multilateral system of trade or the so-called commercial multilateralism, governed by the World Trade Organization (WTO) as an instance of multilateralism and through the legal framework of the General Agreement on Tariffs and Trade

(GATT)<sup>166</sup>. This legal corps sets out a series of complex multilateral arrangements in favor of expanding trade liberalization and improving the economic welfare of an increasingly interdependent international trading community. As any international agreement, a series of essential engagements amongst states were set out, so as to construct the foundations for a more liberalized and interconnected trading environment between GATT signatories.

Notwithstanding, recent debates on the performance of commercial multilateralism, suggest that the WTO was intended to be the “global forum” to agree on the rules for governing trade policies and solving trade disputes, yet the organization has failed to perform these functions. In this regard, the Uruguay Round’s multilateralism as the only set of rules regulating the international system of trade has been highly questioned as world trade has evolved<sup>167</sup>. Bilal and Hoekman sustain that the WTO rules are outdated as they were not designed for a world of global value chains and digital economy (2019, p. 11). As a matter of fact, commercial multilateralism has been experiencing an impasse, since the stalemate of the WTO Doha Round and other factors, resulting in a proliferation of regional integration agreements which have crafted the “spaghetti bowl effect” (Bhagwati, 1995) and produced strained relations among the different forms of trade governance (Meissner, 2019; Thompson & Verdier, 2014). In order to shed light upon the role inter-regional trajectories have played between asymmetrical trade partners (the EU, CAN and MERCOSUR), I will assess the tensions created among “lateralisms”<sup>168</sup>, mainly the dyads: multilateralism- bilateralism and bilateralism- inter-regionalism.

Through the study of the WTO one can elucidate on whether the multilateral system of trade as it functions today, has influenced inter-regional trajectories. In order to complement this analysis, the empirical chapters will address the extent to which small states are driven by the WTO’s discriminatory system.

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<sup>166</sup> Marrakesh Agreement Establishing the World Trade Organization, opened for signature 15 April 1994 but entered into force 1 January 1995.

<sup>167</sup> The Uruguay Round was the eighth round of negotiation which lasted from 1982 to 1994 and established the WTO through the Marrakesh Agreement. This Round is considered the milestone of commercial multilateralism, as it defined the rules and terms that govern trade to our days.

<sup>168</sup> As David (2009) suggests, existing literature on ‘-lateralisms’ in international trade focuses primarily on the variation between multilateralism and bilateralism. Inter-regionalism remains an unexplored area. Further discussions about “lateralism” will be conducted later in this chapter.



### 2.1.1 Commercial multilateralism

Following Ruggie's work (1982, 1992, 1997) multilateralism is an organizational form that serves to arrange, through a set of constitutive and authoritative rules, the relations of participants who follow certain generalized principles of conduct. In the same lines, a purely nominal definition of multilateralism refers to "the practice of coordinating national policies in groups of three or more states" (Keohane, 1990, p. 731). Based on both approaches, the WTO could be conceived as an instance of multilateralism, as it encounters a range of rules— notably the GATT (1947, 1994) to regulate the behavior and the practice of its 164 member states in international trade.

The establishment of the WTO was the conclusion of a political process enshrined in economic liberalism, which succeeded to consolidate a multilateral structure to govern global affairs and to manage international trade regulation. According to Wilkinson (as cited in Weiss, 2018) the WTO's body of literature remains limited despite some advances. For instance, a number of scholars (Hoekman & Kostecki, 1995-2001; Qureshi, 1996; Krueger, 1998; Jackson, 1998) have undertaken a complete assessment of this multilateral institution. However, the post-Doha trade regime<sup>169</sup> together with the new challenges that rely on the organization due to changing political and economic order, just to name a few: crisis of multilateralism, paralysis of WTO's bodies, trade wars, pandemic crisis, are still to be studied.

The first section of this Chapter focuses on the provisions of the WTO that allow non-reciprocity and flexibility. For doing so, I briefly review the exceptions to the non-discrimination principle, which are conveyed in the SDT<sup>170</sup> clause and operated through the Generalized System of

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<sup>169</sup> An extensive body of literature refers to post-Doha trade regime which refers to the period after 2001, when the Doha Development Round was launched. A differentiation among the pre and post-Doha periods stands for the changes expected by the multilateral trade community after Doha. To our days, this round has been considered as a failure. Following Baldwin, "the WTO is widely regarded as suffering from a deep malaise. The main reason is that the latest WTO negotiation, the Doha Round, has staggered between failures, flops, and false dawns since it was launched in 2001. But the Doha logjam has not inhibited tariff liberalization—far from it. During the last 15 years, most WTO members have massively lowered barriers to trade, investment, and services bilaterally, regionally, and unilaterally—indeed, everywhere except through the WTO" (2016, p. 95).

<sup>170</sup> Concerning SDT, the WTO Agreements contain special provisions which give developing countries special rights and which give developed countries the possibility to treat developing countries more favorably than other WTO Members. These special provisions include, for example, longer time periods for implementing Agreements and commitments or measures to increase trading opportunities for developing countries. See [https://www.wto.org/english/tratop\\_e/devel\\_e/dev\\_special\\_differential\\_provisions\\_e.htm](https://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm) accessed July 26th 2020

Preferences (GSP)<sup>171</sup>. The GSP regime draws the dynamics of the inter-regional relations between the EU and the US with the rest of regional blocs around the world. South American countries are not the exception as they have been long-lasting beneficiaries of this regime. I argue that even if the SGP regime was in place for at least 40 years, it was not a source of a deeper inter-regional relationship between South American sub-regional blocs and the EU.

Finally, this section is primarily concerned with WTO provisions that promote *substantial* trade liberalization, deepen a discriminatory system, and allow flexibilities in rule-making and implementation. I do not intend to develop a more comprehensive understanding of the legal framework of the WTO, its evolution and practices. Yet, I do briefly assess some of the provisions to recognize the grounds of regional trade agreements' formation.

### **2.1.2 The WTO**

The GATT that preceded the WTO was launched in the second half of the twentieth century. During the post-war era and with the outbreak of the Cold War, world trade integration became both a geostrategic and a commercial issue (Baldwin, 2016, p. 97). After the World War II, the US leadership refused to leave international trade out of its hands, instead, they opted to strengthened it by a “general agreement” based in a set of principles leading to trade liberalization, giving birth to the GATT.

The GATT aimed to establish a rules-based world trading system and to facilitate mutually advantageous trade liberalization. As the GATT changed over the years that followed its creation, its parties enshrined a more operational role and created the WTO. Together with the two other Bretton Woods financial entities – International Monetary Fund (IMF) and World Bank—the WTO is the third branch. Up to our days, the WTO is formed by 164 member countries, who observe its rules and have reduced tariffs and trade barriers. As a matter of fact, a large portion of trade liberalization has attained an approximate of 5 percent reduction, whereas complete reduction of tariffs has been applied to a large share of imports (Baldwin, 2016, p. 95).

The constitutional principle of the GATT and the WTO is that world trade system should be ruled-based, implemented through five main principles:

- a) Non-discrimination and the principle of *Most Favored Nation*: WTO members should give the same treatment to all nations and should treat no nation better than its most favored trading partner. Any tariff applied, should be equally applied to all WTO members. Exceptions are allowed, for instance under Article XXIV, for establishing free trade areas or customs unions. The Non-discrimination principle is also translated into the *National Treatment* which sets the rule of treating imported and local products equally, at least until they enter the foreign market. A State granting a particular right, has to extend it to all imported and local products.
- b) Predictability and Transparency: states that the multilateral trading system should be predictable and transparent.
- c) Reciprocity: it requires that actions between members should reciprocate. Any concessions must be granted mutually.
- d) Consensus decision-making: most WTO decisions are made by consensus.
- e) Flexibility: exceptions are allowed for nations to impose trade barriers<sup>172</sup>.

The evolution of GATT, which happened through eight rounds<sup>173</sup> of negotiation to liberalize trade, ended with the Uruguay Round (1986-1994) which originated the Marrakesh Agreement establishing the WTO. This Agreement composed of 16 articles, is supplemented with additional agreements on issues of the multilateral system of trade, including trade in services, sanitary and phytosanitary measures, trade-related aspects of intellectual property, technical barriers to trade and a mechanism of dispute resolution, all of them in form of annexes to the Agreement<sup>174</sup>.

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<sup>172</sup> The principles of reciprocity, flexibility and non-discrimination had risen controversies about the functioning of multilateralism. In this chapter I will assess the escape clauses that allow discrimination among members.

<sup>173</sup> Eight rounds of trade negotiations were carried out during the GATT years, most of them encompassed tariff reductions. It was the Uruguay Round that ultimately led to the creation of the WTO. Negotiations of this round included other issues such as property rights, trade on services, textile, agriculture and dispute settlement. See [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact4\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm) accessed July 24th, 2020

<sup>174</sup> The Marrakesh Agreement is based on the GATT, meaning that the legal basis continues to be this general agreement, which has total enforcement up to our days.

Particularly, the normative framework covering any preferential trade agreements (PTA)<sup>175</sup> is Article XXIV of the GATT 1947. For the purposes of this first section, I will focus attention on the exceptions to the principle of non-discrimination and the formation of regional trade agreements, based on this article. I will also assess the secondary legal framework concerning preferential treatment, based on the “Understanding on the Interpretation of Article XXIV”; Part IV of the GATT- Trade and Development and the “Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries” or Enabling Clause.

### 2.1.3 The WTO and Regional Trade Agreements

First and foremost, the WTO jurisprudence enshrines two types of trade arrangements: Regional Trade Agreements (RTA) which are “taken to mean any reciprocal trade agreement between two or more partners, not necessarily belonging to the same region”. Whereas, Preferential trade arrangements (PTAs), under the WTO refer to “unilateral trade privileges such as General System of Preferences (GSP) schemes and non-reciprocal preferential programmes some WTO members implement for products from developing and least-developed countries”<sup>176</sup>.

RTAs can be exempted from the WTO rules, such as the non-discrimination principle. The very nature of RTAs is discriminatory, as signatories benefit from more favorable market access conditions. As it will be discussed later in this section, there are specific provisions under which countries can enter a RTA<sup>177</sup>, which depend also on the nature of the traded goods or services and on the condition granted to a member state<sup>178</sup>.

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<sup>175</sup> The WTO refers to a PTA, which is a generic term that makes reference to all forms of regional and sub-regional trade agreements in all levels of economic integration – Monetary Unions (MU), Common Markets (CM), Customs Unions (CU), Free Trade Areas (FTAs) (including the trade pillar of an Association Agreement (*Acuerdo de Asociación*)). However, there are nuances within PTAs and Regional Trade Agreements (RTAs).

<sup>176</sup> See [https://www.wto.org/english/tratop\\_e/region\\_e/scope\\_rta\\_e.htm](https://www.wto.org/english/tratop_e/region_e/scope_rta_e.htm) Accessed July 27th, 2020. For the purposes of my study, I will make reference to RTAs as my interest in studying agreements based on reciprocity.

<sup>177</sup> Concerning trade in goods (Article XXIV of the GATT 1994); regional or global arrangements for trade in goods between developing country members (Enabling Clause); agreements for trade in services (Article V of the General Agreement on Trade in Services- GATS).

<sup>178</sup> See discussion later in this section about the condition granted to member states.

Within the multilateral system of trade rules, RTAs are to be notified under the WTO and they are subject to a *Transparency Mechanism for RTAs*<sup>179</sup>. Since its creation in 2006, this mechanism has provided guidelines on the rules of notification. However, the proliferation of regional trade agreements and particularly in the years after the launching of the Doha Round, WTO members have become more reluctant to the rules concerning RTAs.

For instance, the 10<sup>th</sup> Ministerial Conference held in Nairobi in 2015, launched a Declaration in which members urge to the organization –particularly the Committee on RTAs, “to discuss the systemic implications of RTAs for the multilateral trading system and their relationship with WTO rules”<sup>180</sup>. It also claims for leaving RTAs as complementary and not substitute of the multilateral trading system. In recent years, WTO members’ discussions about RTAs are seen as promoting inclusiveness in the multilateral system and balancing between multilateralism and other “lateralisms”. According to Schirm (1999 as cited in Roloff, 2005, p. 24), states pursue different institutional forms according to their position in the international system. Small and vulnerable countries tend to support commercial multilateralism as a way to be integrated in the world economy. As it will be discussed later in this section, contrary to other forms (regional, FTAs, among others) commercial multilateralism calls for inclusiveness of its members.

#### **2.1.4 Sources of Article XXIV<sup>181</sup>**

A significant body of literature has attempted to unravel the debate about non-discriminatory principle and the formation of RTAs, considering the mandates of Article XXIV of the GATT 1947. Some simultaneous factors that partly explain this debate are, on the one hand, the explosion of the number of regional agreements and on the other, the inefficacy of the WTO in its role as a multilateral negotiating forum (Bouzas & Zelicovich, 2014, p. 964). The former will partly explain why WTO member states resort to other institutional forms to offset the incongruences of trade multilateralism, particularly RTAs.

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<sup>179</sup> See [http://ptadb.wto.org/docs/pta\\_transparency\\_rta\\_en.pdf](http://ptadb.wto.org/docs/pta_transparency_rta_en.pdf) accessed July 27th, 2020.

<sup>180</sup> See [https://www.wto.org/english/thewto\\_e/minist\\_e/mc10\\_e/mindecision\\_e.htm](https://www.wto.org/english/thewto_e/minist_e/mc10_e/mindecision_e.htm) accessed July 27th, 2020

<sup>181</sup> The GATT Article XVIII to be read in conjunction with the Decision on Safeguard action for Development Purposes and the Declaration on Trade Measures Taken for Balance-of-payments Purposes, both of 28 November 1979, and the Understanding on the Balance-of Payments Provisions of the GATT 1994 gives developing countries the right to restrict imports, if doing so would promote the establishment or maintenance of a particular industry, or assist in cases of balance-of-payments difficulties.

Article XXIV of the GATT is the legal source for the formation of RTAs and has been put in place ever since the beginnings of the multilateral system of trade. Yet, the overarching standpoints of international trade scholars claim of a failure. Following Chase (2006, p. 1), Article XXIV “has been source of vexation and puzzlement since the treaty’s inception in 1947”<sup>182</sup>. Similarly, GATT’s provisions that concern the disciplines of regional agreements are considered quite vague and its interpretation remains discretionary (Bouzas & Zelicovich, 2014; Baldwin, 2016). According to Bouzas and Zelicovich this ambiguity has remained since the creation of the WTO, even though some modest progress has been carried out during the Uruguay and the Doha Rounds (2014, p. 979).

As aforementioned, Article XXIV of the GATT 1994 makes reference to the formation of RTAs, which take the forms of free trade areas and customs unions. In the sake of a better understanding what lies behind an inter-regional negotiation— which is the core of this study, I shall take Article XXIV paragraph 8 which defines a free trade area as one in which “duties and other restrictive regulations of commerce are eliminated on *substantially all the trade* between the constituent territories in products originating in such territories”<sup>183</sup>.

The “Understanding on the Interpretation of Article XXIV of the GATT” does not provide further insights for the implementation of GATT’s provisions. Particularly in what regards the elimination of duties with respect to “substantially all the trade”, this text recommends a calculation of weighted average tariff rates and customs duties collected, based on import statistics for a previous representative period...[on] a tariff-line basis and in values and quantities.<sup>184</sup>

According to Mavroidis (2008, p.164) the reference to “substantially all trade” has both a quantitative as well as a qualitative component. This means it covers a *certain percentage* of trade

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<sup>182</sup> Another set of critics of his compilation expose that Article XXIV is ‘extremely elastic’ (Curzon, 1965, p. 64), ‘unusually complex’ (Dam, 1970, p. 275), and ‘full of holes’ (Bhagwati, 1993, p. 44) due to language that is full of ‘ambiguities’ and ‘vague phrases’ (Haight, 1972, p. 397). Haight (1972, p. 398) impugns Article XXIV as an ‘absurdity’ and a ‘contradiction’, while Dam (1970, p. 275) brands it ‘a failure, if not a fiasco’.

<sup>183</sup> See GATT 1994.

<sup>184</sup> See text Understanding on the Interpretation of Article XXIV of the GATT, 1994, paragraph 2.

and does not exclude major sectors of a national economy. Yet, debates of member countries over the elimination of duties to substantially all trade for the formation of a RTA has been estimated around 80 to 90% of trade liberalization between two trade partners<sup>185</sup>.

There is a body of literature<sup>186</sup> that has broadly discussed the benefits of regional integration for developing and Least Developed Countries (LDC) and the impacts in industrialization processes derived from trade openness (Viner, 1950; Rodrik, 1999). This literature shows that trade openness may influence capital flows and accumulation, and thus contribute to widen international inequalities (Krugman, 1980, 1986; Krugman & Elizondo, 1996; Venables, 2003). Nonetheless, there are some nuances, as Rodrik suggests: “the texts of trade agreements pay plenty of lip service to economic and social goals beyond trade. However, these are fundamentally trade deals. They are not negotiations on public health, regulatory experimentation, promoting structural change and industrialization in developing nations, or protecting labor standards in the advanced economies” (2018, p. 83).

Moreover, according to Baldwin (2016), WTO members have lowered barriers to trade, investment and services, but mainly through other instances and not through the WTO. The proliferation of regional agreements all over the world would be therefore responding to incentives at the regional, inter-regional and bilateral levels, backlashing commercial multilateralism and leaving the Doha Round in a stalemate<sup>187</sup>. This evidence suggests that members of the WTO seem to have

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<sup>185</sup> This argument is based on a personal experience. Back in 2011, when I was part of Ecuador’s delegation for negotiating trade agreements. During the bilateral discussions (at the time Ecuador was negotiating with Guatemala, Turkey, Venezuela, among others) the Market Access group debated about the *substantially all trade* reference based on the recommended calculation by the WTO. This was supposed to cover 80 – 90% of trade liberalization. However, these percentages had no evidence-based argumentation that could demonstrate this was the best choice for the two parties. In spite of this, the Evaluation Commission of the draft agreement between the European Union and MERCOSUR (AMBEC Commission installed in July 2019 by the French Prime Minister), confirms the statement: “The EU-MERCOSUR agreement as negotiated would cover 91% of trade between the two zones”. This would allow us to consider that the EU considers substantially all trade as liberalization up to that percentage.

<sup>186</sup> Some economists initially viewed regional integration with skepticism: following the early work of Viner (1950), it has been shown both as theoretical proposition and in terms of empirical proof that, such schemes both create and divert trade, and, for a number of reasons (ranging from political motives to adverse selection), empirical evidence supported the thesis that the latter, in practice, outweighed the former. (Mavroidis, 2008). These scholars must have been aware that trade agreements, like free trade itself, create winners and losers.

<sup>187</sup> A more optimistic view of commercial multilateralism argues that WTO rules are “flexible” in what concerns industrial policies, however, what developing countries lack is a for a more optimistic reading of WTO rules. Amsden argues that WTO rules remain permissive insofar as industrial policies are concerned, and that what developing countries lack is a “vision” for transforming their economies. See Amsden (2000).

positioned themselves in the multilateral arena, to best suit their interests, whatever their nature is (Bouzas & Zelicovich, 2014). In the same lines of analysis, this was the onsets of an anti-FTA movement that resulted from divergent political ideologies and a trade policy based on endogenous growth as one of my case studies suggests.<sup>188</sup>

In sum, the explosion of RTAs in the last three decades, stands not for the number of arrangements negotiated but for the strategic use by key actors whose power to model international trade rules through traditional multilateral institutions have been severely limited (Bouzas & Zelicovich, 2014, p. 974). In other words, WTO's Article XXIV "substantially all trade" provision, while being controversial to small states in terms of the risks of increasing inequalities and damaging their industrial tissues (Rodrik, 2018), it has materialized free trade, as the proponents of these agreements have efficiently negotiated liberalization to up around 90 percent of trade between parties, stressing the discussion for hegemon based agreements<sup>189</sup>.

### **2.1.5 Part IV Trade and Development and the Enabling Clause**

#### **i. Part IV Trade and Development**

According to the WTO legal framework, RTAs were initially authorized by GATT Article XXIV institutional exceptions to non-discrimination obligation enshrined in GATT Article I. Additionally, exceptions to GATT's principles were addressed to less developed member countries through the SDT provisions. The main constituencies of this legal regime included arrangements in the GATT's Article XVIII, Part IV of the GATT (Articles XXXVI, XXXVII and XXXVIII) and the Enabling Clause<sup>190</sup>.

Part IV constituted an addition to the original GATT 1947 as the subsequent trends in international trade after the first decade of GATT's implementation resulted in different actions to review the state of international trade and the different levels of development (Jalal Alavi, 2011, p. 2). In 1957, a panel of experts was established to discuss about the "failure of the trade of less developed

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<sup>188</sup> My case studies bring the discussion about endogenous growth and an inward looking economic model. This was the case of Ecuadorian trade policy during the Correa administration, which resulted in extensive debates about trade agreements. I analyze this issue more in depth in Chapter 3.

<sup>189</sup> See discussion in Chapter 3.

<sup>190</sup> See [https://www.wto.org/english/tratop\\_e/dispu\\_e/repertory\\_e/e1\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/repertory_e/e1_e.htm) accessed July 27th, 2020



countries to develop as rapidly as that of industrialized countries, excessive short-term fluctuations in prices of primary products, and widespread resort to agricultural protection”<sup>191</sup>.

Subsequently, a series of actions were put in place as to establish a plan of action that would give continuity to a model of economic liberalism, yet it would be inclusive and consider measures for less developed countries<sup>192</sup>. These endeavors resulted in a “Declaration on Promotion of Trade of less-developed Countries” which was adopted in 1961 by all the Contracting Parties<sup>193</sup> to define a program of further work towards the amendment of the GATT and the introduction of Part IV into its legal corps.

However, a legal and institutional framework was necessary to discharge the contracting parties in their responsibilities related to trade expansion of less-developed countries. This required the drafting of a new chapter on “Trade and Development” to be included in the GATT<sup>194</sup>. Its main objective was the promotion of trade of less-developed countries and access of their products to world markets<sup>195</sup>. Part IV of the GATT includes non-reciprocal preferential treatment provisions for developing countries, as follows: “when developed countries grant trade concessions to developing countries they should not expect the developing countries to make matching offers in return”<sup>196</sup>.

Additionally, Article XXXVI of Part IV of GATT 1(e) recognizes international trade as a mean of achieving economic and social advancement. Similarly, paragraph 5 considers that a rapid expansion of the economies of LDCs could be promoted through a diversification of their economies and avoiding excessive dependence on the export of primary products. Therefore,

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<sup>191</sup> Debates on this matter resulted on the publication of the *Haberler Report*. This report was also named “Trends in International Trade, led by chairman Gottfried Haberler and written by a Panel of Experts and was issued on October 1958. See Haebler, G. and panel of experts. (1958, October). Report: Trends in International Trade. [https://www.wto.org/english/res\\_e/booksp\\_e/gatt\\_trends\\_in\\_international\\_trade.pdf](https://www.wto.org/english/res_e/booksp_e/gatt_trends_in_international_trade.pdf)

<sup>192</sup> See Decision of November 1958, 7S/27-29. It considered measures for the expansion of trade, the expansion of export earnings and the diversification of the economies of less developed countries.

<sup>193</sup> Refers to member countries or member states. Irrespective of their legal status, in this study I use these terms as synonyms.

<sup>194</sup> A protocol amending the GATT and introducing Part IV on Trade and Development entered into force in 1966, it was finally accepted by all contracting parties in 1979.

<sup>195</sup> See Paragraph 4, Part IV of the GATT 1994

<sup>196</sup> See Paragraph 8, Part IV of the GATT 1994

recognizing that increased access for industrialized products is required under favorable conditions.

## ii. Enabling clause

The “Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries”, known also as Enabling Clause, was formally neither an original nor an additional provision of the GATT 1947<sup>197</sup>. This clause was founded on the compromise of the GATT community of enacting a permanent waiver on preferences<sup>198</sup> to finally be enshrined as an integral part of the GATT at the end of the Uruguay Round (1994). Along the same lines, the Enabling Clause allows derogations to the most-favored nation treatment, meaning that, it authorizes developed members to grant differential and more favorable treatment to developing countries. Accordingly, this Clause is the WTO legal basis for establishing the Generalized System of Preferences (GSP)<sup>199</sup>.

Other provisions by the Enabling Clause include (paragraph 2 (c)), allowing regional and global arrangements among developing countries in for trade of goods in the exchange of tariff and non-tariff concessions<sup>200</sup>. Likewise, it is the legal basis for regional arrangements among developing countries and for the Global System of Trade Preferences (GSTP)<sup>201</sup>, under which a number of developing countries exchange trade concessions among themselves<sup>202</sup>. Finally, Enabling Clause

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<sup>197</sup> The Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries was taken by the GATT Contracting Parties at the end of Tokyo Round of negotiations (1973-1979). This round was distinguished from earlier ones as developing countries had a fundamental role in echoing their needs (Jalal Alavi, 2011).

<sup>198</sup> In this case, a waiver allowed market access for a period of 10 years to products originating in developing countries (waiver for provisions of GATT Article 1). Its implementation resulted in the establishment of the Generalized System of Preferences (GSP). GATT Decision of 25 June 1971, BISD 18S/24.

<sup>199</sup> Under this regime, developed countries offer preferential and non-reciprocal treatment to products originating in developing countries. This preferential treatment takes the form of zero or low duties to specific products and beneficiary countries are decided unilaterally by preference-giving countries. See [https://www.wto.org/english/tratop\\_e/devel\\_e/dev\\_special\\_differential\\_provisions\\_e.htm](https://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm) accessed July 27th, 2020

<sup>200</sup> Paragraph 2(c) of Enabling Clause does not exclude the applicability of the GATT Article XXIV provisions.

<sup>201</sup> The Global System of Trade Preferences among Developing Countries (GSTP) is a preferential trade agreement (subscribed on 1988) with the purpose of increasing trade between developing countries. The idea of a common institutional platform for South-South trade cooperation was conceived and developed by the Group of 77 in the 1970s and 1980s. the GSTP membership extends to 42 developing countries, including MERCOSUR. Its institutional framework is the United Nations Conference on Trade and Development (UNCTAD). See <https://unctad.org/en/Pages/DITC/TNCD/Global-System-of-Trade-Preferences.aspx> accessed July 27th, 2020

<sup>202</sup> The WTO Agreement, which established the organization, specified that international trade should benefit the economic development of developing and least-developed countries. As it will be discussed later, there is no

fosters cooperation among developing country members, or the promotion of *South-South* trade cooperation. However, it includes derogations to the most-favored nation treatment and reciprocity principles, which the core of commercial multilateralism and therefore deemed as incentives to overpass multilateralism by attaining RTAs.

### **2.1.6 Assessing Special and Differential Treatment (SDT) provisions**

As explained in the previous section, the WTO Agreements<sup>203</sup> contain provisions that grant developing and less developed member countries with special rights, which are derogations to the principle of non-discrimination. Thereby, developed members may grant differential and more favorable provisions to developing countries.

Some of the typical SDT provisions the WTO envisions are: *a) longer time periods for implementing WTO's Agreements and commitments, b) measures to increase trading opportunities for developing countries*<sup>204</sup>, *c) provisions requiring all WTO members to safeguard the trade interests of developing countries, d) support to help developing countries build the capacity to carry out WTO work, handle disputes, and implement technical standards, and provisions related to LDC*<sup>205</sup> *Members*<sup>206</sup>.

Notwithstanding with the fact that Part IV of the GATT and the Enabling Clause, were both enacted as to echoing developing countries' needs, the fact that they have a per se a discriminatory

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clarification by the WTO, about which member countries stick on these categories. Moreover, these are evolving categories as member countries status is both subject to changes in the international system and to its domestic evolution. See [https://www.wto.org/english/tratop\\_e/devel\\_e/d2legl\\_e.htm](https://www.wto.org/english/tratop_e/devel_e/d2legl_e.htm) accessed July 30 2020

<sup>203</sup> The WTO Agreements include: Multilateral Agreement to Trade in Goods, General Agreement on Trade in Services (GATS), Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Understanding on Rules and Procedures Governing the Settlement of Disputes and other Plurilateral Agreements.

<sup>204</sup> According to the WTO country members announce themselves as developing or developed. Certainly, there are advantages for developing country members; for instance, longer transition periods before they implement fully and agreement of they can benefit from technical assistance. However, this does not automatically mean that it will benefit from the unilateral preference schemes of some of the developed country members such as the Generalized System of Preferences (GSP). See [https://www.wto.org/english/tratop\\_e/devel\\_e/d1who\\_e.htm](https://www.wto.org/english/tratop_e/devel_e/d1who_e.htm) accessed July 30 2020

<sup>205</sup> They have been assessed by the UNCTAD. See <https://unctad.org/en/Pages/Home.aspx> accessed July 30 2020

<sup>206</sup> See [https://www.wto.org/english/tratop\\_e/devel\\_e/dev\\_special\\_differential\\_provisions\\_e.htm](https://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm) accessed July 30 2020

character, engendered discrepancies among member states about the legal validity of these provisions, which resulted in subsequent adjustments<sup>207</sup>.

Accordingly, in 2016 the WTO Secretariat released a report about the SDT provisions covering all GATT agreements and decisions<sup>208</sup>. The compilation contains a typology developed in 2012 by the Secretariat which includes six main types of provisions, as follows: 1. The ones aimed at increasing the trade opportunities of developing country Members; 2. Provisions under which WTO Members should safeguard the interests of developing country members; 3. Flexibility of commitments, of action, and use of policy instruments; 4. Transitional time-periods; 5. Technical assistance; 6. Provisions relating to LDC members<sup>209</sup>. A breakdown of the 6 typologies identified a total of 155 provisions in all the WTO different agreements<sup>210</sup>.

When analyzing the collected numbers (See Appendix 4), I found out that two typologies within the six, have a higher number of provisions. The ones requiring *WTO Members to safeguard the interests of developing country Members*, accounts 47 provisions, and the *flexibility of commitments, of action, and use of policy instruments*, which accounts a total of 44. While *provisions aimed at increasing the trade opportunities of developing country Members* only account 15 provisions. Finally, *transitional time-periods; technical assistance; and provisions relating to LDC Members* account 27, 25 and 25 provisions respectively. For instance, the GATT

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<sup>207</sup> In 2001 the Doha Declaration called the member countries to review the SDT provisions and to agree on them as integral part of the WTO agreement. Accordingly, the Hong Kong Ministerial Declaration (2005) and the Bali Ministerial Conference (2013) issued a number of decisions in regards to the legal status of SDT provisions, including mechanisms to assess a more effective implementation of the SDT. Also, a Monitoring Mechanism on SDT was established through a Decision taken at Bail. This mechanism plays as the focal point within the WTO to analyze and review the implementation of SDT provisions. The monitoring of SDT provisions in the Mechanism is to be undertaken on the basis of written inputs or submissions made by Members, as well as on the basis of reports received from other WTO bodies to which submissions by Members could also be made. See the Monitoring Mechanism on SDT [WT/MIN\(13\)/45 – WT/L/920](#) accessed July 30 2020

<sup>208</sup> See [WT/COMTD/W/239](#) accessed July 30 2020

<sup>209</sup> See [WT/COMTD/W/239](#) accessed July 30 2020

<sup>210</sup> The WTO Agreements include: the Multilateral Agreement to Trade in Goods (GATT 1994); Understanding on Balance of Payments of GATT 1994; Agreement on Agriculture; Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures; Agreement on Technical Barriers to Trade; Agreement on Trade-Related Investment Measures (TRIMs); Agreement on Implementation of Article VI of GATT 1994; Agreement on Implementation of Article VII of GATT 1994; Agreement on Import Licensing Procedures; Agreement on Subsidies and Countervailing Measures (SCM); Agreement on Safeguards; General Agreement on Trade in Services (GATS), Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Understanding on Rules and Procedures Governing the Settlement of Disputes; Agreement on Government Procurement (GPA); Agreement on Trade Facilitation (TFA).

1994 does not include any provision for any of these 3 typologies, whereas there are 13 provisions *under which WTO Members should safeguard the interests of developing country Members*<sup>211</sup>. This implies that the typology that encounter flexibility of action and policy, are more attractive to members and therefore, suggesting that flexibility is an issue that shall be taken higher consideration when assessing SDT measures<sup>212</sup>.

The compilation prepared by the Secretariat extensively puts in evidence the SDT typologies in all the WTO Agreements and the possibilities developing and LCD countries have for implementing these provisions. It shows in some cases, how some of them have not been invoked by developing country members. The lack of technical capacities to understand and apply the WTO legal framework by developing and LDC members to entirely benefiting from SDT provisions could partly explain the underestimation of this provision. Ultimately, the very notion of SDT is limited if it continues to be considered as binary (developed- developing) and in this regard, it will not alter the generalized understanding of the world system<sup>213</sup>.

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<sup>211</sup> For instance, a provision contained in Article XVIII of the GATT 1994 “Government Assistance to Economic Development” states that: The contracting parties recognize further that it may be necessary for those contracting parties, in order to implement programmes and policies of economic development designed to raise the general standard of living of their people, to take protective or other measures affecting imports, and that such measures are justified in so far as they facilitate the attainment of the objectives of this Agreement. They agree, therefore, that those contracting parties should enjoy additional facilities to enable them (a) to maintain sufficient flexibility in their tariff structure to be able to grant the tariff protection required for the establishment of a particular industry\* and (b) to apply quantitative restrictions for balance of payments purposes in a manner which takes full account of the continued high level of demand for imports likely to be generated by their programmes of economic development.

<sup>212</sup> However, a deeper analysis could be useful to check what kind of flexibilities have been granted to developing country members.

<sup>213</sup> This was discussed in 2013, by Sebastien Jean in the Panel "Looking beyond MC9 – how to deal with reciprocity and flexibility in moving forward on the DDA?" organized by the Directorate General for Trade of the EU Commission at the WTO Public Forum in Geneva.

### 2.1.7 The application of SDT and the GSP regime

As aforementioned, the Enabling Clause is the legal basis for the adoption of any GSP regime<sup>214</sup>. In 1971, GATT contracting parties approved an exception to Article I of the GATT, which will have a duration of 10 years, thus authorizing a GSP scheme<sup>215</sup>.

This clause is a deviation of the most favored nation principle, it consists in giving special treatment with the aim of integrating developing and LDCs countries in world markets and considers two different types of groups of beneficiaries<sup>216</sup>. That said, developed countries can choose to treat differently and more favorably developing countries with regards to non-tariff measures<sup>217</sup>. However, beneficiaries are subject to a set of conditions.

Particularly, the EU's GSP operation is conditioned to the level of development of the trade partner<sup>218</sup>. LDCs get total preferential access to the European market under the "Everything But Arms regime", which is related to the respect of core human rights and labor standards. Under the GSP plus regime developing countries get higher commitments in terms of sustainable development and good governance. Beneficiaries should enforce 27 international conventions about human rights, labour rights, protection of the environment and good governance. Finally, the "Standard GSP" implies a partial or full tariff elimination of customs duties on two third of tariff lines<sup>219</sup>.

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<sup>214</sup> The US, the EU, and other developed countries have implemented similar programs since the 1970s. Currently there are 13 national GSP schemes notified to the UNCTAD secretariat. Developed countries that grant this regime are Australia, Belarus, Canada, European Union, Iceland, Japan, Kazakhstan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey and the United States.

<sup>215</sup> The Enabling Clause adopted 1979, created a permanent waiver to the most-favoured-nation clause to allow preference-giving countries to grant preferential tariff treatment under their respective GSP schemes. See <https://unctad.org/en/Pages/DITC/GSP/About-GSP.aspx> accessed July 30 2020

<sup>216</sup> One group is for all beneficiary countries and territories, and a second addressed to LDC and taking into account their specific needs.

<sup>217</sup> The idea of granting developing countries preferential tariff rates in the markets of industrialized countries was originally presented by Raul Prebisch, the first Secretary-General of UNCTAD, at the first UNCTAD conference in 1964. The GSP was adopted at UNCTAD II in New Delhi in 1968. See <https://unctad.org/en/Pages/DITC/GSP/About-GSP.aspx> accessed July 30 2020

<sup>218</sup> See different categories of country members by WTO.

<sup>219</sup> See <https://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/> accessed July 30 2020

To conclude this first sub-section, the legal bases [GATT Article XXIV, GATS Article V and Enabling Clause Article 2(c)] to free trade and customs unions arrangements allow the deviation from GATT's main principles contained in Article I<sup>220</sup>. The implementation of these regimes, has brought institutional and socio- economic effects at the domestic level of their beneficiaries, which poses challenges to commercial multilateralism and particularly to smaller member states<sup>221</sup>. However, I imply that while a discriminatory system may be advantageous for them to benefit of more flexible rules for policy-making, the influence of the “go-it-alone-powers” (Gruber, 2000) is determined by their capacity to construct alternative rules-based arrangements, that become new legitimate sources of interaction (Bouzas & Zelicovich, 2014). The adoption of FTA's or the formation of RTAs to substitute GSP regimes is part of such a strategy.

The very nature of RTAs is discriminatory, as signatories benefit from more favorable market access conditions. Indeed, there are specific provisions under which countries can enter a RTA<sup>222</sup>, which depend also on the nature of the traded goods or services and on the condition granted to a member state. This kind of flexibility, resulting in the proliferation of preferential agreements, can entail a fragmentation of the global economy (Aggarwal & Evenett, 2013 as cited in Meissner, 2019). Therefore, we could think of it as a political choice that entails transactions costs (Thompson & Verdier, 2014), which is at the core of the different institutional forms available for international actors.

In sum, as sustained by Bouzas and Zelicovich, the explosion of regional integration in the last three decades, stands not for the number of agreements negotiated but for the strategic use by key actors having the power to model global trade rules (2014, p. 974). This has caused tensions between the range of institutional forms or “lateralisms” as it will be discussed in the next section.

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<sup>220</sup> They have to be notified under GATT article XXIV 7(a) or paragraph 4(a) of Enabling Clause and considered by the Council of Trade in Goods (if notified under GATT article XXIV), or the Committee on Trade and Development (if notified under Enabling Clause) See (Jalal Alavi, 2011, p. 19)

<sup>221</sup> The response of smaller member states is a question of further research, which will be partially assessed in this investigation.

<sup>222</sup> Concerning trade in goods (Article XXIV of the GATT 1994); regional or global arrangements for trade in goods between developing country members (Enabling Clause); agreements for trade in services (Article V of the General Agreement on Trade in Services- GATS).

## 2.2 Tensions among the different “lateralisms”

As a fragmented multilateral trade order emerges, states have the choice amongst a range of institutional forms to undertake their trade policy goals. However, this choice is constrained not only by domestic demands and subjective considerations related to state preferences, interest formation, among others, but also by external factors, e.g. their relative size and position within the international system of trade (material factors)<sup>223</sup>. Some scholars relate this phenomenon to “forum shopping” (Davis, 2009) which is a useful approach to understand the dynamics of global governance and how different variables can influence the choice of a forum. In fact, following Murphy & Kellow (2013) “forum shopping” is an strategic selection of a governance form which any actor can resort to in order to advance a agenda. In other words, states seek the policy arenas that will best suit their policy objectives, based on particular governing choices<sup>224</sup>.

This sub- section will assess the diversity of institutional forms in international trade, known in the literature as “lateralisms”<sup>225</sup>: bilateralism and multilateralism (David, 2009; Meissner, 2019), but also bilateralism and inter-regionalism. I will try to shed light upon the variations in the choice of these different institutional forms, by borrowing some categories, mainly from the rational choice<sup>226</sup> approach : membership, transaction costs, bargaining power, cooperation and inclusiveness. I will also assess the tensions that have stemmed from a fragmented trade multilateralism and the different institutional forms available for state actors. Nonetheless, I will not assess variation among different policy areas, even though they have been extensively addressed in IR literature (Thompson & Verdier, 2014; Davis, 2009; Busch, 2007; Rixen & Rohlfig, 2007; Yarbrough & Yarbrough, 1992).

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<sup>223</sup>Following Meissner, the choice of trade agreement design does not operate in isolation, it does in link between domestic factors and a reaction to changes in the global economy (2019, p. 20). Baccini and Dür (2015) also argue for these interdependencies. Subjective and material considerations are taken into account in this research.

<sup>224</sup> Forum shopping and the effects of membership on the implementation of institutional forms are to be studied. Following Koremonos, Lipson & Snidal (2001, p. 777) membership “is an endogenous design choice” that can later emerge as an exogenous constraint on the use of an institution. Forum shopping is concerned on whether the overlap of two memberships affects the relative use of those institutions and whether their rules and procedures are implemented at all (Busch, 2007, p. 737).

<sup>225</sup> Even though, in this section I borrow the term “lateralisms” from the literature, I will also make reference to institutional or governance forms and I will use those terms interchangeably.

<sup>226</sup> Rational choice is grounded on the idea that actors seek to maximize their utility to achieve what they consider is the best result for their interests in the short term, followed by a strategic behavior to secure their host of preferences (Eriksson, 2011).



### 2.2.1 Explaining “lateralisms”

According to Thompson & Verdier, an approach to lateralisms could provide some insights on how states want to be treated under international law. The way this issue is addressed is normally a result of prevailing norms of bargaining power, as some actors advocate of universal rules and rights whereas others pursue differential treatment (2014, p.15). This can provide elements to understand the different expectations big players, as the EU, have towards smaller partners, in this case Ecuador and Uruguay, within their different institutional trajectories. Some scholars argue that smaller states are more likely to have uneven participation across venues, as they have limited choices on how to address particular trade issues (Davis, 2009, p. 26).

#### 2.2.1.1 Multilateralism vs Bilateralism

Multilateralism refers to an institutional form that coordinates relations among three or more states on the basis of generalized principles of conduct (Keohane, 1990; Ruggie 1992). Whereas “bilateralism differentiates relations case-by-case based principally on a priori particularistic grounds on situational exigencies” (Ruggie, 1992, p. 571). Along the same lines, multilateral agreements have general obligations that apply across many states, while bilateral obligations apply only to particular states. Bilateralism segments relations into dyads and is based on specific reciprocity<sup>227</sup> and a “simultaneous balancing of specific *quids-pro-quos* by each party with every other at all time” (Ruggie, 1992, p. 572). Indeed, scope is one important element to consider when differentiating them, yet reciprocity is the principle that prevails in these two institutional forms.

A range of theoretical approaches within IR scholarship, such as constructivism, rational-choice, neorealism, among others (Waltz, 1979; Morgenthau, 1948; Cox, 1981; 1992; Wendt, 1995; 1999; Checkel, 2004) provide with some insights about variation among lateralisms. Rationalist perspectives suggest that nation-states are "unlikely to embrace abstract obligations that clash with concrete calculations of national interest" (Hoffman, 2003, p. 34). However, the principles observed by multilateralism, specify an appropriate conduct for a series of actors without regard of individual interest of the parties or the strategic exigencies that may exist in any specific

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<sup>227</sup> The literature refers to a type of reciprocity when exchange agreements of equivalent value occur in a limited time (Keohane, 1990; Ruggie, 1992).

occurrence (Ruggie, 1992, p. 571). According to liberal institutionalists, multilateralism boosts cooperation and countries tend to do so as long as their gains outweigh their costs (Keohane, 1990; Ruggie, 1992). Ultimately, states will seek to use a particular venue for addressing an issue according to their expectations of which will deliver a better outcome. For instance, the exclusion of specific products and issues from a free trade agreement could be harder in a multilateral basis (Davis, 2009, p. 27), which could potentially affect states with more protectionist purposes. The Doha Round stalemate is one consequence of this fact, as it is discussed later in this section. Finally, constructivism and critical approaches advocate for venues where further actors can have a voice, such as feminist perspectives, critical theories, among others, which is in line with a more inclusive approach, particularly of multilateralism (Cox, 1981; 1992).

Anchored in a historical perspective, since the postwar era, the nature of international affairs increasingly turned multilateral, which pushed all states towards that model (Ruggie, 1992; Finnemore, 2004). Followed by the creation of the United Nations, the Bretton Woods institutions and the establishment of a “multilateral order”, states had a common perception that multilateralism was the legitimate form of governance. Conversely, multilateralism has been challenged by other institutional forms, yet depending on the policy area. For instance, a bias towards multilateralism discredited the popularity of bilateral agreements, which were observed in the practice, as the case of Foreign Direct Investment (FDI) and trade<sup>228</sup>.

Along the same lines, IR scholarship underlines the virtues of multilateralism based on the capacity to treat states more uniformly (Ruggie, 1992; Finnemore, 2004; Blum, 2008 as cited in Thompson & Verdier, 2014, p. 16). However, if considering material incentives, particularly the argument of balance of power, multilateralism is overpassed by other venues, namely bilateralism and unilateralism, as it is a way for powerful states to advance their interests and swerve power towards them (Gruber 2000; Odell 2000). In fact, recent events, including status-quo disruptions that followed the COVID-19 pandemic crisis in 2020, exacerbated extremist political stances, free-

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<sup>228</sup> As Thompson & Verdier argue “the FDI regime moved away from multilateral approaches to embrace bilateralism. The trade regime also includes substantial bilateral components alongside its core multilateral institutions, with no signs that bilateralism is fading into history. Multilateralism is normatively appealing but far from dominant” (2014, p. 25)

riding and lack of cooperation, turning states inwards and undermining institutional forms based on inclusiveness and collaboration.

### **2.2.1.2 Variation between multilateralism-bilateralism**

In spite of its backlashes, multilateralism is still a highly demanded institutional form (Ruggie, 1992, p. 572), as it boosts cooperation and inclusiveness, reduces transaction costs and allows instruments of bilateralism and SDT to meet developing member's needs<sup>229</sup>. A multilateral agreement while being inclusive and treating members equally, can be supplemented with a bilateral dimension to meet members' needs and to allow side-payments to be done on their own. This means that both multi- and bilateralism offer complementary legal instruments and therefore constitute viable alternatives between each other (Thompson & Verdier, 2014, p. 26).

Based on a material perspective, the choice of lateralism typically depends on what maximizes states bargaining leverage in the context of a given regime (Thompson & Verdier, 2014, p. 25). This is commonly the case of some of the disciplines of the WTO, like Intellectual Property Rights (IPR), which have been particularly "hegemon-based", this means that central states tend to impose provisions that go beyond WTO rules, as a way to legitimate their power, no matter the type of lateralism<sup>230</sup>. According to Sell (2007) this also implies that in order to meet their needs, hegemons tend to divide smaller states rather than to allow them to negotiate as a group. Ultimately, the multilateral level enables a platform to negotiate in group, eventually increasing smaller member's bargaining power<sup>231</sup>.

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<sup>229</sup> In fact, what distinguishes multilateralism from other forms of governance, is not only the coordination of national policies in groups of more than 3 states, but that they do so in the basis of certain principles of ordering relations among those states (Ruggie, 1992, p. 566). Ruggie's approach has been criticized by other scholars who argue that if reducing multilateralism to the implementation of principles of conduct within 3 or more states, any trade agreement (for instance the NAFTA) will be multilateral. They uphold that a successful (trade) multilateralism should incorporate, besides generalized principles of conduct, a shared social purpose. However, non-discrimination cannot be the social purpose of trade multilateralism. They advocate for indivisibility and diffuse reciprocity among members, as they all expect to benefit from the arrangement and having equivalent gains in the aggregate and over time (Muzaka & Bishop, 2015, p. 395).

<sup>230</sup> Again, there is a body of literature that sustain multi-bilateralism are two complementary venues and both could potentially be used as platforms for bargaining leverage.

<sup>231</sup> As this study seeks to shed light upon the more adapted alternatives for meeting developing member's needs, a single instrument that contemplates special and differential treatment could be more promising for small states. I will assess this question in the following chapters.

An interesting line of discussion about variation between multi – and bilateralism focuses on transaction costs. Thompson & Verdier (2016, pp. 6, 26) sustain that those costs are controlled by multilateralism. Other approaches suggest that multilateralism reduces transaction costs as it avoids multiple bilateral negotiations (Rixen & Rohlfing, 2007)<sup>232</sup>. The choice between these two venues depend on the tradeoff of each instrument’s relative flaws (2014, p. 26). Multilateralism is limited in incentives but alleviates transaction costs, as the same agreement is entitled to all states regardless of their compliance costs; whereas bilateralism offers more tailored-made agreements but multiplies those transaction costs<sup>233</sup>.

At best, multilateralism can be constrained by membership dilemmas, even if the literature of multilateralism advocates for inclusiveness, one pertinent question remains unsolved: which states should be included and which should be excluded from this institutional form? (Koremenos, Lipson & Snidal, 2001). High levels of membership and participation can make it harder for states to enforce rules, obliging agreements to be flexible enough for the most reluctant members (typically bigger states) who otherwise have the capacity to override (Thompson & Verdier, 2014, p.16).

Another variable that is useful to illustrate variation between lateralisms is collaboration problems. In fact, according to Ruggie, multilateralism can serve to manage and resolve them (2003, p. 567). As this author sustains<sup>234</sup>, the principle of non-discrimination overarchingly guides state conduct, while involving two other principles: indivisibility, which looks to apply principles equally to all members of a group; and generating expectations of diffuse reciprocity. Under these conditions, states will seek to collaborate, by signing up to multilateral agreements that will provide them same rights and obligations and grant them with benefits in the long run. However, this variable does not explain what type of states, whether big or small, are willing to do so.

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<sup>232</sup> The same is true for inter-regionalism, as having a region-to-region negotiation helps saving transactions costs that signify state-to-state bilateral negotiations (Meissner, 2019).

<sup>233</sup>In fact, Thompson & Verdier sustain this argument based on three claims: a) multilateralism tends to have high transaction costs and low member surplus, b) bilateralism has low transaction costs and high member surplus and c) a combination of multilateralism and bilateralism occurs when both transaction costs and member surplus are high (2014, p. 15).

<sup>234</sup> This is particularly in the case of trade multilateralism. See Muzaka and Bishop, 2015, p. 395.

On the contrary, bilateralism can solve problems of free-riding and inefficient uniformity when members have distributive concerns or have asymmetrical characteristics (Thompson & Verdier, 2014, p. 16). The dilemma multi vs bi—lateralisms is complex, particularly when they tend to advance the interests of powerful actors (Gruber 2000; Odell 2000, p. 165-6), balancing or unbalancing power within an institutional form, according to neorealist prerogatives.

Finally, the proliferation of bilateral trade agreements has undermined the popularity of multilateralism, particularly in absence of substantive results of the Doha Round, which prompted a period of distrust about the effectiveness of the multilateral system of trade. In addition to this, there is the sentiment that the Doha agenda has become irrelevant to the trade issues<sup>235</sup> (Bouzas & Zelicovich, 2014, p. 969). This lies on the fact that different policy areas have a better governance in other institutional forms rather than in multilateralism, which has been comprehensively addressed by some scholars (Yarbrough & Yarbrough, 1992; Thompson & Verdier, 2014; Davis, 2009; Busch, 2007; Rixen & Rohlfing, 2007).

The analysis of the five categories gives readiness to understand why states make different institutional choices, in a sort of forum shopping that allows them to advance their interests. Other factors, that will be discussed in the coming lines, also explain how the dynamics of the international system, that were meant to be governed by commercial multilateralism, rather yielded to other institutional forms, leading to a crisis of this venue.

### **2.2.1.3 The Crisis of Commercial Multilateralism**

Following a conventional wisdom, commercial multilateralism refers to the governance of trade policy organized by principles of state behavior, certainly, non-discrimination and reciprocity (Ruggie, 1992). As discussed in previous sections, the conclusion of the Uruguay Round and the subsequent creation of the WTO (1994) marked the onset of commercial multilateralism as a regulatory mechanism setting the rules for international trade.

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<sup>235</sup> This argument should also consider the subsequent environment that followed the COVID-19 pandemic, as the agenda of the multilateral system of trade was also challenged and it brought new issues, visions and divisions to nation-state's agendas.

The legal heritage the GATT left to the WTO allowed the creation of an extensive institutional and legal apparatus, covering other areas different from the sole regulation of tariffs and trade<sup>236</sup>. According to Bouzas and Zelicovich (2014), this fact represented an upgrade of the WTO's institutionalization that resulted in a positive diagnosis of the prospects of multilateralism. Nevertheless, this optimism overlooked structural transformations<sup>237</sup> which consequences were perceived as a progress in liberalization and as a switch in state's interest from tariffs to other more ambitious areas of regulation, undermining the role of the WTO and consequently of commercial multilateralism. Indeed, as trade liberalization advanced, other trade-related issues took place of the agenda<sup>238</sup>, entailing much more conflictive multilateral negotiation processes<sup>239</sup>, as they comprised regulations that went beyond states' legal frameworks and sometimes even overpassing the WTO provisions<sup>240</sup>.

The emergence of other state and non-state actors: some relatively larger developing countries<sup>241</sup> and other influential civil society groups began to take a more active role in the international trade sphere and became "veto players" in a more contested institutional context. Consequently, the corporate private sector and states were challenged by these actors, whose heterogeneous interests

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<sup>236</sup>For instance, the Trade in Services Agreement (GATS), the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and a Dispute Settlement Agreement are some examples. Similarly, the Doha Round of negotiations launched in 2001 was considered an ambitious form of addressing development.

<sup>237</sup> Within the main structural transformations that impacted the multilateral system of trade are the mismatches in the agenda, a larger and more heterogeneous membership, domestic coalitions' adjustments on trade and the emergence of new actors beyond nation-states' borders organized over different goals in the trade policy agendas (Bouzas, 2014, p. 965).

<sup>238</sup> These new disciplines, new issues or Issues of Singapore, included transparency in government procurement, trade facilitation (customs issues), trade and investment, and trade and competition. They received that name because they were included in the WTO agenda at the Ministerial Conference held in Singapore in 1996.

<sup>239</sup> New disciplines or Singapore issues were included in the Doha Round, it also included issues of trade and environment, electronic commerce and small sized economies, each with separate work programmes, as well as the negotiation of tariffs and non-tariff measures. Following the early suspension of negotiations at the Cancun Ministerial Conference in 2003, members decided in 2004 to abandon three of the four Singapore issues (investment-trade relationship, link between trade and competition policy, and transparency in public procurement) (Bouzas, 2014, p. 968).

<sup>240</sup> This phenomenon has been named WTO PLUS, as it contains far-reaching liberalization of some disciplines related to trade, which are considered domains of deep economic integration (Baldwin, 2011; Ya Qin, 2003). A vast majority of Third Generation agreements are considered WTO plus, having regulatory and political implications as it will be discussed in Chapter 3.

<sup>241</sup> One of these emerging actors are the BRICS countries. The acronym stands for Brazil, Russia, India and China and its origins back to 2001 when Goldman Sachs wanted to illustrate the 4 countries with a rapid economic growth. Some analysts have also included South Africa.

and dynamic interactions also impacted the effectiveness of the traditional exercise of power of the WTO.

The agenda alteration of this organization made commercial multilateralism less effective and contributed to the proliferation of other institutional forms. Interests associated with tariff liberalization found other channels to achieve their demands<sup>242</sup>. Similarly, the traditional (primary exports) sectors developed their own agendas to meet their needs, in relation to the evolution of the international system of trade<sup>243</sup>. These structural transformations coupled with the different choices of states, contributed to the crisis of trade multilateralism. In fact, as a range of institutional forms were brought into the table, they seemed to be the response to the blockages faced by multilateralism on its role as a governance forum.

Similarly, some other claims about the crisis of trade multilateralism point out the very non-discriminatory nature of trade agreements (preferential trade agreements, bilateral agreements, inter-regional agreements). While non-discrimination means that countries give equal treatment to all members without discriminating between their trading partners (through the application of Most Favored Nation principle), these types of agreements portray the “termites of the trading system”, borrowing Bhagwati’s terms<sup>244</sup>.

A different line of analysis considers that the crisis of trade multilateralism emerges from a particular narrative that attempts to address a problem/deviation/solution<sup>245</sup> (Patterson & Monroe, 1998 as cited in Muzaka & Bishop, 2015, p. 394). Consequently, trade multilateralism parallelly would emerge as a normative goal about the way trade relations ought to be organized and as an

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<sup>242</sup> Particularly through bilateral and mega trade agreements. Some examples are the RCEP, subscribed on November 2020, by the ASEAN+6 (Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam).

<sup>243</sup> The stalemate of the Doha Round and some issues that are still on the table, such as the status of SDT, do not have much advancement, and the division of developed- developing- less developed countries continues to be at stake. As Jean (2013) argues, SDT as it is framed today, due to member’s divergent views and unsolved issues (including categories to developed and developing countries), makes it difficult to move forward in current and future multilateral negotiations. See Sebastien, J. (2013, October 3). WTO: Rethinking the special and differential treatment granted to developing countries. CEPII Le Blog. <http://www.cepii.fr/blog/bi/post.asp?IDcommunique=249>

<sup>244</sup> See Bhagwati (2008)

<sup>245</sup> That narrative commonly emerges as an artifice that depicts events as deviant against an effective trade multilateralism (Muzaka & Bishop, 2015, p. 394).

institutional form which is under threat. However, narratives are by nature both normative and political. On that regard, they should be taken with caution as they might be serving a particular political purpose (Muzaka & Bishop, 2015). This consideration is relevant as the proliferation of North-South regional integration schemes and inter-regional agreements has been considered the way trade relations “ought to be” organized, bringing a number of flaws in the way small states have considered to meet their national trade policies, impeding them to do so according to their singular needs<sup>246</sup>.

If considering both aspects, current narratives and a historical perspective, the crisis of trade multilateralism was caused not only by controversial trade issues, but also by conflicted institutions, which according to Muzaka & Bishop are “inherently contested, dynamic and contradictory” (2015, p. 395). Multilateralism per se is considered an institution, as such it is seen as a structure that pursues continuity but also change, conferred with both material and subjective properties that “influence actors’ identities, values, behavior, access to resources and action”<sup>247</sup> (Muzaka & Bishop, 2015, p. 395).

Claiming that trade multilateralism is in crisis lies from multiple factors, material factors on one side: actors, their influence and power, as well as changes in the agenda of the WTO. On the other, it lies on subjective factors: the contestation of the institution of multilateralism and the political and normative narratives, that is, the developed-developing confrontations. As Muzaka & Bishop sustain “they were put in place to serve a particular role: to compel members resisting a negotiation outcome (considered unbalanced) to consent to it in order to solve the present crisis, in case the entire edifice of trade multilateralism crumbles” (2015, p. 394). In sum, the discussion about the crisis of trade multilateralism interplays with variation in lateralisms, that said, while states perceive multilateral arrangements as a far-gone dream, they will seek for new institutional venues

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<sup>246</sup> The proliferation of this new narratives took place during the *fourth wave of regionalism*, where states aimed to emancipate from traditional ways of trade interaction: namely, FTAs, North-South RIAs, inter-regional agreements (Association Agreements) or hegemon-based agreements.

<sup>247</sup> This consideration resonates with my study which seeks to delve into some elements of constructivism such as the construction of cultural ties or shared values, and their effects on national (fixed) preference formation. See chapters 3 and 4.



where to meet their interests and developmental needs. In other words, this crisis rollouts effects in bilateral and in inter-regional forms.

#### **2.2.1.4 Bilateralism vs inter-regionalism**

On one hand, a bilateral relation recalling Ruggie's view, is about segmenting relations into dyads, which are based on specific reciprocity and a "simultaneous balancing of specific quids-pro-quos by each party with every other at all time" (1992, p. 572). On the other, following Börzel & Risse inter-regionalism in its large sense is an "institutionalized multidimensional cooperation between at least one regional grouping and either a region or a large country belonging to a different region" (2016, p. 52).

Some scholars argue for different types of inter-regionalism, namely in regards to trade, inter-regionalism is the pursuit of "formalized intergovernmental relations with respect to commercial relationships across distinct regions..." (Aggarwal & Fogarty, 2003, p.1). Accordingly, they claim for pure inter-regionalism as the ties between two free trade areas or customs unions (Aggarwal & Fogarty, 2004, p. 5; Hänggi, 2000). In other words, it links two regional groupings with certain level of integration, as developed by the economic integration theory<sup>248</sup>.

In addition, when the parties involved have different levels of economic integration (other than a custom union or free trade agreement) is a case considered as hybrid inter-regionalism (Aggarwal & Fogarty, 2004, p. 5). Yet, about the latter, Hänggi, upholds it is about the relations between regional groupings and single powers, in those cases were the single power has a dominant position in its region. These relations may also be considered as components of bi-regional or transregional agreements, that is, arrangements where one of the parties participate in its individual capacity (2000, p. 7), which can include a broader set of relationships than simply inter-state<sup>249</sup> (Aggarwal & Fogarty, 2004, p. 5).

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<sup>248</sup> See Balassa's economic integration theory (1961)

<sup>249</sup> A discussion about the different types of inter-regionalism is undertaken in Chapter 3.

Trade policy is an area that has gravitated amongst the different institutional forms, in fact, states envision commercial multilateralism when the risk for opportunistic behavior of members is high. Rather, states prefer bilateralism if no hegemon is willing to supply third party enforcement (Yarbrough & Yarbrough, 1992, p. 84). In a different vein, when states have asymmetrical endowments, discriminatory bilateral arrangements are preferred as it is a better way to promote participation (Thompson & Verdier, 2014, p. 16). These statements provide some insights about variation among the two institutional forms, which have been common ground in the relationship between the EU and South America. Indeed, a shift from *region-to-region* to a *region-to-state* dynamic has characterized these two parties<sup>250</sup>.

If considering the EU's strategy, their integrated character has made inter-regionalism to be the prominent project of their external relations<sup>251</sup>. Consequently, scholarship on regionalism has assumed the EU as the main driver of inter-regionalism (Fawcett, 2015, p. 45 as cited in Telò et al., 2015). In the same perspective, the European policies and institutions have been considered as the main points of reference of inter-regionalism<sup>252</sup> (Fawcett, 2015, p. 44 as cited in Telò et al., 2015).

Likewise, a pool of sovereignty from member states to European institutions, has also paved the way for European inter-regionalism<sup>253</sup>. Therefore, it is hard to analyze the dynamics between inter-regionalism and bilateralism away from the European case. Some scholars (Meissner, 2019; Sbragia, 2010) have tried to shed light upon the transition from inter-regionalism to bilateralism. Some insights are provided in the following lines.

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<sup>250</sup> In fact, when considering the relationship between the EU and the Andean region (CAN), we confirm some region-to-region to a region-to-state shifts, as it will be addressed in this study. Particularly, in 2014 when the EU and Ecuador resumed negotiations to access the already in force agreement between the EU Colombia and Peru, henceforth named "*Multiparty Trade Agreement*".

<sup>251</sup> According to Börzel & Risse (2008; 2009) the European external strategy became more active with the end of the Cold War, when it subsequently expanded its foreign policy. It currently maintains external relations with almost every single country and most regions in the world, in different areas than trade, that is, human rights, democracy and the rule of law, etc. (cf. Börzel et al., 2008; Börzel & Risse 2009 as cited in Telò et al., 2015)

<sup>252</sup> With the emergence of New Regionalism in the 1980s, the EU has continued to influence region-building in other parts of the world. The CAN and later the African Union have used the EU as an institutional blueprint. MERCOSUR has taken some of its institutions and the general regulatory approach (Duina, 2006, p. 55 as cited in Telò et al., 2015).

<sup>253</sup> In fact, there is a broad number of Framework Cooperation Agreements the EU established back in the 1990s with other regional organizations around the world, delving the European commitment with inter-regionalism more than any other existing regional project.

In accordance with Thompson & Verdier (2014) problems related to high transaction costs can be controlled by multilateralism in a choice between multi- and bilateralism, as the latter avoids the costs of undertaking multiple bilateral negotiations. The same applies to the case between inter-regionalism and bilateralism, as transaction costs are controlled in inter-regional interactions without having to undergo several bilateral negotiations (Rixen & Rohlfing, 2007). Nonetheless, from small states' perspectives, bilateralism may offer more tailored-made agreements, which might better address asymmetries between parties<sup>254</sup>.

One of the central tenets of the EU integration seeks to export its model of integration through an inter-regional form, which provides them coherence with world regions (Börzel & Risse, 2012; Meunier & Nicolaïdis, 2006; Young & Peterson, 2006). However, Meissner (2019) sustains that a lack of coherence within a regional organization can result in a reconsideration of preferences between inter-regional and bilateral policy designs, irrespective of an increase of transaction costs in terms of time and resources.

Relatedly, following Aggarwal & Evenett (2013) the proliferation of bilateral agreements implies an increasing fragmentation of the global economy. When bilateral negotiations occur between members of regional organizations, they can undermine the projects of economic integration and can even destabilize any attempt of consolidating a multilateral order (Renard, 2016, p. 1). One example is the case of the EU- CAN negotiations, which were intended to be inter-regional and ended up in a multiparty format. This happened as Ecuador joined the agreement initially subscribed by Peru and Colombia, leaving apart its fourth member (Bolivia) who was ideologically opposed to this project. This example clearly illustrates the political implications of gravitating from an inter-regional to a “region-to-state” basis. Members having divergent political positions can result in a race to reach the “first arrived-first to be served” place. The case of the CAN and to

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<sup>254</sup> In fact this makes part of the discussion about the pros of having shifted from inter-regional to a “multiparty” agreement between the EU and the Andean region. The case of Ecuador demonstrates that when they resumed negotiations to access the Colombia-Peru-EU agreement, the country was able to introduce some specificities (as footnotes in the agreement's text) that were in line with some Ecuadorian Constitutional precepts. This will be broadly discussed in Chapter 3.

some extent, the one of MERCOSUR<sup>255</sup>, show how communitarian regulations were undermined when embracing the bilateral path.

Table 4 summarizes variation in lateralisms based in the four categories deliberately chosen for this analysis. It includes an assessment of the Multiparty Trade Agreement (MTA) signed between the EU and the CAN as a way to elucidate on the positive aspects this institutional form could have on smaller members.

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<sup>255</sup> Along the interviews in conducted in Montevideo in 2020, many of the interlocutors made reference to MERCOSUR member's intentions to negotiate in a bilateral basis, if the ratification of the EU-MERCOSUR FTA showed no signs of being finalized by all its members. This entails a legal procedure that could undermine MERCOSUR's rule-based, as it happened with the CAN. By the time of writing (November 2020), the Agreement has not been ratified by neither of the parties (EU nor MERCOSUR).

**Table 4. Variation in lateralisms**

	<b>Bilateralism</b>	<b>Multilateralism</b>	<b>Inter-regionalism</b>	<b>Multi party (specific to the EU-Andean region)</b>
<b>Transaction costs (TC)</b>	Multiplies transaction costs as it provides more tailored-made agreements to parties	Alleviates transaction costs among members	Diminishes transaction costs between members	It increased transaction costs in the short-term and will alleviate them in the long run (if other CAN members join the MTA).
<b>Membership</b>	Can cause fragmentation of the global economy	Is a building block for globalization	Can fragment the world in regions and potentially fragment the global economy	Non-members can join the MTA, enlarging membership and potentially alleviating transaction costs in the long term
<b>Bargaining power</b>	Can deliver increased bargaining power to smaller members.	Enables the formation of coalitions to face the dominant party and it may boost smaller members' bargaining power	Can boost bargaining power of the most vulnerable party legitimizing their relative power.	It favored bargaining power of the smaller party who accessed the MTA in a later stage
<b>Inclusiveness</b>	It is less inclusive than other institutional forms	Is more inclusive than bilateralism as all members are- a priori - invited to participate	Is relatively more inclusive than bilateralism. Demonstrates how cohesive two regions are	Is inclusive to the extent it is flexible in allowing other members (within a subregional bloc) to join
<b>Cooperation</b>	It is easier to cope with problems of free-riding	Typically enhances cooperation, as it is based in principles of indivisibility and diffuse reciprocity	Parties are willing to cooperate if the gains outweigh the costs of a region-to-region approach	Parties will be willing to cooperate only if the same conditions are granted to new members.

**Source:** Author's own elaboration based on Thompson & Verdier (2014) and Davis (2009). \*It only addresses trade policy.

Even though, this research tries to underpin inter-regionalism as the central form in the EU-South American relations, the mainstream literature advocates for multilateralism as the overarching institutional form to deal with trade policy (Baldwin, 2016; Bouzas & Zelicovich, 2014). In this regard, by putting multilateralism in the center of the analysis, we have been able to unravel multiple dysfunctions that explain the current crisis of commercial multilateralism and other institutional choices states have, which would smoothly enable them to meet their expectations and needs. As to widen the understanding of inter-regional trajectories, the next sub-section is focused on the dynamics of the EU external relations.

### **2.3 Inter-regionalism and the dynamic of the EU's external relations**

In this sub-section, I review the dynamics of the EU external relations and the different institutional forms they have used to attain their trade policy goals. I also explore two approaches commonly discussed to review the EU's external interrelations: normative and market power, and I will complement them by addressing two other perspectives that have emerged in IR and European studies: power-through trade and new trade politics (Young & Peterson, 2006; Meunier, 2006; Meunier & Nicolaïdis, 2006; Börzel & Risse, 2012)

According to Grugel (2004) and Smith (2008 as cited in Telò et al., 2015), the foundations of the EU's foreign policy are based in inter-regional forms, as a way to promote socio-economic development, democracy and good governance through dialogue and mutual cooperation<sup>256</sup>. These prerogatives place the EU in advance from other global players<sup>257</sup>, namely the US<sup>258</sup> and China<sup>259</sup>. Indeed, the most classic approach considers the EU as a reference to the attempts of economic regionalism, standing out as an alternative model to other "hegemon-based-models" (Grugel, 2004; Higgot, 2005, 2007 as cited in Börzel & Risse, 2015, p. 55). In fact, the literature on inter-regionalism has credited a normative preference to the EU towards inter-regionalism and regional

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<sup>256</sup> The EU's Commission promotes Association Agreements composed of three pillars: trade, cooperation and political dialogue. They are the foundations of EU's inter-regionalism (as explained in this section).

<sup>257</sup> Also referred as great powers or hegemons which are commonly used in the IR literature to design main actors and competitors within the international economic order.

<sup>258</sup> As Meunier sustains (2006), the significant size of Europe's single market together with the collective character of European trade policy have enabled the EU to become a true competitor to the US in international trade negotiations.

<sup>259</sup> See discussion in introduction.

organizations. This means that scholarship has largely agreed that Europe has exported its model of regional integration through mechanisms of diffusion<sup>260</sup> and value promotion (Börzel & Risse, 2012; Manners, 2002; 2006)<sup>261</sup>.

In the same lines of analysis, other approaches allude to the emergence of regional organizations as a result of the EU's promotion of them, a phenomenon which has been named as "regionalism through inter-regionalism" (Hänggi, 2003). Particularly, the EU differentiates from other powers for its choice of disseminating norms and values rather than only material power and the use of force (Laïdi, 2013). In this sub-section I explore two approaches that are useful to explain the EU's particular behavior: normative and market power.

Wintgens argues that the EU has performed as a global actor and has exported a model of regional integration and governance through the promotion of regionalism and inter-regional projects (2018, p. 138). Nonetheless, other recent debates, have questioned the model the EU has traditionally disseminated, by arguing that the European norms and practices, more likely suit into a general framework of globally standardized norms that are part of the "new public management" approach<sup>262</sup> (Parthenay, 2019). In an effort to provide more insights to this question, Parthenay evaluates the case of the EU- Central America inter-regional relation to posit that the strengthening of a regional process is a condition to promoting and intensifying EU's trade relations, rather than a manifestation of normative power (Parthenay, 2019), as the EU has often been studied through this approach. According to Manners, the EU embodies a normative power in promoting the universal values of human rights, democracy, freedom and the rule of law power (Manners, 2002, 2006; Damro, 2012).

In brief, either through values or through market power, the EU has attempted to build upon a strategy of inter-regionalism, through its institutional and organizational capacities. However, both

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<sup>260</sup> Diffusion refers to 'any process where prior adoption of a trait or practice in a population alters the probability of adoption for remaining non-adopters' (Strang, 1991: 325; see also Börzel & Risse, 2012).

<sup>261</sup> These authors have defined direct or indirect dissemination mechanisms. Their typology is based on three logics of social action: instrumental rationality, normative rationality (appropriateness) and communicational rationality (logic of arguing). These three dimensions make it possible to identify five mechanisms that promote the dissemination of ideas or norms. See Börzel & Risse 2012, p. 6.

<sup>262</sup> See Hibou (2013).

internal constraints and external factors have disrupted its ability to appear as an actor that promotes “regionalism through inter-regionalism”, following Hänggi’s proposal. A discussion along these lines is undertaken in the coming paragraphs.

### 2.3.1 The European choice of lateralism

The EU seeks to open markets in the world, no matter through which venue, either inter-regional, bilateral or multilateral<sup>263</sup>. The recent reordering of the international economic system, followed by the rise of China and the competition of the US to subscribe mega FTAs, such as the “Trans-Pacific Partnership” (TPP)<sup>264</sup> and the “Transatlantic Trade and Investment Partnership” (TIPP)<sup>265</sup>, made an urgent call to the EU to continue broadening FTAs with diverse economic partners. Additionally, they revealed one main challenge in this regard: the need to negotiate comprehensive FTAs that will include rising powers<sup>266</sup>, as they are looking for integrated and open partners in order to intensify its economic and trade exchanges. All this denotes the EU’s material driven incentives.

At the regional scale, the EU Commission looks to pursue inter-regional negotiations, with regions considered as “sufficiently integrated”<sup>267</sup> in order to facilitate trade and investment.

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<sup>263</sup> See EU Commission Communication 2006/567 “Global Europe: competing in the world” (2006) <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0567:FIN:EN:PDF> accessed December 29th, 2020.

<sup>264</sup> The TPP is a trade agreement signed in 2016 and by the time of writing did not enter into force. It counts with 11 signatories: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States signed on 4 February 2016. However, the former withdrew the US signature in January 2017. Because of this withdrawal, the remaining partners negotiated a new trade agreement called *Comprehensive and Progressive Agreement for Trans-Pacific Partnership*, which incorporates most of the provisions of the TPP and which entered into force on 30 December 2018.

<sup>265</sup> The TIPP was a proposed trade agreement between the EU and the US, with the aim of promoting trade and multilateral economic growth. Due to Trump’s strategy of unilateralism, the US withdrew from the negotiations and in 2019 the process was considered obsolete by the European Commission. If pursued, the TIPP would have been the largest bilateral trade agreement. By the time of writing, this initiative was surpassed by the Regional Comprehensive Economic Partnership (RCEP) signature, by 15 states: Indonesia between the Asia-Pacific nations of Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam. It accounts the largest trade bloc in history.

<sup>266</sup> Brazil being a member of BRICS. The EU accounts a Strategic Partnership with Brazil (2007) which witnesses the country’s economic and political relevance to the European region. This partnership includes issues of trade, political dialogue, cooperation, environment, sustainable development, science and technology. See <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52007DC0281> accessed December 29th, 2020.

<sup>267</sup> This idea of “sufficiently integrated” responds to a negotiation in a bi-regional or inter-regional basis. However, it seems contradictory that the document “*Marco General para la negociación de un Acuerdo Comercial entre la Unión Europea y países Andinos*”, Brussels, January 22th 2009, states the negotiation may end and the Agreement between



In light of the negotiation demands, the EU- South America inter-regional trajectories could certainly be considered a way to transfer the European regional integration model. Concluding an “Association Agreement” with MERCOSUR<sup>268</sup> and with CAN are part of this pursuit. Nonetheless, this does not elucidate on whether the EU’s inter-regional strategy is materially or normative based, even though there is a simultaneous deployment of three venues: bilateral, inter-regional and multilateral. In fact, the EU Commission had the mandate to advance with the Doha Round negotiations. Their agenda also set the objective of consolidating the multilateral system of trade within the WTO framework, although deadlock in negotiations has left this target with limited room of maneuver.

In regards to their bilateral strategy, the EU Commission contemplates FTAs as comprehensive in scope, meaning that liberalization should account “substantially all trade” and WTO plus<sup>269</sup>, as previously discussed. This kind of deals are considered a way to contribute to multilateral liberalization<sup>270</sup>. Yet, they do recognize the difficulties FTAs can pose to the multilateral system: namely, erosion of the non-discrimination principle and the exclusion of the most vulnerable economies<sup>271</sup>.

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two or more parties may be signed when an agreement has been reached on all the negotiation issues between the EU and at least one of the participating Andean countries (own translation). As a matter of fact, the Multiparty Agreement subscribed with the Andean countries is contradictory to negotiation aimed to be between “sufficient integrated” parties. This issue will be explored more in depth in the chapters that follow.

<sup>268</sup> Some other voices claim that since 2006, under the slogan “Global Europe”, the EU Commission aims to make “their” companies more competitive. In the case of the agreement with MERCOSUR, this entails imposing to the four South American member countries a “neoliberal trade policy”. This fact will confirm the EU and MERCOSUR Agreement to be materially based. See Dilger, G. and Nolte, D. (2020, July). Un acuerdo, dos miradas: perspectivas divergentes sobre el acuerdo entre el Mercosur y la Unión Europea. Nueva Sociedad. <https://nuso.org/articulo/MERCOSUR-union-europea/> accessed December 29th, 2020.

<sup>269</sup> For instance, the document “*Marco General para las negociación de un Acuerdo Comercial entre la Unión Europea y países Andinos*” Bruselas, 22 de Enero de 2009, states as the second objective (b) ambitious agreement, meaning that the level of commitments goes significantly further than multilateral commitments in the WTO (own translation).

<sup>270</sup> See EU Communication 2006/567 “Global Europe: competing in the world” (2006) <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0567:FIN:EN:PDF> accessed in June 20th, 2020

<sup>271</sup> See EU Communication 2006/567 “Global Europe: competing in the world” (2006) <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0567:FIN:EN:PDF> accessed in June 20th, 2020

All these claims have contributed to enlarge tensions between different institutional forms, as they are substantially contradictory: FTAs are per se discriminatory, yet states continue to subscribe them, sometimes in detriment to multilateralism. Consequently, the existing institutional crisis has driven states and notably the EU to favor diverse institutional forms<sup>272</sup>. As Meunier & Nicolaïdis assert “...only through appropriate strategies to reconcile such tensions can the EU find the path to ‘legitimize’ its power on the world scene” (2016, p. 907).

Ruggie acknowledges the EU has attempted to solve problems of trade multilateralism with deeper trade principles and rules, adding up to the compromise of “embedded liberalism” (1982, 1992, 1997). Accordingly, Muzaka & Bishop coincide with Ruggie in claiming that the multilateral system of trade is devoted to a commitment with embedded liberalism in which enlarged open trade relations were to be balanced with legitimate government intervention into the market in the sake of securing domestic stability (2015, p. 400). Likewise, the number of deviations from the non-discrimination principle of the GATT signatories can be translated to some degree as way to ensure domestic stability and welfare (Muzaka & Bishop, 2015). One could therefore deduce that the EU’s compromise to trade multilateralism has a political impact on their domestic constituencies as well as on its international reputation, which could explain why they are not willing to renounce to this venue. However, European institutions have also prompted other institutional forms as a way to remain a relevant global actor.

### **2.3.2 EU’s material or normative incentives?**

Several scholars agree that the flagship of EU’s inter-regionalism has been Normative Power Europe (NPE) (Manners, 2002; Börzel & Rise, 2016). Thereby, the EU’s inter-regionalism could be considered as a strategy of norm and value promotion to other regions (Meissner, 2016, p. 98). However, as Meissner argues, the interpretation of the EU as a NPE has been overestimated, as the EU ‘s trade policy related literature has focused on inner-institutional features (2016, p. 99), instead of international and geo-economic factors (Sbragia, 2010).

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<sup>272</sup> As Muzaka & Bishop suggest, recent trade trends contribute to a crisis of trade multilateralism. Despite of the existing general understanding that multilateralism is in decline vis-à-vis bilateral, unilateral and plurilateral approaches to international trade, it is not clear whether these processes are anything other than a variation on a familiar theme (2015, p. 385).

For instance, through an analysis of the EU-MERCOSUR negotiation process, Meissner (2016) acknowledges the materially motivated EU inter-regionalism. Several factors could explain the EU's material incentives to choose an inter-regional dynamic, notably the economic and geopolitical competition between the EU and the US in what concerns trade relations (Sbragia, 2010). Secondly, studying the counterpart region<sup>273</sup> can help understand how some external factors and emerging powers' behavior can impact the EU's trade strategies, in this case, according to Meissner (2019), some choices of MERCOSUR members' could have affected the EU's trade decisions. For instance, the way Brazil used the WTO to shape negotiations in its favor and how MERCOSUR domestic effectiveness plays in the definition of the foreign policy agenda<sup>274</sup> (Hopewell, 2013 and Carranza, 2006)

Along the same lines, Damro (2012) proposes a complementary conceptual framework to study EU inter-regionalism, which envisions external pressures and material incentives. In other words, by externalizing its single market identity, the EU seeks to increase its regulatory and economic power. In doing so, the EU distinguishes the very FTA negotiation processes as the subject of this externalization, that is, the market-related policies which go over the range of disciplines covered in FTA agreements, such as market access, services and other regulatory standards<sup>275</sup> (Meissner, 2016, p. 99). From the stand of this study, Damro's conceptual framework includes exogenous factors which could be helpful to explain EU's trade policy decisions (China and US competition);

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<sup>273</sup> Meissner explains that, by taking MERCOSUR as an independent variable (how MERCOSUR's features affect the EU's trade decisions) there is an opportunity for an empirical and theoretical contribution (2019, p. 99).

<sup>274</sup> These elements illustrate how useful could be to study inter-regionalism from the counterpart view, as well as taking two-fold considerations, i.e. normative and material. Taking both approaches could provide explanatory power to the EU- South America inter-regional trajectories, particularly in what concerns the EU vis à-vis small states (as Uruguay and Ecuador are the two case studies I assess in this research).

<sup>275</sup> The EU Communication 2005/636 aims (1) "to advance in market access for goods and services and to reduce high tariffs and trade barriers which continue to be applied to certain industrial products [ in Latin America]", (2) to strengthen common rules in policy areas such as intellectual property rights, investments, services, public procurement and dispute settlement" (own translation). See EU Communication COM 2005/636 " Un partenariat renforcé entre l'Union européenne et l'Amérique latine" (2005) <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2005:0636:FIN:FR:PDF> accessed August 8 2020

whereas small states external pressures can respond to both material motivations, as well as normative ones<sup>276</sup>.

On the contrary, the bargaining power that each party had during inter-regional negotiations seem to have been directly determined by influential factors. Additionally, socio-economic representations in both case studies influenced government decisions concerning the agreement with the EU<sup>277</sup>.

### **2.3.3 Assessing market and normative power Europe**

#### **2.3.3.1 Market power Europe (MPE)**

The literature suggests that the EU has exerted both market and normative power. In order to contrast both, I first discuss the notion of MPE, followed by NPE. According to Damro (2012), the EU exercises its power through a strategy of externalization of economic and social market policies and regulatory measures, through both persuasive and coercive means<sup>278</sup>. Indeed, the EU's identity provides an important basis for its power, which derives from different sources i.e. normative or material.

The basis of the NPE is deployed through the projection of its collective norms (Manners 2002, p. 242). As Damro suggests, this array of rules, through an institutionalization of international agreements with third parties, could shape actor's identities and change their perceptions of what is considered normal in international relations (2012, p. 684) and shift their conception of normality (Diez, 2005).

Nonetheless, without denying that Europe is an international actor with a particular identity, the primary source of integration of the EU is the market<sup>279</sup>. The European material identity has been

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<sup>276</sup> As it will be discussed later in this study, market access for tuna and shrimp were crucial motivations for Ecuador, and normative ones were key in Uruguay, namely: cultural ties and historical affinities based on the language, shared values, yet they were not the only ones.

<sup>277</sup> The reader must notice that these issues will be extensively covered in Chapters 3 and 4.

<sup>278</sup> Damro (2012) includes an analysis of the means and tools by which the EU's power is exerted. Regarding the means, he emphasizes that the EU as a power applies different mechanism that can be considered either as persuasive or coercive. Both terms implying the intentional exercise of power, but coercion is not considered part of the traditional soft power that is usually conceptualized (2012, p. 691).

<sup>279</sup> The 1951 European Coal and Steel Sectors community (ECSC), and subsequently, the 1957 Treaty of Rome which, both paved the way for a larger market integration. The latter enshrined a common market with a common external

shaped due to its experience in economic integration and this has granted them with a material power (Damro, 2012, p. 683).

Accordingly, the EU is considered an international actor with its own economic weight (EU Commission 2001, 2006, 2007, 2010) and having the capacity of enforcing rules and holding the leadership of the world economy<sup>280</sup> through economic integration. Damro discusses three interrelated and reinforced characteristics of the EU's MPE identity, which uphold their position in the international environment and the interactions that contribute to its power. These are material, institutional and subjective features (2012, p. 686).

Allen and Smith (1990 as cited in Damro, 2012) sustain the material existence of the single European market is the leading characteristic of its presence in the international system. At the same time, they depict the EU as the largest industrialized market. Through these features, the EU is capable of externalizing its model of integration and its regulatory measures<sup>281</sup>. Additionally, the comparatively larger size of the European market, allows the region to exercise power by affecting material incentives and perceptions over possible outcomes (Damro, 2012, p. 687). The attractiveness of their standards causes other actors (namely, other states or regions) to converge to their preferences' (Drezner 2007, pp. 32–3 as cited in Damro, 2012). I sustain there is also an emotional factor that mobilizes third parties to attach to European values, this being an element to build up an inter-regional relation. In fact, interviewees during fieldwork evoked trust as one value that built upon and facilitated the negotiation process with the EU<sup>282</sup>.

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tariff which gave the EU an external market dimension. Additionally, the 1986 Single European Act (SEA) established a single regulated market with a common commercial policy, laying out the path of a European economic identity.

<sup>280</sup> As discussed by some of the supporters of the hegemony-based theory (Gilpin, 1987; Kindleberger, 1981; Keohane, 1984; Krasner, 1976) who emphasize the role of a hegemonic state in the creation and maintenance of open international trade and monetary regimes. I sustain that the EU is a vivid example of this. Yet, this approach can also be deemed outdated, especially if we consider the decline of some hegemons in recent years (US, Europe), phenomenon that is being exacerbated with the COVID-19 crisis (occurring during the time of writing).

<sup>281</sup> Damro sustains two reasons that explain the relations of market size with the externalization of European Market regulations, namely: (1) *market size affects the material incentives facing governments when choosing whether to coordinate regulatory standards; and (2) market size affects actor perceptions over outcomes* (2012, p. 686).

<sup>282</sup> This assertion results from my fieldwork. Some of my interviewees consider the EU as a reference of some values. Indeed, assuming that subscribing to EU's FTAs is a way of validating those values they believe are shared in an inter-regional relation.

Moreover, the material incentives also result from a perception that the EU's market is sufficiently large and attractive, which reduces uncertainty over possible governmental changes and creates incentives to other actors to switch their regulatory standards' (Drezner 2007, as cited in Damro, 2012). Consequently, market power can alter the perceptions of outsiders over possible outcomes. European standards, as being perceived as stabilizers, may result in other actors converging to their preferences' (Drezner 2007, as cited in Damro, 2012, pp. 32–3). I argue that for South American trade partners, subscribing to inter-regional agreements with the EU is a way of providing stability over vulnerable market situations that could occur in the absence of those agreements<sup>283</sup>.

The second feature of the EU's identity is institutional. As MPE, the EU's identity depends on its institutional ability to externalize regulatory measures (Damro, 2012, p. 687). This exhibits the idea that the EU is a regulatory state that pursues governance through economic and social regulations either to liberalize or to protect markets, which can have significant external effects (Damro, 2012). Thereby, an inter-regional relation can be anchored in the EU's favor, which occurs when their external counterparts harmonize their legislations to meet with inter-regional agreements' measures. Indeed, this is partly possible due to the European institutional capacities that have triggered standardization of some regulations and export them to their inter-regional partners.

MPE is also about regulatory capacity, which is translated into expertise, coherence and sanctioning authority (Damro, 2012 p. 688). According to Bach and Newman (2007, p. 831 as cited in Damro, 2012), the regulatory expertise refers to the capability of identifying policy areas of concern and demand of third parties and being able to address them. Secondly, both the regulatory coherence and sanctioning authority, count with specific authorities respectively, that "shape and enforce market rules" (Bach and Newman 2007, p. 831 as cited in Damro, 2012) and monitor noncompliance and impose sanctions. Thus, through these three capacities (expertise, coherence and sanctioning) the EU is able to exercise power in the international system (Damro, 2012).

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<sup>283</sup> This issue appeared during my fieldwork, as interviewees from both blocs, CAN and MERCOSUR, were looking for market stability after a period of uncertainty that followed the 2008 global economic crisis. Nonetheless, much of this stability was assigned to new intra-regional blocs, formed to limit external intervention and to legitimately protect the interests of the region.

Finally, the EU as MPE should consider the competing interest groups in the European single market and the role they play (Damro, 2012 p. 688). Following a material perspective, the EU is a regulatory institution that is subject to public scrutiny, consequently it can be used as a platform of influencing groups to bargain, advance their own interests (Coen and Richardson 2009 in Damro, 2012: 688) and ultimately to altering outcomes. According to Young, regulatory outcomes can vary according on the type of procedures, either economic regulations “which govern entry to and competition within particular sectors’, and social regulations, which are aimed at addressing negative externalities and information asymmetries” (2006, p. 377). Therefore, incentives will be distributed differently throughout the society and interest groups, according to how costs and benefits from economic and social regulations are distributed and perceived<sup>284</sup> (Damro, 2012).

In summary, material and institutional features are key in understanding the basis of the EU’s identity as a MPE. On the contrary, NPE claims the EU has a normative basis that drives its actions (Manners, 2002, p. 252). Without discrediting the value of MPE when assessing the EU, the normative approach is a complementary analytical framework that has been used to study the EU’s exercise of power. It also provides with insights to acknowledge some aspects of the EU’s international role, as discussed in the following lines.

### **2.3.3.2 Normative Power Europe (NPE):**

During the 1980s, the prevailing approach to study the EU’s role was based on its security and defense policies, leading to a dominant comprehension and usage of the European military power. This was challenged by a more recent debate about civilian power (Duchêne 1972; 1973; Bulls 1981; Telò, 2006) as the way how the EU exerts influence. A decade later, the developments in IR scholarship reassessed both notions and their shared common assumptions, that resulted in a new

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<sup>284</sup> A similar approach was undertaken to my two case studies, which was helpful to identify the two influencing domestic actors: socio-economic representations and political interest groups. See introduction and discussion in Chapters 3 and 4.

analytical tool to understand the EU's role in world politics, which was named Normative Power Europe<sup>285</sup> (NPE), following Manners (2002) and Lucarelli (2008)<sup>286</sup>.

One feature that distinguishes NPE, as opposed to military power, is the relative absence of physical force, which derives in a need of persuasion and other non-coercive actions (Manners 2006, p. 184). In the same lines, NPE differs from civil power, which seeks to use civilian instruments to exerting influence (Smith, 2005; Sjørusen, 2006). Gerrits sustains that normative power is also about changing the other's principles, actions and impact. The latter implies a transformation and/ or adaptation to European regulations and standards (2009, p. 5).

Regardless the validity of the debate of military and civilian power and their readiness in assessing the common narratives of the European integration process during the 1980s and the 1990s, the contribution of NPE lies in its ability to reach the ideational force of the EU's international role (Manners, 2002, p. 238). Traditional realist IR scholarship typically assesses the material sources of power, such as, military, economic, geographical, demographic, but also political will and legitimacy (Waltz, 1979; Morgenthau, 1948; Keohane, 1989; Bull, 1977). This disregarded the influential capacity of norms, ideas and values, which took part of the IR debate in the interest of constructivist and critical perspectives (Cox, 1981, 1992; Wendt, 1995; 1999; Checkel, 2004).

The existence of the EU differs to other pre-existing political forms, namely being a regional integration model that is grounded in a normative basis, including a series of rules and norms, declarations, treaties, policies, programs and conditions<sup>287</sup>. This feature predisposes the EU to have a normative stand (Manners, 2002, p. 242) and a normative difference, which is foundational for

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<sup>285</sup> Yet, as some voices sustain, in the last two decades the notion of normative power lost its salience. This due particularly to the number of international crises and to internal political divides, both affecting the alleged normative identity of the EU. See Fusiek (2020, p.9). I will add to this the COVID-19 pandemic crisis also impacted the European reference as a normative power.

<sup>286</sup> In fact, other perspectives suggest that the idea of the EU as a normative power must be critically assessed, in light of its neo-colonial implications and echoes of nineteenth-century 'standards of civilization' (Nicolaidis & Howse 2002; Diez 2006 as cited in Meunier and Nicoalidis, 2006, p. 906).

<sup>287</sup> Within the normative framework we can name peace, liberty, democracy, rule of law and the respect of human rights, all of these are set in Article 6 of the Treaty of the European Union (TEU). As well as other practices: social solidarity, anti-discrimination, sustainable development and good governance (Manners, 2002, p. 243)



NPE. Certainly, some of them have been more controversial<sup>288</sup>, but what interests this study is the way how these norms have been diffused in other regions, which potentially illustrates the EU's presence and legitimacy as a normative power.

There are six factors that delve into the EU's norm diffusion in inter-regional relations: contagion, informational<sup>289</sup> and procedural diffusion, transference, overt diffusion and cultural filter<sup>290</sup> (Whitehead, 1996; Manners and Whitman, 1998; and Kinnvall, 1995 as cited in Manners, 2002). For instance, contagion refers to the diffusion of norms resulting from the unintentional diffusion of ideas from the EU to other political actors (Whitehead, 1996, p. 6 as cited in Manners, 2002). This can be illustrated with the idea that the EU exports its norms through its model of regional integration<sup>291</sup> (Meunier and Nicolaïdis, 2006).

Secondly, procedural diffusion alludes to the institutionalization of a relationship between the EU and a third party, which typically takes the form of an inter-regional agreement (Manners, 2002, p. 244). This could illustrate the institutionalized inter-regional interaction between the EU and my two case studies: the EU- CAN Multiparty Agreement, and the EU - MERCOSUR FTA. In fact, the empirical evidence suggests that any international agreement confers the need to harmonize secondary legislation (see Chapter 3), which infers that this type of diffusion occurs in any inter-regional agreement.

Thirdly, transference refers to diffusion that occurs through international trade<sup>292</sup>, that is when the EU exchanges goods and services, but also technical assistance to third parties, typically through Framework Cooperation Agreements. The inter-regional and bilateral cooperation programs the EU has with third actors are examples of this way of transference of norms (Manners, 2002)

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<sup>288</sup> It is relevant for this study to acknowledge how these norms have been perceived and integrated within the EU's inter-regional trajectories.

<sup>289</sup> Includes all the Declaratory communications that make part of the communication strategy of the European institutions.

<sup>290</sup> I will only assess the ones that apply to this study.

<sup>291</sup> One should bear in mind that an unintentional diffusion of norms is difficult to determine and by all means it exceeds the main purpose of this research.

<sup>292</sup> For example, the ability of a FTA to heighten the market power of members is especially pronounced for states in a customs union, such as the EU and MERCOSUR, because these institutions erect a common external tariff (CET) and thus bargain over tariff levels with third parties as a unit. (Mansfield and Reinhardt, 2003, p. 836)

Finally, the cultural filter factor entails the construction of political and social learning that results in a particular cultural identity based on its norms<sup>293</sup> (Manners, 2002, p. 244). Informed by the empirical evidence, I assert that the diffusion of the EU market integration with all their economic partners is an example of cultural filter, as discussed in the following chapters.

In brief, I have assessed two different perspectives (MPE and NPE) that illustrate the influence the EU exerts internationally. Part of my interest is addressed to the interlinkages on the power of ideas, norms and values against the traditional material power, both of which shape the dynamics of EU's inter-regionalism. As Damro (2012) proposes, an evaluation of these two approaches could help determine if the EU is more likely to influence the behavior of their parties by projecting its core norms and values; or through material incentives, which go over the range of disciplines covered by FTAs (Meissner, 2016, p. 99). I will attempt to shed light on this issue throughout my study<sup>294</sup>.

#### **2.3.4 New trade politics and power through trade:**

Along similar lines that MPE, Meunier and Nicolaïdis uphold the EU's influence on domestic policy-making is due to its market capacity, having named this phenomenon as "power through trade". Part of their argument sustain the idea that with the EU enlargement that took place in 2005, the region became an important trading bloc due to its market attractiveness in terms of population<sup>295</sup> and since then, due to its considerable purchasing power standards<sup>296</sup>. These features make the EU an exceptional economic partner that leads most of their counterparts to negotiate trade deals with them (2006, p. 908).

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<sup>293</sup> I will broadly assess this issue along my study. As the diffusion of norms and values was raised by many of my interviewees as one feature that characterizes the EU's inter-regional trajectories. One example being the EU's interest in the commercialization of organic products and fair trade.

<sup>294</sup> For example, I will shed light on how FTAs may also boost bargaining power by granting states with a greater voice in international trade forums and enhancing their market power. This also provide them with greater ability to negotiate favorable settlements with third parties.

<sup>295</sup> On 1<sup>st</sup> January 2005, the total population of the European Union (EU-25) was almost 460 million. On the 1st January 2020, the population of the European Union (EU) with 27 Member States was estimated at 447.7 million. Source: Eurostat See <https://ec.europa.eu/eurostat/documents/3217494/5685052/KS-EH-06-001-EN.PDF/1e141477-9235-44bb-a24b-a55454c2bc42?version=1.0> accessed January 28th, 2021

<sup>296</sup> In 2019, GDP in the EU-27 reached PPS 13.9 trillion (one PPS equals one euro). See Eurostat [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=National\\_accounts\\_and\\_GDP#Consumption\\_expenditure](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=National_accounts_and_GDP#Consumption_expenditure) accessed January 28th, 2021

Yet, it is not only about conferring market access to third parties, but about the scope of these third-generation agreements the EU promotes, which include regulatory standards, namely in labor, environment, investment, government procurement and competition. Such a set of regulations at different levels (international and domestic) require harmonization. Amid, the EU looking for total compliance, it is obliged to expand its capacity to demand for regulatory coordination, which implies undertaking changes in domestic policy. These factors underpin the power through trade strategy proposed by Meunier and Nicolaïdis (2006).

Ultimately, the question this strategy raises is the extent to which the EU's structural power can be used as effective influence<sup>297</sup>. Meunier and Nicolaïdis acknowledge that the EU is considered a trade power as it is able to influence third countries' policies and interests by altering its market access through the efficiency of its institutions and human resources in negotiating third-generation trade deals<sup>298</sup> (2006, p. 907). By securing concessions from third parties, the EU shapes and influences economic globalization<sup>299</sup>. In other words, the EU uses trade power to achieve broader economic as well as non-trade objectives (Meunier and Nicolaïdis, 2006, p. 910).

Nonetheless, following Leblond and Viju-Miljusevic, "the comprehensive nature and scope of the European trade deals raises concerns about the ability of the state to regulate the economy and society according to democratic principles and processes..." (2019, p. 1837). This also posits questions about the ultimate beneficiaries of these agreements, their political willingness to follow these prerogatives and the possible exacerbating costs related to globalization. These are not minor issues for small states in asymmetrical power relations who, on the same tenor than IPE are prone to vulnerability and political trade dependence<sup>300</sup> undermining its own resilience. The capacity of

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<sup>297</sup> More precisely, "*can power in trade become influent in other arena (like foreign policy)?*" (Meunier and Nicolaïdis, 2006, p. 907). This research addresses a similar question, inspired in effective influence, which pertains what I have named "real influence" stemming from the alleged bargaining power small states can exert in inter-regional negotiations.

<sup>298</sup> In fact, the European Commission counts with years of experience in negotiating international trade agreements on behalf of its members; this has made the EU an essential player and a prominent bargainer (Baldwin, 2006; Meunier 2005).

<sup>299</sup> In fact, whether through bilateral, inter-regional or multilateral relations, the EU is acting as a 'globalizer' for the rest of the world, exporting norms and standards which in turn may facilitate their integration in the world economy (Meunier and Nicolaïdis, 2006, p. 915).

<sup>300</sup> See discussion in Chapter 3.

small states to unravel these dynamics triggers questions of legitimacy and power while creating tensions in the EU's inter-regional trajectories.

In light of these claims, the EU has been considered a conflicted trade power (Meunier and Nicolaïdis, 2006, p. 910). Additionally, due to the fact EU members have different perspectives on how to exercise such power through trade. Its guiding principles have been implemented in a non-consistent manner, while being confronted to different forms of governance or lateralisms, as discussed previously in this chapter, in order to reach their policy goals: multilateralism, inter-regionalism, bilateral trade agreements among other forms of interaction<sup>301</sup>.

Yet, that conflicted power, derived from the heterogeneity of interests is not merely reflected in less influence (Meunier and Nicolaïdis, 2006, p. 909). According to Meunier (2005), this internal conflict can be the ultimate source of power, in the sense that internal divisions have been translated in less flexibility of European negotiators, triggering higher demands and outcomes in international trade negotiations<sup>302</sup>. Even though, some external factors have played against that flexibility, giving rise to fragmented types of inter-regionalism.

From a multilateral standpoint, the spread of the European strategy, is a way to reinforce the legitimacy of the international system of trade on the making of domestic rules. That said, the EU promotes a broader international trade agenda by proclaiming the rules and principles of the WTO, mainly in what concerns trade related or WTO plus issues, such as competition policy, environmental standards, labor rights and investment rules<sup>303</sup>. In this regard, Young and Peterson sustain the EU has contributed to this idea of "new trade politics" (2006).

In a similar token, the theory of hegemony (Snidal, 1985; Grungberg, 1990) sheds light upon the EU's strategy of promoting "Association Agreements". This means that a long-lasting source of

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<sup>301</sup> In fact, while pursuing inter-regional negotiations, the EU Commission has promoted bilateral Strategic Partnerships (with Brazil, Cuba, Mexico, just to name some of the Latin American countries).

<sup>302</sup> Meunier's argument seems attractive to this research, as part of my fieldwork revealed that EU negotiators were not flexible counterparts, in spite of the asymmetries between member states, yet this did not result in higher trade demands. On the contrary, the EU as an institution was flexible in their choice of governance forms.

<sup>303</sup> See discussion in Chapter 3.

power of economic hegemons is the use of market access as leverage to alter behavior and policy of its trading partners (Meunier and Nicolaïdis, 2006, p. 910). Indeed, the EU's inter-regional agenda is congruent with its project of global integration, which encounters some of its key goals: political dialogue, economic integration and cooperation, creating a complex system of political and economic interdependencies<sup>304</sup>. This seems true in an asymmetrical relation as the one with South American partners and builds upon the idea of path dependency<sup>305</sup>, from the GSP regimes and the consolidation of Association Agreements, producing movement in the same direction.

More originally, the EU is using its trade power to achieve non-trade objectives, creating a virtuous cycle in its inter-regional relation with South America, that is, while the region exports goods to the European market, the EU recognizes them as a political partner and cooperation beneficiary. Accordingly, the EU- MERCOSUR and EU-CAN trade agreements can be labelled as power through trade strategies, as one of the main means of those negotiation trajectories was a region-to-region approach in all regulatory areas. Indeed, all the agreement's provisions (market access, IPR, government procurement) must apply to all MERCOSUR and Andean signatories, making their integration process a precondition to EU inter-regional negotiations<sup>306</sup> (Meunier and Nicolaïdis, 2006, p. 914). However, as the reader will note in further Chapters, the bloc-to bloc trajectories were altered as CAN and MERCOSUR went through critical phases of adjournment and reconsideration, which to the eyes of this research were sources of smallness' leverage.

Over the last decades, whether trade negotiations have been embarked on bilateral, multilateral or inter-regional venues, they have addressed issues that go beyond trade liberalization. Indeed, this has raised public concerns about the limitation of governmental policy space to regulate societal and economic questions that are ultimately managed in trade agreements (Leblond and Viju-Miljusevic, 2019). Also as this has triggered increased stages of politicization about the benefits of those agreements. In that regard, the EU has made great efforts on publicizing their procedures

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<sup>304</sup> Indeed, there are some views that sustain that as the EU is itself a system of market liberalization, its external efforts are about replication more than domination (Meunier and Nicolaïdis, 2006, p. 912). I argue that this is valid if taken from a comparative perspective with the US dominance. However, if taken in the inter-regional relation with South America, it would rather be a source of domination to counter other competitor's power.

<sup>305</sup> See Pierson (2000).

<sup>306</sup> Both agreements include a Regional Integration clause, that recognizes the importance to preserve each of the regional integration processes. (See Article 10 MTA and EU-MERCOSUR FTA's Article X)

of agreement consent. Hereafter, I will briefly assess these actions with the aim of elucidating on the sources of flexibility in EU's external relations.

#### **2.4 EU's flexibility or reduced bargaining power in inter-regional relations?**

In this final sub-section, I will try to elicit on flexibility and bargaining power the EU has exercised in its inter-regional relations. To do so, I will consider two factors: the politicization<sup>307</sup> in the EU trade negotiations and secondly, institutional changes in their trade policy-making due to the new mandates of the TFEU. Conventional narratives suggest the EU policy-making is mainly constrained by internal- institutional factors, however, literature that has recently emerged claims for other factors that alter the relative absence of polarization of public opinion regarding this policy area<sup>308</sup>.

In this regard, one question that is of particular interest for this Chapter is: to what extent politicization of trade policy on one side, and institutional changes that resulted from the Lisbon Treaty, on the other, impacted flexibility in the EU's inter-regional trajectories? To address this question, it is necessary to review some of the key political and institutional features of the EU's trade policy-making as to acknowledge if these have shaped trade policy outcomes. Within the dilemmas between NPE and MPE discussed above, here I suggest that institutional and procedural changes, that occurred with the Lisbon Treaty are first and foremost prerogatives of the European institutional power and therefore the main source of a limited flexibility in international negotiations.

Trade policy has become more complex for the public opinion as per the unequal distribution of the consequences of globalization, with some particular groups much more affected than others (Rodrik, 2018). In fact, recent literature underpins the discontent against European trade policies

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<sup>307</sup> Recent literature makes reference to a “growing politicization of European policies, defined as increasing polarization of opinions and public salience” (e.g., De Bruycker 2017; De Wilde 2011; Schimmelfennig et al. 2015 as cited in Meunier and Csezana, 2019).

<sup>308</sup> According to Meunier and Csezana, some of these factors, which have increased public salience, besides the institutional changes devised by the 2009 Lisbon Treaty are: alterations in the nature of trade and investment negotiations; increasing contestation towards globalization processes; a transformation of the media landscape; the competitive role of the United States; and influence coming from external sources (2019, p. 1847).

(Dur and Mateo, 2014; Young, 2016; De Bièvre and Poletti 2017; Eliasson and Garcia-Duran Huet 2019; Laursen and Roederer-Rynning 2017; Young 2017 as cited in Meunier and Csezana, 2019) particularly in the aftermath of two negotiation processes: the Transatlantic Trade and Investment Partnership (TTIP) and the Comprehensive Economic Trade Agreement (CETA).

Along the same lines, the changing nature and scope of trade agreements, which have turned them into third generation agreements, or “mixed agreements”<sup>309</sup>, has generated public concerns about the consequences of those deals and the distribution of its benefits (Leblond and Viju-Miljusevic, 2019; Meunier and Csezana, 2019). Similarly, according to Leblond (2019), third generation agreements require of regulatory capacities and institutional mechanisms which are most likely to be attained through inter-regional cooperation. All these conundrums could be reducing the government’s capacities to have a suitable policy leverage over the society and the economy<sup>310</sup> (Meunier and Csezana, 2019, p.1838).

The crisis of commercial multilateralism and notably the stalemate of the Doha Round, exhibited a shift in the EU’s trade policy, as discussed by various scholars (Leblond and Viju-Miljusevic, 2019; Meunier, 2006; Meunier and Czesana, 2019) which consequently entailed a preference towards bilateral trade agreements. Young and Peterson (2014) assess further motives for the EU trade policy shift: a necessity for regulatory coordination which implies harmonization with domestic policy, and secondly, the extent to which the EU is in the capacity of influencing the rules and regulations of its trade partners. The former continues to be subject of debate, as there are some voices that suggest this influence has been limited whereas others claim it has resulted in a normative power Europe (NPE) (Manners, 2002; Lucarelli, 2018), which means the capacity to influence third parties through ideas, norms and values, as explained in previous sections.

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<sup>309</sup> Mixed agreements, according to the European Court of Justice, are agreements that include disciplines that are of shared responsibility of the EU institutions and of individual member states, as they pertain areas in which national governments retain competence. See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=legissum:ai0034> accessed August 30<sup>th</sup> 2020

<sup>310</sup> To face these challenges, the EU has attempted to depoliticize trade policy by tackling transparency. In fact the European Commission has put in place some strategies: meeting with stakeholders and making public the results of their meetings and also publishing documents and proposals from third-parties. These strategies make part of the #asktheEU strategy, where information is open to the civil society. See more <https://www.asktheeu.org/fr>

Indeed one of the consequences of the EU policy change, is the politicization of trade negotiations which according to Young (2019) has varied over time, across negotiations and member states and raises questions of why some trade deals are more contested than others (Leblond and Viju-Miljusevic, 2019, Duina, 2019). In line with these authors, some factors to consider are values, cultural affinities, institutions, economic competition, among others. Meunier and Csezana (2019) claim for the scope and nature of trade agreements, globalization processes, Lisbon institutional changes in EUs' policy-making and economic competitors<sup>311</sup>, as factors of politicization. In sum, the consequences are two-fold: on one hand EU's politicization of trade policy seems to have triggered trade negotiations transparency; on the other, flexibilization of its external relations strategies could have weakened its image within the EU itself, as well as abroad.

#### **2.4.1 The evolution of EU's agreement procedures**

With the aim of shedding light upon the EU's authoritative role, to begin with, I provide a historical overview of the EU legal authority in regards to trade. The Treaty of Rome which established the European Community (1957) mandated the creation of a Common Commercial Policy (based on Article 133 of the Treaty of Rome) in which EU member states granted authority to the European Commission and the Council of Ministers<sup>312</sup> to negotiate agreements with third parties<sup>313</sup>. Policy responsibilities are divided between the Commission and the Council, whereas the European Parliament (EP) is relegated to an advisory role, in some cases with no decision-making authority (Aggarwal & Fogarty, 2004, p. 28), until the Lisbon Treaty granted them more participation.

In regards to the EU inter-regional relation which pertains this study, Article 300 of the Maastricht Treaty set the rules on cooperation and the negotiation of Association Agreements. Accordingly, it was updated with the Lisbon Treaty (TFUE), through Articles 216-219. More precisely, Article

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<sup>311</sup> In addition to politicization, Meunier and Csezana also claim for public salience. They borrow the definition by (Oppermann and Viehriig, 2009) who sustain it is the "significance, importance and urgency that the general public ascribes to a certain issue on the political agenda" (2019, p.1848). Also it is referred by Meunier and Csezana as "the level of public mobilization around particular [trade] negotiations" (2019).

<sup>312</sup> We should note here an important difference in the level of governance: while the EU Commission is a supranational bureaucracy, the Council of Ministers functions in an intergovernmental manner. If this fact sums up to EU's behavior in international negotiations is an interesting question to address.

<sup>313</sup> I should mention that Article 133 instructed these external trade negotiations to be consistent with Article 24 of the GATT. As discussed previously in this Chapter, Article 24 is elusive to trade multilateralism, particularly regional trade agreements, as the legal background that provides this article violates the principle of non-discrimination.



218 grants the EP to consent the EU Council, in the case of Association Agreements. It also details the voting procedure to adopt this type of agreements. The implications of these reforms in inter-regionalism are discussed below.

#### **2.4.1.1 The voting procedures**

Under the Treaty of Rome, voting on trade issues was based on unanimity, any member against could veto or propose changes. However, the Maastricht Treaty (1992) and the Single European Act (1987) modified this procedure by introducing the “qualified majority voting” (QMV) only for agreements on trade of goods, which limited the EU’s ability on trade negotiations. Indeed, after the entry into force of the Maastricht Treaty (1993), the newly created WTO (1994) kept the competences of the multilateral system of trade, that is, they exercised control over negotiations on other policy areas, such as services, IPR, as these are competences of national governments (Aggarwal & Fogarty, 2004, p. 29). Yet, over the new decade, as the WTO entered into an institutional crisis, the competences of multilateralism swerved to a bilateral manner and consequently this changed with the adoption of the Lisbon Treaty as explained below.

EU’s voting procedure and reforms have implications on the EU’s flexibilities and trade policy-making. Aggarwal and Fogarty (2004); Hanson (1998) and Nugent (1999) suggest that QMV caused a regression in the ability of member states to influence the EU Commission’s agenda and the use of vote in the Council of Ministers. On the same lines, the completion of the integrated market enabled by the Single European Act, biased trade policy outcomes and reduced the ability of member states as well as other non-state actors influencing those processes, to pursue specific demands (Hanson, 1998). In fact, to consolidate an influencing block majority in the Council became less likely to happen in QMV and this determined the extent to which interest groups hold different margins of maneuver to curve voting outcomes towards their interest.

According to Meunier, the majority rule has the effect of mitigating extreme positions. Under the QMV, states must gather about one-third of the total EU votes to block a proposal. (2000, p. 110). This is explained through the delegation of competence within the principal (EU Council) / agent (EU Commission) argument, raised by Nicolaïdis (1999) to explain the conduct of the EU’s international trade negotiations. She uses three attributes of the negotiating mandate to help

understand the delegation of competence: flexibility<sup>314</sup>, autonomy<sup>315</sup> and authority<sup>316</sup>. These three attributes, Nicolaïdis and Meunier argue, depend on both the formal rules and the current political climate (2000, p. 111). In brief, the delegation of competence in trade negotiations with third parties is more flexible at least until the final agreement is approved. This probably affected inter-regional trajectories, with MERCOSUR and the Andean region, as both went through long processes of negotiation and approval. Yet, the limits of this competence as being set by the mandate, where negotiators can do the best they can. It seemed this process has been more flexible in the case of CAN than MERCOSUR. That is, due to the fact that only in the case of the Andean region the formal rules were modified, even though both went through hard political climates during all the process.

Finally, there are several institutional dysfunctionalities that may hinder the EU's participation in international trade negotiations. For instance, divergences in the EU's policy positions, that result from internal bargaining, limits the EU's margins of maneuver and the capacity of European negotiators to uphold those common positions (Paemen, 1995). At the same time, intra-European negotiations (previous to international ones) unmask secrecy and swerve bargaining power towards the opposite side. Differences in each state's national interest manifest themselves in the heterogeneous mandate the Council gives to the Commission in trade issues (Nugent, 1999, p. 441). Finally, the supranational character of the Commission itself, inhibits it from immediate decisions, which are to be solved in Brussels<sup>317</sup>. These elements delve into the difficulties at the European level to flexibilize its demands of trade policy towards third actors and the complexities of multilevel governance as the one the EU exerts.

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<sup>314</sup> Meunier (2000) and Nicolaïdis (1999) refer to flexibility as an attribute being determined in the negotiation "mandate". It can be either flexible for negotiators to do "the best they can" or can be more restricted, specifying the concessions that are acceptable. Most importantly, it can be subject to and update according to the political environment.

<sup>315</sup> Nicolaïdis points out the actual involvement of principals in negotiations, which can be limited by the obligation to report to the principal and or by having them in the table of negotiations alongside the agent (1999).

<sup>316</sup> This last attribute is about the capacity of the agent to make promises and deliver them. It also depends on the procedures used for ratification and the uncertainty of those procedures (Nicolaïdis, 1999).

<sup>317</sup> This does not suggest this could not occur at the intergovernmental level which is the case of MERCOSUR and CAN. However, it emphasizes on the possibility of a causal relation between supranationalism and lower levels of flexibility and bargaining power vis-à-vis third actors. This is discussed by Meunier (2000).

## 2.4.2 Rome policy-making vs Lisbon innovations

Based in the Treaty of Rome, a process in four stages is observed for the EU's external trade negotiations. This starts when the EU Commission has the initiative to launch procedures to negotiate an external trade agreement, this is followed by the definition of the negotiation guidelines in charge of the Council of Ministers. Thirdly, the EU Commission through a Directorate General usually is appointed as negotiator, however if there is a sensitive issue, the Council appoints a special committee to participate. In this case, the EU Commission defines a mandate similar to the terms of reference of negotiations<sup>318</sup>. Once the negotiation process has taken place, which length can vary according to the complexity of negotiations<sup>319</sup>. Finally, negotiators submit the agreement for approval to the Council of Ministers, who has to approve or reject in all cases.

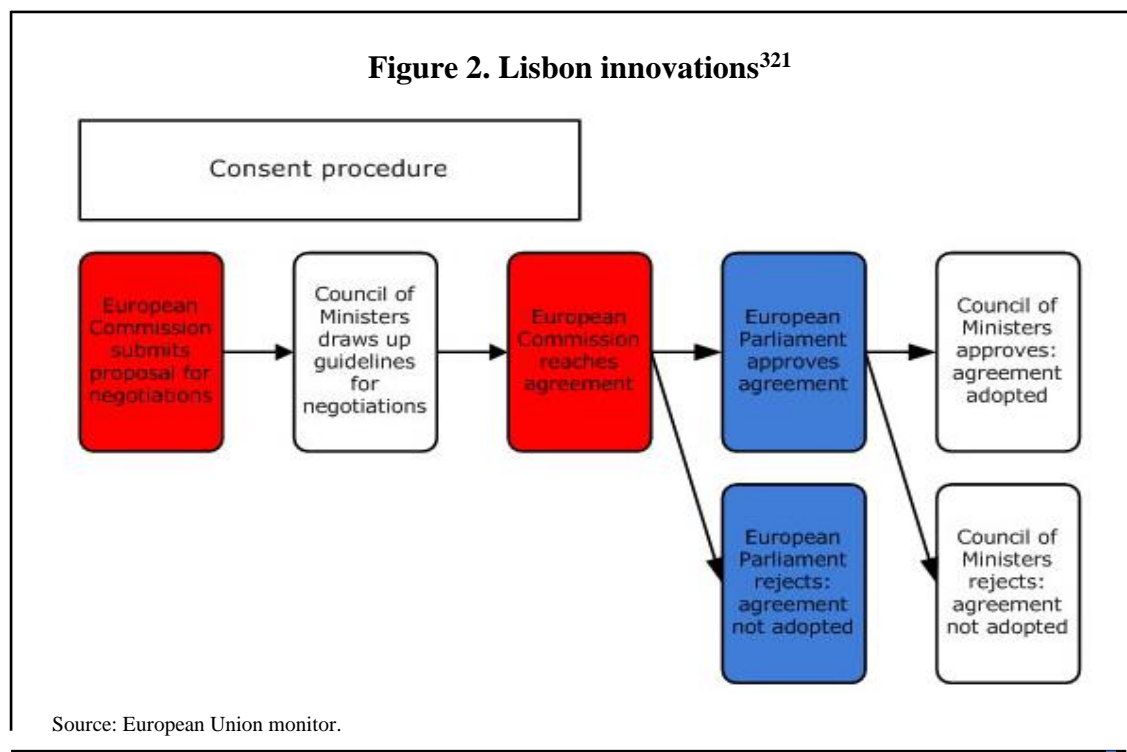
The Lisbon Treaty adds one step to this procedure, which makes a difference with the preliminary steps, this means the involvement of the EP in the approval of an international agreement. Thereby, the consent of the EP is required for: association agreements (the case of the MERCOSUR and the CAN); agreements on cooperation that establish new institutional frameworks; agreements that have an impact on the EU budget, among others<sup>320</sup>. Within the rest of international agreements, the EP has only an advisory role, including foreign and security policies. The figure 2 below illustrates the innovations of this consent procedure.

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<sup>318</sup> See <https://ec.europa.eu/trade/policy/policy-making/> accessed September 5<sup>th</sup> 2020

<sup>319</sup> Evidence demonstrates an average of 3 to 4 years for the negotiation process to take place. See <https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/> accessed September 5<sup>th</sup> 2020. Although some more complex processes take place, as the ones depicted by my two case studies.

<sup>320</sup> See Article 219 of the TFEU.



These further innovations in the EU’s trade policy process that resulted from the Lisbon Treaty are examined below. In the first place, EU trade policy must act in accordance with the principles stated in the TFEU (Chapter 1 of the Title V): the respect for human rights, democracy and rule of law and environmental sustainability. Followed to this, all aspects of international change require QMV,<sup>322</sup> according to Article 207(1) TFEU and are under exclusive EU competence. Policy areas such as IPR, services and FDI require QMV in the Council of Ministers. Accordingly, as discussed above, the Lisbon Treaty enhanced the EP role as today it shares responsibility with

<sup>321</sup> The institutional framework that covers the consent procedure described above is the Treaty of the EU (TEU) and the Treaty of functioning of the EU (TFEU). The scope is detailed on TEU title V, article 21 and part five TFEU (articles 205-219); whereas the procedures for an international agreement are based on part five TFEU title V article 218; and for trade policy, is based on part five TFEU title II art. 207, paragraph 3 & 4. See: <https://www.eumonitor.eu/9353000/1/j9vvik7m1c3gyxp/vh7bi4zutqzf> accessed September 6th 2020

<sup>322</sup> A qualified majority (QM) is the number of votes required in the Council for a decision to be adopted when issues are being debated on the basis of Article 16 of the Treaty on EU and Article 238 of the Treaty on the Functioning of the EU. Under the ordinary legislative procedure, the Council acts by QM, in codecision with the Parliament. On 1<sup>st</sup> November 2014, a new procedure for QM voting, the ‘double majority’ rule, was introduced. Here, when the Council votes on a proposal by the Commission or the EU’s High Representative for Foreign Affairs and Security Policy, a QM is reached if two conditions are met: 55 % of EU countries vote in favour, the proposal is supported by countries representing at least 65% of the total EU population. See: [https://eur-lex.europa.eu/summary/glossary/qualified\\_majority.html](https://eur-lex.europa.eu/summary/glossary/qualified_majority.html) accessed September 6th 2020

the Council in EU's external policy-making. For instance, the TFEU transferred competence of FDI to the supranational level, as this particular policy area to be adopted in an agreement, requires the Council, the EP and member states' approval, giving power to national parliaments on trade policy. Finally, agreements considered "mixed" as discussed previously (e.g. CETA) are under exclusive EU competence and require ratification of both the Council and the EP. This is the case except for investor-state dispute settlements, which are under shared competence and thus ratification is done by individual member states. It is possible for trade agreements to be implemented in a provisional manner once the ratification process at the EU level has taken place, however if they are of shared competence they are implemented only once all the member states have ratified them<sup>323</sup>.

In brief, the EU trade policy process that resulted from the Lisbon Treaty has restrictive effects (in external trade negotiations comprising inter-regionalism) as it adds procedural steps into decision-making. In other words, the supranational character of the Commission inhibits it from immediate decisions. Secondly, the obligation of matching trade policy with the TFEU principles, is a way to exert their NPE in other regions, while it increases more confrontative stances within EU stakeholders evoking a mismatch of values (environmental protection, democracy and rule of law). On this matter, the politicization of trade negotiations seems to have limited the EU's capacity to use MPE and NPE and flexibility measures in their inter-regional trajectories.

### **2.4.3 Conclusion: the dynamics of EU's external relations**

Over the course of this chapter I have attempted to elucidate on whether institutional changes have impacted the EU flexibility and bargaining power *vis-à-vis* third parties, particularly in inter-regional relations. As discussed along this last section, regardless the fact that trade is a complex policy area, it has been delegated to the supranational level notably in the case of the EU. This delegation operates in both the Council and the EU Commission, and since the adoption of the Lisbon Treaty, this responsibility is also shared with the EP. The delegation of competences together with the enlargement of the nature and scope of external trade negotiations, has not been

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<sup>323</sup> See Consolidated version of the Treaty on the Functioning of the European Union retrieved from <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A02016E%2FTXT-20200301> accessed September 6th 2020

without public scrutiny and political controversy. In addition to this, trade has become a more contested policy area as the distributional consequences of globalization have extensively exacerbated the gap between the winners and losers of market integration and trade liberalization. To face this challenge, the EU has targeted transparency and an increased involvement of other stakeholders in trade negotiations. In fact, the TFEU laid down the rules and procedures for undertaking transparency, yet it also set up a more complex process in European trade policy-making. An additional component in this regard is how WTO provisions have shaped inter-regional relations among EU and negotiating partners. So far, all these factors have constrained European flexibility and bargaining power towards sustained inter-regional trajectories.

Additionally, by examining the different types of lateralisms or institutional forms of trade governance: bilateral, multilateral, inter-regional, I have attempted to provide a better understanding of variation and the extent to which they have conditioned state actors to choose one or another institutional form. In terms of policy areas, trade has gravitated from multilateralism to bilateralism but also to inter-regionalism. More recently this has extended to other policy areas, such as FDI, which explains why the WTO has found itself institutionally deprived to operate as the regulatory axis of the international trading system, which at the same time has resulted in a backlash to trade multilateralism.

The EU is the main driver of inter-regionalism, which is enshrined by European Institutions, yet the region is embarked in inter-regional trajectories by normative means and also by material means (alleviation of transactions costs and increasing inter-regional cooperation). The European formal trade policymaking by creating hindrances and inefficiencies, can produce a set of effects in its trade counterparties to the extent that its dysfunctionalities may cause rigidity, as opposed to flexibility. Similarly, a lack of coherence in the EU's common positions can also increase the counterparty's bargaining power. Indeed, from a European perspective the institutional constraints of trade negotiations tend to be measured by the partner's bargaining power which would diminish the EU's effectiveness. If considering the asymmetries of power in the EU – South American relations, inter-regionalism has been the best strategy, by choice and market power and to a lesser extent by normative means. Yet, this should be examined in light of the particular interests and motivations of small states, which is one of the guiding questions of the next two chapters.

### CHAPTER 3. EXPLANATORY FACTORS, MOTIVATIONS, AND BARGAINING POWER WITHIN INTER-REGIONALISM : THE EU-CAN'S MULTIPARTY TRADE AGREEMENT, THE CASE OF ECUADOR.

*“I wouldn't have negotiated that agreement if the [unilateral] tariff preferences were not terminated at the end of this year [2016]. That [loss would have] meant an impact of 400 million dollars in our exports to the European common market. To face that reality, we had to negotiate, otherwise I wouldn't have taken the time to do it”.* (Rafael Correa, former President of Ecuador in the weekly public outreach - Enlace Ciudadano No. 500, 12 November 2016)<sup>324</sup>.

The EU and the Andean Community (CAN) transited through a complex inter-regional trajectory, partly due to Ecuador's political transition that lasted during the *Alianza País* period or when the so-called *Revolución Ciudadana* was in power<sup>325</sup>. During this time a series of political reforms including a Constitutional Assembly<sup>326</sup>, introduced new prerogatives in all aspects of political life, including the principles of Ecuador's external relations, which turned its priority to Latin American

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<sup>324</sup> This quotation illustrates the spirit of this chapter with regards to the Ecuadorian trajectory during the negotiations with the EU. Part of the assessment undertaken in this chapter is based on a personal background. In fact, I have professional experience as an international trade analyst in Ecuador's public administration, having worked at the Ministry for Planning and Development, *SENPLADES*, between 2010 and 2013. During this time, my contributions were from a regulatory perspective in particular, which included the case of the EU-CAN negotiations led by the former Ministry of Foreign Affairs, Trade and Integration (MRECI). I have the chance today, as I write this dissertation, to project myself both as part of the “object of study” and as a researcher. I returned to the field 6 years after, in 2019, and I had discussions with former colleagues, some of whom were in different positions but held the same professional convictions. Interrogating them about a subject on which we worked together in the past was a very insightful experience, although seen from a different perspective. This is a declaration of bias that could have influenced my understanding about the subject at stake.

<sup>325</sup> *Alianza País*, Rafael Correa's political movement, took him to office in 2007 and his government lasted until 2017. He went through 2 re-election processes, one of them through a referendum in which immediate re-election was at stake. Having had a positive outcome, he was reelected for an additional period of two years (Lacuisse, 2015).

<sup>326</sup> Through a referendum, the members of this Assembly were installed in Montecristi, in the coastal province of Manabi, to draft a new constitution which was officially adopted in 2008.

integration with the aim of promoting south-south relations. It was during the time of negotiations with the EU that Ecuador's strategy of international insertion became subject to a cumbersome debate. This was also due to the Andean countries' claim of an increased recognition of asymmetries within inter-regional negotiations with the EU. In addition, the changing political dynamics in both Ecuador and Bolivia, brought this negotiation process to a deadlock in 2009. Interestingly enough, as some voices maintained during the field work, the CAN-EU MTA was ultimately signed by one of the governments that showed the greatest opposition to free trade agreements<sup>327</sup>.

Within this context, I seek to examine what an asymmetrical relation implies in terms of small states' motivations to pursue an inter-regional negotiation and to what extent smaller partners had bargaining power in order to exert real influence within inter-regionalism, with a particular focus on the Ecuadorian case.

To do so, I will firstly assess Ecuador's singular path towards the EU- Andean MTA, as well as the agreed text, in order to tackle the core question this study pursues: to what extent do small-states have bargaining power within an institutionalized inter-regional relation?

The additional sub-questions to be explored in this chapter are:

What type of inter-regionalism was grounded between the CAN and the EU? What are the sources of the EU's flexibility to resume negotiations with a small partner like Ecuador (breaking the "pure" inter-regional basis)? To what extent did this bargaining power translate into real influence? What outcomes resulted from CAN's inter-regional trajectory with the EU?

Secondly, I will explore the external factors, that shaped the inter-regional trajectory with the EU. In fact, when it comes to an asymmetrical negotiation in terms of influence, there are external forces that can determine the course of inter-regionalism.

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<sup>327</sup> Fieldwork carnet, April 18, 2019



Lastly, I will examine the influential factors that could have shaped this institutionalized inter-regional trajectory. In fact, these factors could have prompted the configurations and made the environment suitable for inter-regional negotiations to prosper and conclude. In this manner, I explore the motivations a small state like Ecuador has in order to entertain such negotiations *vis à vis* a dominant counterpart, as well as the bargaining power the country could have exerted and the extent to which the latter turned it into real influence. A preliminary assumption I attempt to evaluate is if Ecuador, depicted as a small state<sup>328</sup> within the inter-regional trajectory with the EU, had agency capacity on one side, but was confronted to its vulnerability towards external factors, on the other.

### 3.1 Historical background of the EU-CAN inter-regional trajectory

The relationship between Latin America and the Caribbean (LAC) and the EU has historically been based on close cooperation and solidarity, within it, *bi-regional* types of summits have taken place at least since 1990<sup>329</sup>. This has paved the way for deeper commitments in areas of common interest, but at the same time it has hindered the conclusion of agreements beyond cooperation. For instance, an EU-CAN Cooperation Framework Agreement<sup>330</sup> was signed between the two partners in 1993<sup>331</sup>. This agreement set the foundations that governed the relationship between both parties, including negotiations for deeper cooperation, trade, and political dialogue.

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<sup>328</sup> The explanatory factor to take into consideration along all the study is that Ecuador (as well as Uruguay as per my second case study) fall in the category of small state, as demonstrated in Chapter 1.

<sup>329</sup> Through the Rome Declaration of 20 December 1990, the EU-Rio Group Dialogue was institutionalized. Since then, bi-regional summits have been taking place in a biennial basis, even if the Latin America and the Caribbean region has faced various changes in its institutionally. However, the Ibero-American Summits have also been held since 1991. Nevertheless, in 2010, the Community of Latin American and Caribbean Nations (CELAC) took the leadership of the bi-regional interactions and replaced the Rio Group Summits (Portales, 2015: 222-227). In fact, it is necessary to point out the difference between bi-regional and inter-regional type or relations. The former took place during the times of the ECC and the Andean Pact, whereas the turning point towards inter-regionalism occurred with the establishment of the Andean Community- CAN in 1997.

<sup>330</sup> In fact, these relations date back to a previous framework agreement between the European Economic Community and the Andean Pact (founded in 1969 by Bolivia, Colombia, Ecuador, and Peru with Venezuela joining in 1973) based on economic cooperation in 1983. It was replaced 10 years later by the Cooperation Framework Agreement, which had a wider focus on human rights and democracy, and integrated human development and regional integration. See <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=LEGISSUM:r14008>, accessed on June 16, 2021.

<sup>331</sup> Decision 329, (CAN, 1993).

The relationship that concerned the EU and CAN, gained through the institutional framework and dialogue, would hitherto be sustained in high-level meetings. In 2002, during the Second Summit of heads of state and government of LAC and the EU, the CAN and the EU agreed to negotiate a Political Dialogue and Cooperation Agreement as a building block to negotiations for an Association Agreement (*Acuerdo de Asociación*) between the two regional blocs.

Indeed, in 2003, the existing inter-regional relations were replaced by the Political Dialogue and Cooperation Agreement, which was adopted by the CAN a year later<sup>332</sup>. This agreement extended the scope of cooperation to include new areas such as human rights, conflict prevention, migration, and the fight against drugs and terrorism. Special emphasis was placed upon cooperation to strengthen the regional integration process in the Andean Community. This event laid the foundations for an inter-regional trajectory between the two partners and can be considered the cornerstone of the negotiations towards a more comprehensive agreement (Association Agreement) following the mandate of the EU Commission<sup>333</sup>.

Accordingly, in 2005 in Luxembourg, a CAN-EU Ministerial Meeting was held, which served to reiterate the willingness of both parties to conclude an Association Agreement between the EU and the CAN with one common strategic objective: establishing a free trade area (FTA). There was common sense to this agreement, as in terms of trade, the EU has been a niche market for Andean exports and it counted itself as one of the main trade partners<sup>334</sup>. In April 2007, the EU

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<sup>332</sup> Decision 595, (CAN, 2004).

<sup>333</sup> A mandate is established by the European Commission before starting a negotiation. According to Cecilia Malström, a former European Trade Commissioner, this is a document that defines the direction of any negotiation to be entertained by the EU. In order for it to be established, it is discussed within the private sector, civil society, and the EU Parliament. A mandate is rather technical and it states what you want to discuss in a negotiation, which is immediately made public. The EU parliament debates the mandate and adds some specificities, while the European Commission includes member states' needs. Global Leadership Masterclass attendance with the former European Commissioner for Trade, Cecilia Malström, organized by the Open Diplomacy Institute on May 19th 2021 See <https://www.youtube.com/watch?v=uEjIEZODJq4>

<sup>334</sup> The Regional Strategy Paper for the CAN (2007-2013) affirms that the CAN ranks relatively high among the EU's main trading partner (29th before Venezuela left), with imports and exports accounting for approximately 0.5% of the EU's world trade. The US is the principal trading partner for the CAN, followed by the EU. As regards FDI, the EU holds the largest portfolio of investments in the Andean Community countries. (p. 8). See [https://eeas.europa.eu/sites/default/files/regional\\_strategy\\_paper\\_2007-13\\_en.pdf](https://eeas.europa.eu/sites/default/files/regional_strategy_paper_2007-13_en.pdf) Accessed on June 16 2021. The reader should note that these numbers concern years before 2013, that is, before China changed this regional economic landscape and replaced the EU as the second more important trade partner.

adopted the negotiation mandate to initiate the process<sup>335</sup>; whereas the CAN adopted *Decision 667*<sup>336</sup>. Both regional blocs agreed to the negotiation terms of the Association Agreement, pointing out the importance of taking into account the different levels of economic development between the regional blocs. Consequently, in 2007 the first round of negotiations for the Association Agreement took place in Bogota, Colombia. It was followed by the second round in Brussels in December 2007 where the parties agreed to the objective of advancing as rapidly as possible on trade-related issues. During the third round in Quito, in April 2008, the parties stressed that asymmetries and differences are not only expressed between the two blocs, but also within the Andean Community itself, as Bolivia and Ecuador showed divergences with Colombia and Peru. Consequently, the fourth round was suspended as Bolivian and Ecuadorian governments were opposed to the terms of the negotiations<sup>337</sup>. In fact, trade policy dissensions between CAN members, differences within their structural economic features, and their relative dependence and vulnerability to external markets, were all factors that prevented the Andean countries from acting as a regional bloc in their relationship with third parties, ultimately causing Ecuador and Bolivia to abandon the Association Agreement negotiations (Alvear & Jaramillo, 2009).

Due to the Andean fracture, the EU suggested modifying the modality of the negotiation, that is, to entertain negotiations regarding political dialogue and cooperation pillars on an inter-regional basis, and if Andeans agreed to do so, to conduct trade negotiations on a bilateral basis (Falconi & Oleas, 2012, p.51). For the Andean region, the breakdown was possible due to a legal provision<sup>338</sup> of the Andean Community which allows member countries to negotiate trade agreements with third parties, primarily on a communitarian basis and exceptionally on an individual basis. Similarly, member countries can pursue negotiations bilaterally<sup>339</sup>. However, in the particular case of Ecuador, the main motive for a change in the negotiation strategy was the inclusion of trade issues only, leaving out political and cooperation issues and therefore turning the arrangement into

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<sup>335</sup> See <https://www.bilaterals.org/?draft-eu-can-negotiating-directive&lang=en> accessed on June 16, 2021. Whereas, the EU Parliament did a recommendation to the mandate, see <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52007IP0080&qid=1527927070182&from=EN> accessed on June 16, 2021.

<sup>336</sup> General framework for the negotiation of the Association Agreement between the Andean Community and the European Union see <http://www.sice.oas.org/Trade/Junac/Decisiones/Dec667e.pdf> accessed on June 16, 2021.

<sup>337</sup> See <https://www.bilaterals.org/?-EU-CAN-&lang=en> accessed June 16, 2021.

<sup>338</sup> Decision 598, (CAN, 2004) “Commercial relations with third countries”

<sup>339</sup> Decision 598, “Commercial relations with third countries”, Articles 1 and 2.

a purely free trade agreement under a more flexible legal framework. Other voices sustain that different civil society groups exerted pressure on the government, as they expressed their dissent in Ecuador's participation in a free trade agreement, mainly due to a possible negative effect in the Ecuadorian economy and a potential violation of the 2008 Constitution<sup>340</sup>.

### **3.1.1 Inter-regionalism: a cumbersome debate**

Based on the discussion undertaken within the literature review about inter-regionalism, here I explore the different forms inter-regionalism can take, considering the internal dynamics of the counterparts as a key element. Two questions will guide this sub-section: what type of inter-regionalism was grounded between the CAN and the EU? What are the sources of the EU's flexibility to resume negotiations with a small partner like Ecuador (breaking the "pure" inter-regional basis)?\_Provided the fact the EU has opened the door to other forms of governance or *lateralisms*, e.g. with North America.

Many scholars sustain that the foundations of the EU's foreign policy are based on inter-regional forms as a way to promote socio-economic development, democracy, and good governance through dialogue and mutual cooperation (Grugel, 2004b; Smith, 2008, p.109, as cited in Tèlo et al., 2015). In other words, the EU has been pursuing inter-regionalism as a key element in its trade policy (Aggarwal & Fogarty, 2005). Indeed, the foundations of the EU's inter-regionalism are *Association Agreements* composed of three pillars: trade, cooperation, and political dialogue. Yet Europe has also yielded to other governance forms, for example with North America where it conducts itself on a bilateral basis with Mexico, Canada, and the US (Aggarwal & Fogarty, 2005). In contrast, the case of EU-CAN has gravitated among several forms of inter-regionalism as discussed in the next lines.

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<sup>340</sup> According to Carranco Paredes et al. (2020), the non-governmental organization *Ecuador Decide* was one of the major opponents to the conclusion of the agreement with the EU, insofar as they feared the violation of some of the articles of the new Constitution. For example, Articles 15, 73, and 401 ban the import of genetically modified organisms (GMOs) and declares that Ecuador is a country "free of transgenic crops and seeds", but provides the possibility for the executive branch to allow their entry for reasons of national interest. In fact, similar information was evoked during my fieldwork (Fieldwork carnets April 17, 2019 and August 8, 2019)

### 3.1.1.1 Types of inter-regionalism

Aggarwal and Fogarty (2004, p.5) as well as Hänggi (2000) deploy a characterization of inter-regionalism<sup>341</sup> through the experience of the EU. First, they refer to *pure inter-regionalism* as the agreement formally involving two free trade areas or two customs unions. Essentially, pure inter-regionalism links two regional groupings with a certain level of integration, as developed by the economic integration theory<sup>342</sup>. The case of the EU-Mercosur FTA is the closest example.

Conversely, when a customs union negotiates with a counterpart with a different level of economic integration (something other than a customs union or free trade agreement for instance) it is considered *hybrid inter-regionalism* (Aggarwal & Fogarty, 2004, p.5). Hänggi (2000) nevertheless upholds it is about the relations between regional groupings and single powers in those cases where the single power has a dominant position in its region (e.g. Brazil in South America). Albeit these relations may also be considered as components of *bi-regional or transregional* agreements, that is, arrangements where one of the parties participates in its individual capacity which can include a broader set of relationships than simply inter-state ones<sup>343</sup> (Aggarwal & Fogarty, 2004, p.5). A pertinent example of this is the EU-Japan relationship or the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US (Hänggi, 2000, p.7),

In fact, Söderbaum and Van Langhenove (2005) argue that “there are many instances when ‘regions’ are less ‘coherent’ and dispersed, but where the concept of interregionalism still makes sense” (p. 258). That said, although the CAN has been a rambling and complex counterpart in terms of integration, one could still allude to a EU-CAN inter-regionalism. I therefore posit that this can be considered as *mixed inter-regionalism*, as disc

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<sup>341</sup> Hänggi provides empirical evidence about these types in a special issue of the Journal of European Integration. See Söderbaum and Van Langhenove (2005)

<sup>342</sup> See Balassa’s economic integration theory (1961)

<sup>343</sup> In fact, these different types of non-state actors include stakeholders from the private sector and civil society (i.e. transnational actors) who are often involved in these processes, referred to as *transregionalism* (Söderbaum & Van Langhenove, 2005, p.258). In broad terms, these scholars consider these non-state processes as being part of inter-regionalism, given the fact that states and non-state actors are part of a complex, multi-actor network being part of the same sphere of actors (Söderbaum & Van Langhenove, 2005, p.258).

ussed in the succeeding section. Ultimately, negotiations are a dynamic processes, meaning they evolve and can gravitate from one to another type of regionalism and from one counterpart to another<sup>344</sup>.

### **3.1.1.2 The EU- CAN trajectory: a potential transition?**

Echoing the discussion above, the trajectory of the EU- CAN is scrutinized in its different stages. The following sub-section offers one reading of this path.

#### **i. 2003-2009 – pure inter-regionalism**

In this first stage, the EU-CAN trajectory exhibited pure inter-regionalism, as the two formally integrated regions established a Cooperation Framework Agreement in 2003. Consequently, inter-regional negotiations for an Association Agreement were officially launched in 2007 during the Tarija Summit in Bolivia. Nonetheless, in 2009, a turning point occurred in the inter-regional relations due to a rupture within the CAN regarding the terms of the Association Agreement negotiations. Therefore, an external reordering took place in early 2000, due to the signature of the Peru and Colombia - US FTA, Venezuela's exit from the bloc in 2006, and Ecuador's withdrawal from "region- to -region" negotiations; all of which affected pure inter-regionalism.

#### **ii. 2010- 2013: the transition period**

During this second stage, Ecuador leveraged the banana dispute as a condition to resume negotiations with the EU. By then, Colombia and Peru had already advanced on their side. Concurrently, during an official visit to Europe, the Ecuadorian president met with Angela Merkel and reiterated its interest to subscribe to an agreement with the EU. Subsequently both parties established the terms of the negotiations that will follow (Pabon Venegas, 2018, p. 5).

Once the CAN was fragmented and EU-Ecuador negotiations resumed, what type of inter-regionalism was grounded? If one scrutinizes Hänggi's (2000) hybrid inter-regionalism,

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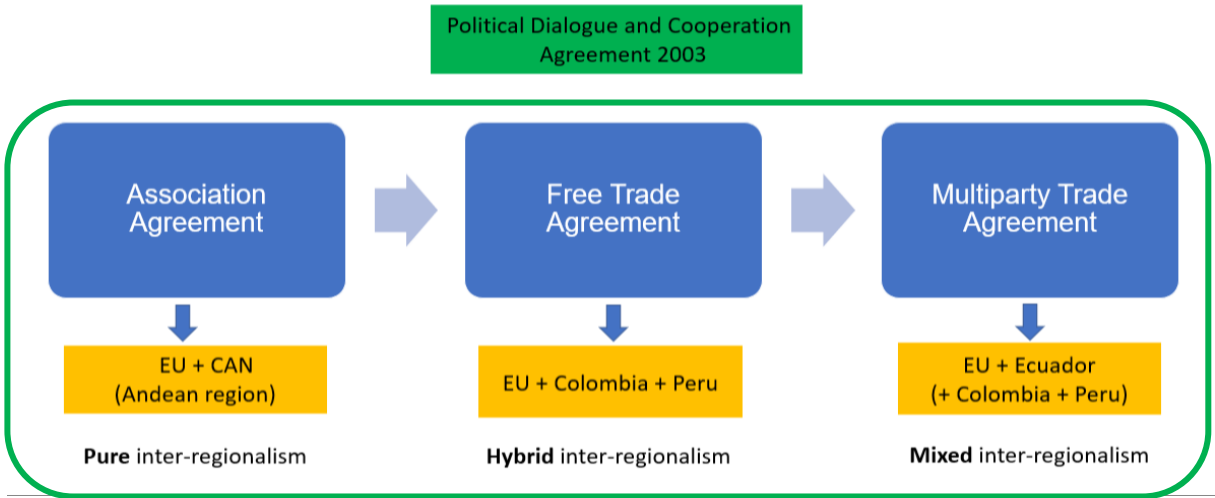
<sup>344</sup> For instance, Söderbaum and Van Langhenove (2005), highlight the changing dynamics of the EU's relationships with the ACP countries within the Cotonou Agreement with the EU, as they try to establish EPAs with more geographically focused sub-regional organizations in Africa, such as the South African Development Community (SADC) (p. 258).

negotiations between Ecuador and the EU seem to have been sidelined. Ecuador did not have a dominant position nor was it considered a single power. Hence, Hänggi’s approach is not salient. Rather, it would be more pertinent to view it from the perspective of a relationship with a small-state. So far, this relationship, region vs single /small-state, has been neglected in the literature.

**iii. 2014- 2016: bi-regional relations**

The EU-Ecuador relationship during this period could be unfolded based on the third typology identified by Hänggi (2000); that is, a *bi-regional or transregional* arrangement wherein one of the parties participates in its individual capacity (p.7). In fact, as a result of intra-regional fragmentations within CAN, which demands the recognition of asymmetries, pure inter-regionalism was overridden and a MTA was enabled. To this effect, from January to July 2014 four rounds of negotiations between Ecuador and the EU were carried out (Pabon Venegas, 2018) and three conditions were met in order for them to be concluded: a) the approval of President Correa on August 2014 on the Ecuadorian side; b) the conclusion of the legal review by both sides on December 2014; and c) the support of Colombia and Peru for Ecuador’s accession to the MTA (Pabon Venegas, 2018, p.105).

**Figure 3. Stages in the EU-CAN inter-regional trajectory**



Source: own elaboration based on Hänggi, 2000; Aggarwal and Fogarty, 2004; Söderbaum and Van Langhenove, 2005

Furthermore, a Political Dialogue and Cooperation Agreement between the two regions signed in 2003 was ratified in 2016 and has been enforced up to the present. Indeed, Ecuador participated in

its individual and sovereign capacity by subscribing to the Protocol of Accession of Ecuador to the EU-Colombia-Peru Trade Agreement signed on December 2016. This enabled a bi-regional type of relation but within a wider inter-regional agreement. The type of inter-regionalism is therefore blurred. In fact, this arrangement stands for one form of inter-regionalism, yet with a mixed or complementary nature<sup>345</sup>.

In particular, Söderbaum and Van Langhenove unravel the case of the Asia-Pacific Economic Cooperation (APEC), involving two regions but with individual states negotiating bilaterally and not as regions. To this extent, APEC has been referred to as transregionalism due to a less consistent type of inter-regionalism (2005, p.258). Similarly, bilateral negotiations within transregionalism occur within a wider inter-regional framework. This is the case for Ecuador's Protocol of Accession to the EU-Colombia-Peru MTA. Therefore, a puzzling relationship between bilateralism and inter-regionalism rolls out. Following the discussion about *lateralisms* undertaken in Chapter 2, bilateralism can reinforce other forms of governance, like inter-regionalism, or it can represent a competing form of governance (Söderbaum and Van Langhenove, 2005).

#### **iv. 2017 to the present: back to pure-inter-regionalism?**

By the 1<sup>st</sup> of January, 2017, the Protocol of Accession had entered into force on a preliminary basis. Yet the transition from mixed back to pure inter-regionalism has yet to be disclosed. To provide more elements to flesh out the type of inter-regionalism between the EU and the CAN, one should examine other events that have taken place thus far.

At the regional scale, the EU Commission treats all countries in a counterpart region as a unitary regional actor and seeks to pursue inter-regional negotiations, with regions considered as “sufficiently integrated” in order to facilitate trade and investment. Similarly, the text of the EU

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Due to the mixed nature, both the Political Dialogue and Cooperation Agreement and the Protocol accession necessitated the ratification of EU members (See Chapter 2 on the voting procedure). According to a Joint Proposal for a Council Decision (Brussels, 03.02.2016): “By January 2013, the 15 EU Member States that signed it and all Andean Member Countries had ratified the cooperation agreement, except for Venezuela which withdrew from the Andean Community in 2006”. See [https://www.bilaterals.org/IMG/pdf/EU-Andean\\_PCDA\\_2003\\_.pdf](https://www.bilaterals.org/IMG/pdf/EU-Andean_PCDA_2003_.pdf) accessed July 13 2021



agreements, and the EU-CAN MTA in particular, includes a regional integration clause. Indeed, in Article 10, signatories to the agreement recognize the importance of each of their regional integration processes and engage to support them<sup>346</sup>. This furthers the interest of the EU, which is to transform regional integration into a mechanism to foster the global economy. These motives help to explain the EU's flexibility to resume negotiations and to integrate Ecuador into the agreement with Colombia and Peru.

Surprisingly, two points seem contrary to the principles that underpin the EU's negotiation strategy. First, Article 10 of the MTA, paragraph 4 which acknowledges the CAN's Decision 598<sup>347</sup>, allowing potential breakups in order for negotiations to take place on a bilateral basis. Secondly, the document "*General Framework for the negotiation of a Trade Agreement between the European Union and Andean countries*", Brussels, January 22th 2009, which clarifies the modality of the negotiation and already recognizes that the negotiation will not take place in a bloc-to-bloc manner. The document describes it in the following terms:

*"...the negotiation may end and the Agreement between two or more parties may be signed when an agreement has been reached on all the negotiation issues between the EU and at least one of the participating Andean countries. Irrespective of all the parties being in a position to conclude the negotiation. As the remaining Andean countries finalize their negotiation processes with the EU, they will be able to sign the agreement incorporating their commitments resulting from the negotiation"*<sup>348</sup>.

This seems to be contradictory to a negotiation that aimed to boost "sufficiently integrated" parties. Yet, an EU Commission press release states that "*the agreement will strengthen regional integration, with Ecuador becoming the third member of the Andean Community (alongside Colombia and Peru) included in the trade deal. The deal also keeps open the possibility for the fourth member of this Community, Bolivia, to seek accession to the agreement if it wishes. With*

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<sup>346</sup> See text of the MTA, p. 7.

<sup>347</sup> It mentions the CAN's Decision 598: "The Parties recognize that the signatory Andean Countries must preserve the Andean Legal System in the relations between them, in accordance with Decision 598 of the Andean Community".

<sup>348</sup> See General Framework for the negotiation of a Trade Agreement between the European Union and Andean countries", Brussels, January 22th 2009.

*this trade deal, the EU continues strengthening relations and advancing in its ambitious trade agenda with Latin America*<sup>349</sup>.

In summary, it makes sense to consider the EU-Ecuador trajectory as inter-regionalism, given that the spirit of the agreement, despite its contradictions, is to enhance regional integration processes, whose legal basis is Article 10 of the MTA as well as the Protocol of Accession of Ecuador. Furthermore, a Political Dialogue and Cooperation Agreement between the two regions has been enforced up to the present, which also embodies inter-regionalism albeit with a mixed or complementary nature<sup>350</sup>. Thus, for the purposes of this study, even if the EU-CAN inter-regional relation is cumbersome, it should prevail as inter-regional as, despite its changing nature, it was originated to be as such<sup>351</sup>. Moreover, both Ecuador's and APEC's aforementioned experience demonstrate that the EU has dealt with individual countries within a regional scheme on a bilateral basis.

## **3.2 Ecuador in the EU-CAN inter-regional trajectory**

### **3.2.1 Ecuador's participation: a deadlock in the EU-CAN negotiations?**

Ecuador's engagement in the negotiations with the EU was unique. To understand why its participation was hampered, we must consider the political and economic situation the country was facing at that time, as well as the country's historical commercial attachment to the EU which we will discuss in the succeeding paragraphs. Likewise, within the chapter I attempt to provide a deeper reading of the traditional Ecuadorian export industries which are composed of agricultural

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<sup>349</sup> See European Commission (2016, November 11). *Ecuador joins EU-Colombia/Peru trade agreement [Press release]*. Retrieved from [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_16\\_3615](https://ec.europa.eu/commission/presscorner/detail/en/IP_16_3615)

<sup>350</sup> Due to its mixed nature, it necessitated the ratification of EU members. According to a Joint Proposal for a Council Decision (Brussels, 03.02.2016): "By January 2013, the 15 EU Member States that signed it and all Andean Member Countries had ratified the Agreement, except for Venezuela which withdrew from the Andean Community in 2006". See [https://www.bilaterals.org/IMG/pdf/EU-Andean\\_PCDA\\_2003\\_.pdf](https://www.bilaterals.org/IMG/pdf/EU-Andean_PCDA_2003_.pdf) accessed July 13 2021

<sup>351</sup> The changing nature of the EU-CAN inter-regional relation can be estimated as an intervening variable (i.e. affecting the dependent variable) that can potentially alter the outcome of this study. Moreover, as there are windows of opportunity to deepen the conceptualization of the MTA, I dedicate part of Chapter 5 to this discussion.

goods and fisheries (e.g. banana, flowers, tuna and shrimp)<sup>352</sup>, as they are key actors in the inter-regional trajectory with the EU.

In 2007, under the recently inaugurated new administration, and precisely in the midst of the EU-CAN negotiations, Ecuador went through extensive political reform through a Constitutional Assembly, which in 2008 created a new Constitution that was approved by referendum. The new legal framework regulating Ecuador's international relations as well as its trade policy<sup>353</sup> obliges the country to reorient its commercial relationships based on new principles. Accordingly, this Constitution proposed an endogenous development strategy that conceived of an economic model that was grounded in national production<sup>354</sup>.

This new economic model placed Ecuador in a wary position regarding economic liberalism and particularly towards free trade. Accordingly, it was manifest that President Rafael Correa had a critical view of free trade agreements. Before arriving in office, he had already written some texts that echoed his intellectual convictions<sup>355</sup>. In fact, his opposition was already apparent during the failed negotiations of the Free Trade Agreement of the Americas (FTTA) in the early 2000s, just before he launched his political campaign. Nonetheless, when he came into power, many of his core beliefs were challenged as the EU and the CAN had already agreed on undertaking negotiations.

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<sup>352</sup> One must consider the economic relevance of these industries in the Ecuadorian trade structure. The following figures from 2015 demonstrate this. Apart from the concentration in oil crude petroleum (US\$ 6.55bn), the main Ecuadorian non-oil export products to world markets are: bananas (US\$3.27bn), crustaceans (US\$2.27bn), processed fish (US\$942M), and cut flowers (US\$760M) (Central Bank of Ecuador, 2015).

<sup>353</sup> See Constitución del Ecuador, 2008, Articles 416 and 304.

<sup>354</sup> Article 334 (4): Develop policies to promote national production in all sectors, especially to guarantee food sovereignty and energy sovereignty, generate employment and added value. Article 337: The State will promote the development of infrastructure for the collection, transformation, transportation and commercialization of products to satisfy basic internal needs, as well as to ensure the participation of the Ecuadorian economy in the regional and global context based on a strategic vision. The translation is the author's own.

<sup>355</sup> From his position as a scholar before being in power, Rafael Correa expressed discontent with economic liberalism and free trade. Evidence which supports this impression are a series of texts he produced, alleging trade openness is grim for the development of vulnerable economies such as Ecuador's. Some of his texts are: *El sofisma del libre comercio* (2006); *Ecuador: de Banana Republic a la No República* (2010).

Therefore, a free trade agreement, such as the one being negotiated by Colombia and Peru, was incompatible with Ecuador's new priorities<sup>356</sup>. For example in terms of banning imports of Genetically Modified Organisms (GMOs), or in preserving the regulatory autonomy to manage its strategic sectors<sup>357</sup>. Accordingly, the country envisaged having an agreement based not on market competition but on productive complementarities, safeguarding domestic production and leaving the necessary policy space to incentivize certain prioritized economic sectors<sup>358</sup>.

In accordance with the new Constitution, Ecuador initiated a new international insertion strategy whose priority was establishing partnerships with Latin American countries. For instance, Ecuador joined the Bolivarian Alliance for the Peoples of Our America (ALBA) together with Venezuela, Cuba, Nicaragua, and Bolivia<sup>359</sup>. The ALBA foresaw their own trade agreement (Trade Agreement for Our People, or the ALBA-TCP) based on productive complementarities rather than on comparative advantages. This was an additional factor that drew Ecuador away from the EU negotiations.

By the fourth round of negotiations in 2008, the Andean countries had fallen into a deadlock. On one side, Peru and Colombia had persuaded the EU to continue the negotiations bilaterally, while Bolivia had decided to abandon the process, and Ecuador had withdrawn in July 2009 citing the banana dispute against the EU which took place at the WTO<sup>360</sup>. This was considered a priority over the negotiations for an Association Agreement. Yet for Ecuador the deadlock was perceived

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<sup>356</sup> In fact, as will be discussed later, once Ecuador decided to resume negotiations with the EU, the official narrative adjusted the terms as it was a widespread belief that an FTA was unacceptable for the political project of the *Revolución Ciudadana*. A number of press releases were devoted to this: "Do not waste time ... If it is a FTA, we will not sign it... We are going to negotiate with the EU a *Trade Agreement for Development* in the fields that benefit us, we are not going to sign an FTA (...)". Rafael Correa (2012, February 1). "No pierdan tiempo... Si es un TLC, no lo vamos a firmar". El Telégrafo, Ecuador. Retrieved from <https://goo.gl/95HtqF> accessed June 17 2021

<sup>357</sup> According to Article 313 of the Ecuadorian Constitution: Strategic sectors are energy in all its forms, telecommunications, non-renewable natural resources, transportation and refining of hydrocarbons, biodiversity and genetic heritage, the radioelectric spectrum, water, and others determined by law. The State reserves the right to administer, regulate, control and manage the strategic sectors, in accordance with the principles of environmental sustainability, precaution, prevention and efficiency (own translation).

<sup>358</sup> See Plan Nacional para el Buen Vivir 2009-2013 <https://www.planificacion.gob.ec/plan-nacional-para-el-buen-vivir-2009-2013/> accessed June 17 2021

<sup>359</sup> Other countries joined the group afterwards: Saint-Lucia, Saint Vincent and the Grenadines, Dominica, Antigua, and Barbuda.

<sup>360</sup> In this case, Ecuador, along with ten other Latin American countries took the EU to arbitration at the WTO over the banana import regime. This case was finally solved in 2012 with the Geneva Agreement. See more: [https://www.wto.org/english/news\\_e/news12\\_e/disps\\_08nov12\\_e.htm](https://www.wto.org/english/news_e/news12_e/disps_08nov12_e.htm) accessed June 16, 2021.

as an interruption rather than an abandonment. According to Carranco Paredes et al., Ecuador's position was defensive and dubious<sup>361</sup> regarding the intention to be part of the agreement (2020, pp.222- 223).

On one hand, all the aforementioned events illustrate that Ecuador had a number of domestic constraints in pursuing negotiations which were mainly constitutional obstacles. On the other, the unilateral preferences through the GSP regime granted by the EU were about to expire<sup>362</sup> as Ecuador had received a waiver to extend its preferences until 2016; consequently leaving the traditional agro-export sectors without these preferences could have led to the chaos of an entire province<sup>363</sup> and would have signified a loss of 400 million US dollars to the Ecuadorian economy<sup>364</sup>. Hence, in 2014 Ecuador was ready to resume negotiations through a change in strategy and with the conviction to conclude the agreement.

### 3.2.2 GSP: historical and commercial attachment to the EU

Another important aspect in the history of the EU-CAN economic relationship was the fact that Ecuador, like the rest of Andean countries, had been benefitting from special treatment starting in the 1970s as part of the Generalized System of Preferences (GSP). This mechanism consists of giving special treatment to the counterpart on a unilateral basis<sup>365</sup>, tailored to two different types of groups: one for all beneficiary countries and territories, and a second addressed to less developed countries and taking into account their specific needs<sup>366</sup>.

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<sup>361</sup> "...while there may have been contradictory signals from some Ecuadorian officials, there have also been contradictory signals from the EU, because suddenly they speak to us of a Trade Agreement for Development and other times for an FTA. We are not going to sign that, so businessmen don't waste time, if it is an FTA we are not going to sign it (...)." See "No pierdan tiempo... Si es un TLC, no lo vamos a firmar". El Telégrafo, Ecuador. Retrieved from <https://goo.gl/95HtqF>

<sup>362</sup> In 2016 the EU Commission published an economic impact assessment in which it underlined that Ecuador was now classified as a high-middle-income country, meaning that, as of 2015, it was no longer eligible for unilateral trade preferences under the GSP and would have faced 'most favored nation' (MFN) tariffs instead. See European Parliament et al. European implementation assessment (EIA) "Trade Agreement between the European Union and Colombia and Peru", 2018, p. 9.

<sup>363</sup> Interview conducted with *AO-EC-011*, Industry Association representative, Private (fisheries) sector, April 26 2019, Guayaquil.

<sup>364</sup> See Enlace Ciudadano #500 12 Noviembre 2016 Retrieved from <https://www.youtube.com/watch?v=ViQv5sTmPA0>

<sup>365</sup> Which means an exception of the principle of reciprocity. See [https://www.wto.org/english/tratop\\_e/devel\\_e/dev\\_special\\_differential\\_provisions\\_e.htm](https://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm) accessed June 18 2021. This provision was explored more in depth in Chapter 2.

<sup>366</sup> See [https://unctad.org/es/system/files/official-document/itcdtsbmisc25rev4\\_es.pdf](https://unctad.org/es/system/files/official-document/itcdtsbmisc25rev4_es.pdf) accessed June 18 2021

For instance, in 1991 the European Community implemented a particular regime that favored trade with the Andean countries while contributing to the fight against drug production and trafficking, named the Drug-Generalized System of Preferences (GSP). Concurrently, the GSP-Plus, in force since 2006 and expiring in 2016, was an upgraded version. As a condition of eligibility of this system, countries had to ratify and implement a range of international agreements in areas such as human rights, labor, environment, drugs, and corruption<sup>367</sup>.

An assessment of the effects of the GSP on the Andean countries' trade performance, and on Ecuador's in particular, has been undertaken by many economic analysts, which was frequently evoked during fieldwork. Yet, to state if these effects were positive or negative, it is necessary to account for several factors. One of them is the period of time during which the effects are analyzed. Throughout the first years of implementation, which date up to the 1970s, this regime had favorable effects on the traditional Andean exports to the European market<sup>368</sup>. It was also a source of employment in the promising agricultural sector<sup>369</sup>. Nevertheless, in the following decades, with the proliferation of FTAs globally and particularly in the Latin American region, the reinforcement of the preferences granted by the EU to the African, Caribbean and Pacific countries (ACP) through the Lomé Convention<sup>370</sup>, among others, blurred any possible positive effects of the GSP on the Andean countries' trade performance<sup>371</sup> as their products were direct competitors of the Andean exports and accessed the European market with preferential tariffs on a unilateral basis.

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<sup>367</sup> See [https://unctad.org/es/system/files/official-document/itcdtsbmisc25rev4\\_es.pdf](https://unctad.org/es/system/files/official-document/itcdtsbmisc25rev4_es.pdf) accessed June 18 2021

<sup>368</sup> Banana, flowers, tuna, and shrimp benefited from preferential tariffs as part of the GSP. They are Ecuador's main exports.

<sup>369</sup> One needs to consider the change of insertion strategies the Latin American region went through. Indeed, back in 1960s, following the Economic Commission for Latin America (ECLAC) and Raul Prebisch's structuralist prerogatives, the region was embarked upon a strategy of import substitution and an inward looking economic development model. This was albeit followed by a foreign trade-focused approach that led to the initiation of a strategy of open regionalism. As Jilberto & Hogenboom sustain, open regionalism is the attempt to connect together the economic inter-dependency of Latin American countries to processes of liberalization and deregulation (1996, p.3).

<sup>370</sup> ACP countries are the former colonies of France and Belgium that were included within the European Customs Union; this extended to 18 African countries. However, Britain's accession to the European Common Market in 1973 increased the number of new independent countries with colonial ties to the EU to 71 countries in total by 2000, considering the Caribbean and countries located in the Pacific. Preferences under the Lomé Convention were unilateral and benefited mainly bananas, beef, rum, and sugar; that is, offering preferential tariffs to access the European market (Heron, 2011, p.337).

<sup>371</sup> Similarly, to the Andean region, according to Heron, the *Green Paper on Relations Between the EU and the ACP Countries* (1996) had been a failure in meeting its objectives and the EU recognized that in spite of 25 years of trade preferences, the ACP have not succeeded to promote export growth or diversification (2011, p.338).

In a similar fashion, the potential benefits of the GSP-Plus on Ecuador's economic objectives as disposed in the new Constitution were quite distorted. For instance, the preferential access of traditional Ecuadorian exports to the EU were considered a hindrance to the country's project of economic transformation<sup>372</sup>. One can expect that the GSP's contribution to the diversification of Ecuador's production has been far from solid. In fact, it might be one of the factors that perpetuated this primary type of production in the Andean country (Falconi & Oleas, 2012). Nonetheless, on the European side, the agreement was welcomed as it could bring strong benefits to the EU in terms of growth and job creation<sup>373</sup>. Along the same lines, the Ecuadorian Federation of Exporters (FEDEXPOR) has been one of the strongest groups advocating for the agreement<sup>374</sup>. One of their main clients are the so-called traditional agricultural and fisheries sectors who carried out a strong lobbying effort with the Ecuadorian government in favor of free trade. Consequently, the hesitation of the Ecuadorian authorities about whether Ecuador should continue being part of the regime, which was expiring in 2016, remained controversial even though there was a certain urgency.

Both circumstances meant that Ecuador was facing a difficult position in its willingness to resume negotiations to access the agreement. At that moment, the fact that Colombia and Peru were getting closer to concluding negotiations and a possible entry into force of the MTA<sup>375</sup> was a risk of trade diversion away from Ecuador. This may possibly have obliged the country to reorient its commercial priorities. From an economic standpoint, it had little choice but to entertain negotiations that would allow the country to secure its exports to the EU, where it would not suffer serious economic problems in the short term. Ecuador's interest to conclude the agreement is therefore explained.

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<sup>372</sup> The FTA with the EU implies a shift of direction towards the endogenous development strategy the Ecuadorian government pursues, and to the Constitution as well as the supporting legal framework that emphasizes a project of autonomous development (Falconi & Oleas, 2012, p.50)

<sup>373</sup> See EUROCHAMBRES, Press release of 11 December 2012 in [https://www.eurochambres.eu/objects/1/Files/EUROCHAMBRES\\_PR\\_EU\\_Trade\\_Agreements\\_Columbia\\_Peru\\_Central\\_America.pdf](https://www.eurochambres.eu/objects/1/Files/EUROCHAMBRES_PR_EU_Trade_Agreements_Columbia_Peru_Central_America.pdf) accessed June 18 2021

<sup>374</sup> Fieldwork carnet, April 18, 2019.

<sup>375</sup> In fact, once the negotiations between Ecuador and the EU were resumed in 2012, the term was replaced by the term "Agreement". One possible assumption to explain this was the desire to avoid the use of FTA which had a negative connotation amongst the Ecuadorian detractors. During my fieldwork, "*Acuerdo Multipartes*" was the term used systematically by my interviewees. Alberto Acosta sustains that "when Bolivia withdrew, which questioned said association agreement while reissuing the logic of the FTAs, the three remaining Andean countries in the CAN received the offer of an MTA, a euphemism to bilaterally negotiate agreements between the EU and each of the Andean countries. (Acosta, 2012, p.73). MTA is term that will be used indistinctively along this study.

**Table 5. EU Tariff Conditions on Main Ecuadorian Exports**

	<b>Without GSP</b>	<b>Stand still GSP-Plus until 2016</b>	<b>With Trade Agreement</b>
Banana	175€ ton	175€ ton	75€ ton (2020)
Shrimp	12%	3.6%	0%
Chocolate	23%	14%	0%
Tuna	24%	0%	0%
Cut flowers	12%	0%	0%
Coffee	9%	0%	0%
Broccoli	14%	0%	0%
Plastic Manufactures	6.5%	0%	0%
Textile Products	12%	0%	0%

Source: Author's own elaboration based on data of the EU Commission (2016).

The table above illustrates the difference in tariffs to enter the European market without GSP-Plus preferences, with standstill GSP Plus (valid until 2016), and with the agreement. One should note that by subscribing to the MTA, except for the banana sector, tariffs are completely eliminated for the rest of the main Ecuadorian exports to the EU. In other words, the agreement provides the Ecuadorian export industry with a steady liberalization schedule, stabilizing the expectations of these sectors.

### **3.2.3 Particularities of the Ecuadorian accession to the MTA**

On June 2012, after five years of negotiations, the EU on one side, and Colombia and Peru on the other, subscribed to the MTA. Thus far, Ecuador had undergone a set of conditioning factors that had switched its priorities, which led to a resumption in negotiations with the EU afterwards. Two legal factors yielded negotiations for Ecuador's accession: Article 329 of the agreement which allows other member countries of the CAN to join, and the CAN's Decision 598 which permits



member countries to negotiate trade agreements with third parties, primarily on a communitarian basis and exceptionally on an individual basis<sup>376</sup>.

In early 2010 the Ecuadorian government decided to give way to the negotiation with the EU. By then, the banana dispute against the EU had been resolved and disputants had signed the 2009 Geneva Banana Agreement<sup>377</sup>, setting a renewed regime and a tariff liberalization program up to 2017 (ICTSD, 2009, 2010 as cited in Acosta, 2012; WTO, 2012). Yet, rounds of negotiations restarted no sooner than 2012, decision that Europeans credited to the economic crisis they were facing (Falconi & Oleas, 2012, p.55).

The second phase of negotiations, which lasted almost two years, ended in July 2014. One singularity of this second phase is depicted in the following quote from a medium level trade officer from the public sector:

When the negotiation resumed, Ecuador wanted to reopen some parts of the text. However, for the EU that was not viable since they would not give us more concessions than those they had already given us from the beginning. Consequently, the EU only allowed concessions in those aspects that, if left unchanged, would be objected to in the European Parliament. These were unconstitutional issues for Ecuador and therefore the EU agreed to make modifications. For us, those were constitutional blockages...These modifications were introduced between January and July 2014 when we resumed negotiations<sup>378</sup>.

This was therefore a turning point in the negotiation process and eventually in the agreement outcome when compared to the strategy applied on the initial phase. The same trade officer mentioned that “(...) it was during the first stage [that Ecuador’s position was defined]. The negotiation methodology was the one of a traditional commercial negotiation, that is, request...

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<sup>376</sup> Article 10 of the MTA, paragraph 4, mentions CAN’s Decision 598: “*The Parties recognise that the signatory Andean Countries must preserve the Andean Legal System in the relations between them, in accordance with Decision 598 of the Andean Community*”.

<sup>377</sup> See [https://www.wto.org/english/news\\_e/news12\\_e/disp\\_08nov12\\_e.htm](https://www.wto.org/english/news_e/news12_e/disp_08nov12_e.htm) accessed June 25 2021

<sup>378</sup> Interview conducted with RE-EC-004, Medium-level Trade Officer, Public sector, April 17, 2019, Quito.

you respond with a counter offer”<sup>379</sup>. In other words, offers were over the table, whereas in the second phase the negotiation was extended only to those issues that were problematic for the Ecuadorian constitution<sup>380</sup>.

Ultimately, the process was followed by a period of ratification and approval of each of the parties’ national parliaments. Concurrently, a complex diplomatic race began to approve the Protocol of Accession of Ecuador to the MTA by the European Parliament (Paredes Carranco et al., 2020), as the transition period for the GSP extension was expiring on December 31, 2016.

In early 2016, the country embarked upon a series of measures to guarantee that there were no legal contradictions with the Constitution and the secondary legal framework (Paredes Carranco et al. 2020:224). Ecuador finally completed the ratification and deposit of the trade agreement in December 2016, and the Protocol of Accession entered into force provisionally on January 1, 2017<sup>381</sup>.

In brief, the Ecuadorian domestic procedure to approve the Protocol of Accession and the entry to the MTA was particular in terms of timing and immediacy, due to the imminent expiration of the GSP regime, as previously discussed (See Appendix 5). Despite the Ecuadorian President’s position against FTAs, he acknowledged the limitations of the country’s economy (Pabon Venegas, 2018) and the threats in terms of social impact as well as the high political cost that could result if the agreement were to be rejected.

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<sup>379</sup> Interview conducted with *RE-EC-004*, Medium-level Trade Officer, Public sector, April 17, 2019, Quito.

<sup>380</sup> Even though, as per the legal hierarchy, the Ecuadorian Constitution (Art. 425) establishes the supremacy of international treaties over domestic legislation and, consequently, the MTA should prevail over the Ecuadorian legal and regulatory framework in case of conflict. Yet according to the report “Implementation of the EU-Ecuador MTA” prepared by the consultancy group Development Solutions together with the legal consultancy cabinet Coronel & Perez in 2017 for the European Commission, this principle of supremacy is not enough to resolve certain practical inconsistencies that may arise when applying the laws. This is to say that some reforms to the Ecuadorian legal corps are proposed, which intend to create consistency between both regulatory bodies and enable the correct implementation of the MTA. See Development Solutions and Coronel & Perez (2017). *Implementation of the EU-Ecuador MTPA*, Report prepared for the European Commission (Ref. Ares (2017)4482832 - 14/09/2017), p.14

<sup>381</sup> See European Commission (2016, November 11). *Ecuador joins EU-Colombia/Peru trade agreement* [Press release]. Retrieved from [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_16\\_3615](https://ec.europa.eu/commission/presscorner/detail/en/IP_16_3615)

In broad terms, the EU-Colombia and Peru MTA that Ecuador joined in 2016 kept conditions largely unchanged to those agreed upon in 2012 with its original members. The core text of the agreement remained the same. As evoked during fieldwork by a medium-level trade officer, “any concession was negotiated during the first phase”. Yet, the third Andean partner was granted some specific provisions which were negotiated, inter alia, in the procurement sector, in intellectual property rights, and in some specific exclusions as detailed below. This was possible due to Ecuadorian constitutional constraints<sup>382</sup>. In the next lines, I examine the main amendments that were carried out to enable Ecuador’s accession to the MTA in order to shed light upon the main differences with the text agreed upon by Peru and Colombia with the EU.

### 3.2.4 Amendments to the text of the MTA

The document “Annotations to the Text of the Agreement” specifies all the amendments introduced for Ecuador’s accession by the signatories to the Agreement. A tidy examination of this text reveals that Ecuador introduced slight changes, in line with its national legislation<sup>383</sup>. Yet a preliminary inference is that, to some extent, Ecuador had some sort of bargaining power to be able to introduce changes to an agreement that was already in force between the EU, Colombia, and Peru. For example, in the preamble, under the eleventh recital the following text was introduced (see change in italics): “Considering the difference in economic and social development among the Andean countries *as well as between the signatory Andean Countries* and the EU and its Member States” (p.4). Even if this reference does not have a practical or concrete implication – also because the text makes explicit that the agreement is based on the principle of non-discrimination – it is clear it was in the interest of Ecuador only. Indeed, it was a cause of the discrepancies amongst the Andean partners.

Similarly, in Article 13, paragraph 3, about the Functions of the Trade Committee, Ecuador succeeded in introducing a footnote reference to the “Popular and Solidarity Economy

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<sup>382</sup> As it will be explained later, this was the case for IPR.

<sup>383</sup> For example, in Article 258 (Paragraph 1) of the Agreement pertaining to “Competition”, Ecuador introduced a reference to Article 336 of the Ecuadorian Constitution, establishing the obligation for the State to ensure transparency and efficiency in the markets and foster competition, and the *Ley Orgánica de Regulación y Control de Poder de Mercado* (Legislation on the Regulation and Control of Market Forces).

Stakeholders”<sup>384</sup>, so that the Trade Committee would also examine the impact on these actors. This is the second demonstration of Ecuador’s bargaining power, which stems from a longstanding domestic negotiation between the different economic and political actors<sup>385</sup>. Along the same lines, Ecuador included a footnote in Article 48, the Bilateral Safeguard Clause, which makes reference to infant industries<sup>386</sup> in order to protect domestic producers from potential injury that could result from free trade. Finally, Article 54, paragraph 2 also introduced a footnote pertaining only to Ecuador: “With respect to Ecuador, compensation in the form of concessions or the suspension of substantially equivalent concessions shall take place only after the bilateral safeguard measure has been applied for three years.” In other words, Ecuador was granted a longer extension before having to pay compensations. At best, there is evidence of bargaining power as this extension of time was not granted to either Peru or Colombia.

In sum, as some voices have sustained, Ecuador’s participation in negotiations and the ultimate accession to the MTA with Colombia and Peru must be understood within its political context. In 2008 a new Constitution was approved, representing a new turn in Ecuador’s economic model and thus in its trade policy (Acosta, 2012) which implied significant domestic challenges in terms of human capacities<sup>387</sup> and also in terms of legislation.

### **3.2.5 Conflicting policy areas**

#### **3.2.5.1 Government procurement**

Ecuador agreed to apply the same conditions as the ones between the EU, Colombia and Peru, and committed to an ambitious and wide-reaching opening of its procurement market. In fact, the

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<sup>384</sup> Actores de la Economía Popular y Solidaria (AEPYS).

<sup>385</sup> In fact, including the Popular and Solidarity Economy Stakeholders was part of Ecuador’s strategies for the 2009-2013 period. Therefore, the National Development Plan, established as one economic policy objective addressed to the external sector: to expand the universe of actors in international trade, as well as a better distribution of wealth to associations, cooperatives, and other forms of communitarian economic organizations so that they become motors of the social and solidarity economy and are able to project it worldwide. See National Development Plan or Plan Nacional para el Buen Vivir (PNBV), 2009-2013, p.109.

<sup>386</sup> In fact, this is third demonstration of bargaining power, which was also part of the economic policy objectives seeking to give priority to national industries as well as the labor-intensive sectors, with the aim of undertaking a selective substitution of exports that benefits national industry. See National Development Plan or Plan Nacional para el Buen Vivir (PNBV), 2009-2013.

<sup>387</sup> Interview conducted with *SZ-EC-017, Decision-maker and political stakeholder, Public sector*, 8 August, 2019, Paris.

agreement between the EU and the CAN is based on the structure of the Agreement on Government Procurement (GPA)<sup>388</sup>, which has incorporated provisions to open it based on national treatment<sup>389</sup>. It comprises a limitation to the public tender procedures which already have a defined threshold. That said, the agreement's provisions go beyond the Ecuadorian legislation (LOSNCNCP)<sup>390</sup> as it must comply with regulations established in the GPA (Aguirre Ribadeneira, 2016).

However, in order to safeguard its procurement sector, Ecuador succeeded in negotiating transitional periods (e.g. temporary higher thresholds)<sup>391</sup>, flexibilities, and exceptions to coverage in order to protect its strategic sectors and particularly small and medium enterprises (SMEs) against any potential adverse effects that opening up procurement markets could engender and to allow for adjustments. According to the Ecuadorian Ministry of Foreign Trade, much of the procurement market was excluded and only 5% of the contracting of goods, 4% of services, and 0.3% of construction works are subject to the Agreement. Among the main segments excluded from the Agreement are: tenders reserved for SMEs, contracting for social assistance programs, services in the defense and public security sectors, goods for the execution of research and development services, and petroleum contracting<sup>392</sup>. Indeed, in accordance with Ecuadorian legislation this benefits tenders with a clear national component and local SMEs. Public procurement is a mechanism to enhance the domestic industry, therefore the local contractors domiciled in the territory where the contract is executed are given preferential treatment<sup>393</sup>, which is why higher thresholds were required.

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<sup>388</sup> The GPA is a plurilateral agreement within the framework of the WTO, meaning that not all WTO members are parties to the Agreement. At present, the Agreement has 21 parties comprising 48 WTO members. See [https://www.wto.org/english/tratop\\_e/gproc\\_e/gp\\_gpa\\_e.htm](https://www.wto.org/english/tratop_e/gproc_e/gp_gpa_e.htm) accessed June 21 2021

<sup>389</sup> National Treatment is one of the main principles of the WTO, stating the rule of treating imported and local products equally, at least until they enter the foreign market. See Chapter 2 for more details on this principle.

<sup>390</sup> This stands for "Legislation of the national public contracting system" (Ley Orgánica del Sistema Nacional de Contratación Pública, LOSNCNCP Spanish acronym).

<sup>391</sup> A five-year term was accorded to Ecuador to protect its market. This provision is based on the special and differential treatment (SDT) for developing countries, which recognizes the application of a system of preferences and temporary upper thresholds. Indeed, this could be an opportunity for the country to adapt and strengthen its industry in accordance with the new market competition rules (Aguirre Ribadeneira, 2016, p.52).

<sup>392</sup> See Ministerio de Comercio Exterior del Ecuador, *Situación de la Contratación Pública dentro del Acuerdo Comercial Multipartes con la UE* (Quito: Ministerio de Comercio Exterior, 2016).

<sup>393</sup> See Development Solutions and Coronel & Perez (2017). *Implementation of the EU-Ecuador MTPA*, Report prepared for the European Commission (Ref. Ares (2017)4482832 - 14/09/2017), p. 8.

The Title “Government Procurement” of the Agreement is divided into two parts. The first part goes from article 172 to 194, which contains the regulatory provisions applicable to the parties; that is the conceptual regulations. In this part there is almost no difference in relation to the text of Colombia and Peru. The second part, which is Annex XII, contains the reciprocal offers that the parties made regarding the opening of the contracting procedures (Aguirre Ribadeneira, 2016, p.31). If one compares existing thresholds established for Colombia and Peru, Ecuador obtained a 100% higher threshold for central government tenders – double the minimum amount granted to European companies as compared to their Andean peers – and a 75% higher threshold for sub-central public contracts.

In summary, the MTA safeguards the equal participation in public procurement procedures of supplier companies originating from any of the parties. That is, the principles of the WTO (national and non-discriminatory treatment) are granted with respect to the procurement of goods and services to those companies; they are nonetheless subject to several exceptions and exclusions (Villagómez, 2017).

### **3.2.5.2 Intellectual property rights (IPR):**

Regarding Intellectual Property Rights (IPR), so as to comply with the provisions on regulatory data protection for marketing authorizations for pharmaceuticals and agrochemicals products, Ecuador was granted five years of protection after the entry into force of the Protocol of Accession<sup>394</sup>. That is, taking into consideration Ecuador’s accession and allowing for additional time to introduce the necessary national framework, but remaining the same as Colombia and Peru in terms of length of time.

In other words, with the exception of the Ecuadorian Geographical Indications<sup>395</sup> (GIs) (for the Montecristi straw hat and Cacao Arriba), the rules remained equal as those agreed upon for the

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<sup>394</sup> See Annotations on the Text of the Agreement, [http://www.sice.oas.org/Trade/COL\\_PER\\_EU\\_FTA/Ecuador/EU\\_ECU\\_Textual\\_Amendments\\_e.pdf](http://www.sice.oas.org/Trade/COL_PER_EU_FTA/Ecuador/EU_ECU_Textual_Amendments_e.pdf) accessed on June 30 2021

<sup>395</sup> GIs are used for products that have a specific geographical origin and whose qualities, reputation, and characteristics are mainly due to their place of origin. This allows producers to have the exclusive right to use the indication and prevents a third party from using it if their product do not meet the origin standards. See [https://www.wto.org/english/tratop\\_e/trips\\_e/gi\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/gi_e.htm) accessed June 22 2021

EU, Colombia and Peru in regards to IPR. In the original Agreement, EU negotiators included more than 200 GIs in the Colombian and Peruvian market, which were accordingly included in the text for Ecuador<sup>396</sup>.

Nonetheless, Article 15 on “Specialized Bodies” of the MTA establishes 8 sub-committees in order to assist the performance of tasks and to report to the Trade Committee, which is the decision-making body comprised of representatives of both parties. The sub-committees meet once a year to discuss the main issues regarding their areas of competence. In fact, at the moment of writing, the last meeting of the Sub-Committee on Intellectual Property was held on November 2020<sup>397</sup>. For instance, the procedure of registering and updating the GIs lists is more protracted over time, which is a valid option for the Andeans to promote products that could benefit their economies<sup>398</sup>. This denotes a sort of flexibility for states to update their needs and to include them in the inter-regional agenda.

All the parties to the agreement have the right to make full use of the exceptions and flexibilities established or derived from multilateral intellectual property agreements to protect public health, population nutrition, and access to medicines as well as to prevent the abuse of these rights. Likewise, the principle of technology transfer is considered in the MTA<sup>399</sup>. Ecuador had an interest in including this principle as it was a core part of its strategy of economic development. It could therefore be considered as another source of bargaining power.

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<sup>396</sup>See Minutes EU-Andean Trade Agreement Sub-Committee on Intellectual Property [https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc\\_158601.pdf](https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc_158601.pdf) accessed on June 22 2021

<sup>397</sup> Ecuador claimed about the process of recognition of appellations of origin incorporated in previous years (Café de Galápagos, Maní de Transkutuku, Pitahaya de Palora, Lojano Café de Origen). Colombia had submitted a list of 18 new GIs, 9 of which were related to agricultural products. Peru had also submitted a list of 6 new GIs for agricultural products so that the EU could assess them in line with the provisions of the Agreement. See Minutes EU-Andean Trade Agreement Sub-Committee on Intellectual Property [https://circabc.europa.eu/ui/group/e4202779-a9bf-4b8f-91cd-a053014343a9/library/1e12e370-cc72-4b70-a174-4c5329e71038?p=1&n=10&sort=modified\\_DESC](https://circabc.europa.eu/ui/group/e4202779-a9bf-4b8f-91cd-a053014343a9/library/1e12e370-cc72-4b70-a174-4c5329e71038?p=1&n=10&sort=modified_DESC) accessed June 22 2021

<sup>398</sup> European implementation assessment (EIA) “Trade Agreement between the European Union and Colombia and Peru”, 2018.

<sup>399</sup> See Ministerio de Comercio Exterior, El Acuerdo Comercial con la Unión Europea, Diciembre 2014, p. 16.

Yet during negotiations, Ecuador was discussing a new IPR legislation internally (Código Ingenios)<sup>400</sup>, which was a red line to advance with negotiations and introduced a certain wariness before agreeing the terms of the IPR. There were hesitations about the effective protection of copyrights, patents, and test data<sup>401</sup> and also some discrepancies between the Ecuadorian law and the MTA with regards to plant varieties<sup>402</sup> and software copyrights<sup>403</sup>. In essence, these conflictual issues implied the need for reforms in Ecuador's legal corps in order for the MTA to be fully implemented.

### 3.2.5.3 Market access and special safeguards:

During the negotiation process, Ecuador excluded 93 items from the list of agricultural products of European origin, as they were considered sensitive for local production. This including beef and processed beef, poultry chains, maize and its derivatives, rice and its by-products, liquid milk, fresh cheeses, soy, cane molasses, fructose syrup, sugar and sweeteners<sup>404</sup>. In fact, the EU cut around 95% of tariff lines upon entry into force, whereas Ecuador liberalized 60% of them<sup>405</sup>.

Under Article XIX of the GATT, the multilateral system of trade enacts a series of safeguard measures to protect particular economic sectors that may be exposed to damages derived from an increase of imports, resulting from trade preferences<sup>406</sup>. Different types of safeguards exist to

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<sup>400</sup> Código Ingenios (Organic Code of the Social Economy of Knowledge, Creativity and Innovation) was officially adopted on December 9, 2016.

<sup>401</sup> See Delegación de la Unión Europea en Ecuador, "Ecuador y la Unión Europea: Socios estratégicos con el Acuerdo Comercial", Quito, Noviembre 2016, p. 20.

<sup>402</sup> The Ecuadorian legislation considers them of public interest and free access, which must be distributed in a fair, equitable, and democratic manner (Article 4 Código Ingenios). Whereas TRIPS and the MTA pursue the protection of these through patents. See also Article 491 of Código Ingenios, Article 232 of the MTA; 2) Article 27 (3) (b) of the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS"); and, 3) Article 5 of the International Convention for the Protection of New Varieties of Plants ("UPOV") of 1978.

<sup>403</sup> Along the same lines, Código Ingenios Article 104 establishes that software could be subject to copyright protection. Yet the software author will not receive an equitable remuneration for the exploitation of his work as is the case with other works. This is in conflict with Article 215 of the MTA, which states that parties must comply with the World Intellectual Property Organization (WIPO Copyright Treaty provisions), that in turn recognizes software as an object of protection of rights of author and guarantees their economic rights. See Development Solutions and Coronel & Perez (2017). *Implementation of the EU-Ecuador MTPA*, Report prepared for the European Commission (Ref. Ares(2017)4482832 - 14/09/2017), p. 53.

<sup>404</sup> See Delegación de la Unión Europea en Ecuador, "Ecuador y la Unión Europea: Socios estratégicos con el Acuerdo Comercial", Quito, Noviembre 2016, p. 12

<sup>405</sup> See European implementation assessment (EIA) "Trade Agreement between the European Union and Colombia and Peru", 2018, p.8.

<sup>406</sup> See [https://www.wto.org/english/tratop\\_e/safeg\\_e/safeg\\_e.htm](https://www.wto.org/english/tratop_e/safeg_e/safeg_e.htm) accessed July 2 2021



protect sensitive sectors (e.g. agriculture), but they are also addressed to particular situations, (e.g. problems of balance of payments) in the case of low monetary reserves in order to achieve a reasonable rate of increase in its reserves (Horlick & Dubeck, 2010); safeguards may also exist to protect infant industries<sup>407</sup>. Trade agreements typically have safeguard clauses and the EU-CAN MTA is not an exception. However, Ecuador introduced some modifications that were not in the original text. That said, Ecuador's Protocol of Accession contemplates a footnote reference for possible injury caused to infant industry<sup>408</sup>. Once again, this reference was only adopted for Ecuador. It can be understood as a way to expand the chances of the country to preserve some policy space and thus, this could be deemed as bargaining power.

#### **3.2.5.4 Filling the gap: Special and Differential Treatment**

Ecuador's accession to the MTA is nuanced in terms of domestic policy. In fact, Ecuador requested differential treatment as a condition to join the EU-CAN agreement, claiming constitutional constraints. As I stated in Chapter 2, Special and Differential Treatment (SDT) measures or flexibilities grant lesser-developed countries within a region special rights that typically take the form of longer transition periods, exclusion of a proportion of trade larger than what Article XXIV of the GATT permits, and also the application of special safeguards (Heron, 2011, pp.345-346). That said, I seek to elucidate whether the EU granted SDT to the Andeans and particularly to Ecuador.

The European Implementation Assessment (EIA) document released in 2018 sustains that the agreement with Ecuador as being tailored to fit its developmental needs. This document highlighted that tariff reductions are to be implemented over 17 years on a gradual basis<sup>409</sup>. According to the EU Commission, in the MTA the EU liberalized about 95 % of its tariff lines

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<sup>407</sup> GATT Article XVIII provides for a wide range of governmental action to protect infant industries (subject to the need to offer compensation). See South Centre (2010), EPAS and WTO Compatibility development perspective, SC/TDP/AN/EPA/27, Analytical Note.

<sup>408</sup> Article 48, Multilateral Safeguard Measures, paragraph 1.

<sup>409</sup> Yet as Heron sustains, "the lengthy transitions periods and product exclusions secured for sensitive imports do potentially offer a means – albeit mostly temporary – to mitigate the loss of tariff policy space" (2011, p.346). This suggests that longer transition periods for tariff cuts are tricky measures when it comes to losses of tariff policy space. These potential losses should be soothed by permanent exclusions of sensitive sectors. Similarly, some scholars have demonstrated that the FTA's chapters on issues related to trade (investment and IPR among others) are more exacting than WTO rules and they therefore restrict the ability of member states to follow their own economic policies (Shadlen, 2005).

upon entry into force, while Ecuador liberalized about 60%. Along the same lines, an official document prepared by the EU delegation in Ecuador points out that the different levels of development between the two parties were taken into account so as to grant special treatment<sup>410</sup>. Yet it does not state what specific measures were adopted for this purpose. Whereas with Colombia and Peru, the trade agreement is based on reciprocal trade liberalization. In other words, it sets out the total elimination of tariffs for some industrial products as well as for some (62%) agricultural and fishing products<sup>411</sup>.

Following the example of the CARIFORUM-EU Economic Comprehensive Agreement (EPA), even though the text contains several references to SDT, complaints<sup>412</sup> about their opacity have been raised by the smaller Caribbean economies (Heron, 2011, p.348). This is similar to the Ecuadorian case. In fact, several discussions within the governmental entities, concluded that considering SDT in the agreement was a lukewarm ambition<sup>413</sup>.

From the fieldwork experience regarding the extent to which SDT was included in the EU- Andean MTA, I could notice the different narratives each interviewee had, alluding to the context of the topic and the particular understandings and trajectories each of them had. This has blurred the debate about the real design and implementation of the multilateral rules within a small-state government. In fact, one of the main conundrums in this regard has been the difficulty in interpreting the WTO provisions themselves, due in part to states having more limited capacities and less negotiation experience while having to apply the legal frameworks.

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<sup>410</sup> See Delegación de la Unión Europea en Ecuador, “Ecuador y la Unión Europea: Socios estratégicos con el Acuerdo Comercial”, Quito, Noviembre 2016, p.9.

<sup>411</sup> See European implementation assessment (EIA) “Trade Agreement between the European Union and Colombia and Peru”, 2018, p. 35.

<sup>412</sup> According to the WTO World Trade Report (2014), developing countries have consistent complaints regarding their inability to utilize SDT provisions. These concerns are related to the extent to which the parties took advantages of the flexibilities granted. This is due in part to negotiating positions motivated by a static issue and not really by dynamic ones related to long-term policy objectives (Heron, 2011).

<sup>413</sup> A letter addressed to President Rafael Correa alleged 17 claims to decline the signature of the agreement. So far, its content is classified information and it was not possible to access to it. Yet it was evoked several times during my fieldwork. This illustrates the division within the ruling party regarding the conclusion of the MTA. As Pabon Venegas sustains, “the discrepancies and contradictions that arose in the [EU-Ecuador] negotiation account to the heterogeneity of thought within the ruling party [Alianza Pais], but they also reveal an ideological struggle for the construction of hegemony between the different political forces of Alianza Pais” (2018, p.79).

### 3.2.5.5 Dealing with SDT

In examining the text of the MTA, one could notice that there is no mention of SDT, except for an elusive reference included in the preamble<sup>414</sup>. Although there is a tacit recognition of the differences in economic and social development between the parties, these references are nominal per se, as each party has different interpretations on the ways in which this should be applied.

Similarly, a further appraisal of Chapter 5: Sanitary and Phytosanitary Measures (SPS), was useful in tackling SDT. In general they are included in trade agreements and they are put in place to avoid imports from undermining national health and consumers' safety<sup>415</sup>. The *quid pro quo* of an SPS agreement is to balance the domestic policy space to determine safety protection measures based on scientific reasoning, for the agricultural, animal and food sectors, and to facilitate fair market access. Yet measures designed to uphold domestic safety risk could be used as disguised protectionism (Rudloff & Simons, 2004).

In this sense, MTA's Article 85 (f) stresses one of its objectives: "facilitate the implementation of the special and differential treatment, taking into account the asymmetries between the Parties". Likewise, Article 100 of the same chapter is dedicated to Special and Differential Treatment<sup>416</sup>, which directly addresses Article 10 of the "WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement)"<sup>417</sup>. In essence, the SDT applied to the SPS is concerned with technical assistance and capacity building in order to maintain export opportunities, but also allowing for transition periods for developing countries to apply provisions. Despite the alleged

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<sup>414</sup> *Considering the difference in economic and social development between the signatory Andean Countries and the European Union and its Member States; Affirming their rights to use, to the greatest extent, the flexibilities provided for in the multilateral framework for the protection of public interest.* (Text of the Trade Agreement, p. 4).

<sup>415</sup> See [https://www.wto.org/english/tratop\\_e/sps\\_e/spsagr\\_e.htm](https://www.wto.org/english/tratop_e/sps_e/spsagr_e.htm) accessed 25 June 2021

<sup>416</sup> Article 100 states: "*In application of Article 10 of the SPS Agreement, when a signatory Andean Country has identified difficulties with a proposed measure notified by the EU Party the signatory Andean Country may request, in its comments submitted to the EU Party pursuant to Article 7 of the SPS Agreement, an opportunity to discuss the issue. The Parties concerned shall enter into consultations in order to agree on : a) alternative import conditions to be applied by the importing Party; and/or(b) technical assistance according to Article 101; and/or(c) a transition period of six months, which could be exceptionally extended for another period of no longer than six months.*" (Text of the Trade Agreement, p. 29).

<sup>417</sup> Article 10 of the WTO considers special needs of developing countries; granting longer time-frames for compliance on products of interest to developing countries in order to maintain opportunities for their exports and conceding time-limited exceptions from obligations under the WTO Agreement. See [https://www.wto.org/english/tratop\\_e/sps\\_e/spsagr\\_e.htm](https://www.wto.org/english/tratop_e/sps_e/spsagr_e.htm) accessed June 25 2021

enforceability of SDT in a larger sense, the entrenched question is to what end a special treatment was only contemplated in Chapter 5 of the agreement and to what extent smaller partners can push its limits.

Irrespective of the overall importance of food safety, an SDT applied only to SPS in trade agreements presupposes that developing countries face challenges in selling their products to the world at higher standards than would be required for domestic consumption. Therefore, capacity building is required for them to adjust to international hygiene and safety standards, without transforming them into internal barriers. This presupposes a normative power implicit in SPS. Following Damro (2012), the EU exercises its power through a strategy of externalization of economic and social market policies and regulatory measures. It also presupposes a market power, as the main aim is to mitigate the costs of complying with SPS regulations in order to ensure the provision of food to those markets.

In summary, one counter narrative to this discussion is that comprehensive SPS measures in trade agreements are mostly with the aim of increasing exports from a developed partner of certain agricultural products to the developed world and not the other way around (South Centre, 2020). In other words, the political implications of unilateral preferences such as the SDT and GSP regimes are about concessions. These regimes may not have economic advantages, “while GSP has low real value in market terms, SDT is a way to buy the silence of the developing world in multilateral fora”<sup>418</sup>. In fact, it can be considered that the first modality of SDT within the multilateral system of trade was the unilateral preferential tariffs to products from developing countries (Côté, 2010), that is schemes such as GSP. Echoing Shadlen, insofar as these regimes are unilateral and have a discretionary character<sup>419</sup>, that makes them subject to arbitrary change and political manipulation by the states that grant them (2008, pp.8-9). In other words, hegemonic powers’ interest in consolidating their influence over a group of states who typically have less influential or agency capacities, may rely on the political, economic, and security benefits derived from integration (Katzenstein, 2005 as cited in Schneider, 2017, p.235). These presumptions go

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<sup>418</sup> Fieldwork carnet, April 16, 2019.

<sup>419</sup> To the extent that GSP is a non-binding commitment, donor countries are free to modify or withdraw their tariff preferences at their discretion (Côté, 2010).

hand in hand with the political economy of North-South agreements. Smaller states seek market access and have a fear of exclusion from trade agreements, both of which are incentives to participate in them. Thus, in the context of international negotiations, they are willing to make concessions in other areas (regulatory, security, developmental among others) as a payoff to meeting their ultimate goals (Heron, 2011).

Along the same lines, membership to FTAs confers states with greater influence. Thus they get actively involved in negotiations in order to increase bargaining power within a regional bloc or in the WTO (Mansfield & Reinhardt, 2003 as cited in Schneider, 2017). Accordingly, participation in negotiations can result in increased trust among political leaders, therefore giving them greater incentives to cooperate (Schneider, 2017, p.235). The literature discussing multilateralism names this phenomenon as *specific reciprocity*, wherein buying the silence of developing countries in multilateral fora occurs in a concrete space and time, as opposed to *diffuse reciprocity*, which is anchored in seeking the common good in the long run, as the ultimate goal of international cooperation (Keohane, 1986).

### **3.3 External factors on the EU- Ecuador's inter-regional trajectory**

The following section will examine the external factors, whether normative (adaptation of rules) or material (GSP dependence) that could have shaped the EU-Ecuador inter-regional trajectory. The corollary that I intend to survey is whether there were some external factors that somewhat blurred the EU-Ecuador inter-regional negotiations, some of them stemming from vulnerabilities of small states like Ecuador.

#### **3.3.1 EU's GSP regime: political trade dependence**

As stated before, the question of market access was decisive in the EU-Ecuador inter-regional trajectory, as the country has benefited from the unilateral preferences regime (GSP regime) since the nineties. That said, a large majority of the Ecuadorian public opinion claimed that Ecuador would face potential losses if the agreement was not signed with the EU<sup>420</sup>. Thereby, the EU

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<sup>420</sup> This argument was evoked several times during my fieldwork. In fact, it was part of the current narrative of the respondents who were in favor of the agreement.

granted an exceptional extension of the GSP, in force until 2016. This was a way to push Ecuador towards the accession to the MTA, as was claimed by a decision-maker and political stakeholder during my fieldwork:

The real motivation [for Ecuador] to access the MTA was the blackmail about the end of the GSP plus [regime]. That is, if the GSP was not so considerable and important for some sectors of the Ecuadorian economy, especially in the coastal [region], there would not have been an imperative need to subscribe to the agreement. This recalls the notion of the carrot and stick<sup>421</sup>. The GSP plus' expiration was the main reason [to subscribe], not to say the only one<sup>422</sup>

Yet, the relative stability of exporting its main products to the EU made Ecuador reluctant to reconsider the negotiations in a first stance. Instead, a possibility of trade diversion<sup>423</sup> pushed Ecuador to resume negotiations with the EU, as it would release the country from trade diversion risk given that its main Andean partners, Colombia and Peru, already benefited from preferential tariffs and market access for their main export products<sup>424</sup>. In fact, recalling the neo-classical tradition, it is possible that north-south FTAs increase the volume of trade of developing countries (Heron, 2011). This is depicted as *political trade dependence*<sup>425</sup>. In other words, the political willingness of small developing countries towards a bilateral agenda with central powers is determined by the level of trade dependence (Shadlen, 2008, pp.8-9). What is troubling is that the proportion of additional market access one should expect to gain with FTA's is marginal due to the prior existence of the so-called unilateral preferential schemes such as the GSP (Shadlen, 2008, pp.8-9). As one interviewee from an industry association of the fisheries sector evoked, "[with the

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<sup>421</sup> According to the Cambridge dictionary, carrot & stick refers to "a system in which you are rewarded for some actions and threatened with punishment for others". In this case, the EU applied a carrot and stick strategy to push Ecuador towards the subscription of the agreement, who would have otherwise been punished.

<sup>422</sup> Interview conducted with *SZ-EC-017, Decision-maker and political stakeholder, Public Sector*, August 08 2019, through skype, Paris

<sup>423</sup> Trade diversion refers to a possible shift of imports from an efficient to an inefficient source, whereas the trade creation occurs in the opposite way (Viner, 1950).

<sup>424</sup> Fieldwork carnet, April 16, 2019.

<sup>425</sup> In fact, the standard measure of trade dependence is measured by the country's exports to a particular destination (typically a hegemonic market) as a share of its total exports (Shadlen, 2008, p.8).

FTA] there is no improvement [in the terms] of trade, yet you are able keep the [market] access to the European market”<sup>426</sup>.

In the same vein, the counterparts experiencing a high level of political trade dependence may have the incentives to safeguard their trading relations by subscribing to a fully reciprocal FTA (Shadlen, 2008, pp.3-8). Most importantly, the previous existence of schemes such as the GSP makes FTAs more likely to occur, as the terms of market access were already in place. Secondly, over time, unilateral schemes have tended to build strong coalitions among export-oriented groups with solid interests to maintain those trade relationships (Shadlen, 2008, p.14). This in turn produced socio-economic representations who stand as great issue-specific power, providing small states with different capabilities to exert influence in particular policy domains and using them as bargaining power.

### **3.3.2 WTO plus and regulatory adaptation –EU normative power?**

There are two angles with which to read this external factor. First, the extent to which the MTA can be considered a WTO plus regime<sup>427</sup>, and secondly, the extent to which Ecuador had to previously adapt its domestic legislation so as to subscribe the agreement with the EU. I hereby seek to understand if these factors determined the pursuit of the agreement.

Indeed, negotiations had as an objective “reaching an ambitious agreement, meaning that the level of commitments goes significantly further than multilateral commitments in the WTO”<sup>428</sup>. This set the pace of the negotiations and to some extent justified the willingness of the Ecuadorian

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<sup>426</sup> Interview conducted with AO-EC-011, Industry Association representative, Private (fisheries) sector, April 26, 2019, Guayaquil.

<sup>427</sup> A WTO plus regime are provisions or standards that expand the protection mandated under WTO agreements. In other words, these are provisions that prescribe obligations that exceed the existing requirements of the WTO agreements. Such obligations are also known as the “WTO-plus” obligations (Ya Qin, 2003, p.483). I posit that there are two ways of carrying out a WTO plus regime. Either by regulatory terms through a far-reaching enforcement and protection called the Singapore issues’ provisions (these issues received that name because they were included in the WTO agenda at the Ministerial Conference held in Singapore in 1996), or in terms of trade liberalization, meaning that liberalization should account for substantially all trade as discussed in Chapter 2.

<sup>428</sup> According to the content of the “General Framework for the negotiation of a Trade Agreement between the European Union and Andean countries” (*Marco General para las negociación de un Acuerdo Comercial entre la Unión Europea y países Andinos*” Bruselas, 2009).

delegation to undertake amendments to its legislation in order to meet the agreement's requirements, as will be discussed further.

At first glance, some voices assert that the EU-Andean MTA goes beyond the provisions of the WTO as it contains far-reaching liberalization of investments, patents, competition law, and government procurement, all of which are considered domains of deep economic integration (Baldwin, 2011; Ya Qin, 2003). However, the Ecuadorian legal framework related to some of the Singapore issues<sup>429</sup> already went beyond the WTO provisions, devising a WTO plus regime.

Considering patents within IPR as an example, Ecuadorian patent protection for inventions foresees the same level of protection than the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, that is, 20 years of protection<sup>430</sup>. Therefore, neither the terms of protection nor the protection standard that were currently in force at the national level were increased with the MTA<sup>431</sup>. This is why the extent to which the Agreement with the EU is a WTO plus, as stated by Falconi & Oleas (2012) and Acosta (2012), should not be a deterministic stance, considering the subtle or non-existent distinctions among national and international legal frameworks.

Regarding the regulatory adaption, the empirical evidence from my fieldwork revealed dissimilar stances. Indeed, the aim was appraising if Ecuador as a small state had to adapt its legislation so as to subscribe the MTA with the EU. The answers differed, though some of them were eloquent.

One decision-maker and trade association representative from the automobile sector claimed, "...regulations had to be adopted, especially with regards to IPR, which is where there are common regulations at the Andean level. It is clear that the MTA has WTO plus regulations and this [IPR] is one of the cases [where Ecuador went beyond its legislation]<sup>432</sup>".

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<sup>429</sup> Which include property rights, investment, competition, services, and government procurement; see Chapter 2 for this discussion.

<sup>430</sup> The term of protection available shall not end before the expiration of a period of twenty years counted from the filing date. Article 33, TRIPS see [https://www.wto.org/english/docs\\_e/legal\\_e/trips\\_e.htm#art5](https://www.wto.org/english/docs_e/legal_e/trips_e.htm#art5) accessed June 26 2021

<sup>431</sup> See Ministerio de Comercio Exterior, *Situación de la Contratación Pública dentro del Acuerdo Comercial Multipartes con la UE* (Quito: Ministerio de Comercio Exterior, 2016).

<sup>432</sup> Interview conducted with ON-EC-002, Decision-maker and trade association representative, Private (automobile) sector, April 16, 2019, Quito.



A chief negotiator and high-level decision maker from the public sector stated, “Indeed, there were the so-called trade irritants<sup>433</sup>; the EU demanded to solve them in order to advance with the signing process and approve the MTA. Ecuador adopted the necessary administrative measures to...overcome those irritants.<sup>434</sup>”

In fact, as another interviewee remarked that these trade irritants needed to be discussed and solved between August and September 2016, that is, prior to the EU Commission’s appearance before the EU Parliament, otherwise it would have been very hard for the agreement to be approved<sup>435</sup>. These interviewees suppose that if Ecuador wouldn’t have solved those trade irritants, the agreement wouldn’t have been concluded. Thus, the right and most skillful person needed to be at the head of the negotiations and seek to solve those irritants.

Similarly, Ecuador undertook some other regulatory adjustments. The following quote from an interview with a negotiator and scholar from the public sector illustrates this:

The public procurement legislation was adapted, but only in the procedural part. So some resolutions were adopted by [Ecuador’s] Committee of Foreign Trade (COMEX). No major changes were made but they might be necessary [in the future]. Possible amendments may be needed more for political reasons than for real needs...a trade agreement implies some level of commitment. That is, you can no longer apply some policies in a discretionary way... certain sensibilities are not solved by taking measures that are contrary to [both] the agreement regulations and to the multilateral framework.<sup>436</sup>

Another interviewee who was a negotiator and trade officer from the public sector affirmed that some adaptation was required on specific technical issues. The interviewee stated, “Some adjustments were necessary in customs matters in order to apply the [automated] single export

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<sup>433</sup> This refers to 11 issues, such as the dismantlement of the balance of payments safeguard, tax stamp for liquors, special consumption tax, compulsory licenses, among other issues, which had Constitutional constraints and needed to be solved for the agreement to be approved.

<sup>434</sup> Interview conducted through skype with OZ-EC-018, Chief Negotiator and High-level decision maker, Public Sector, September 13, 2019, Paris

<sup>435</sup> Fieldwork carnet, April 17, 2019.

<sup>436</sup> Interview conducted with NZ-EC-005, Negotiator and Scholar, Public sector (Agriculture), April 18 2019, Quito.

window so that the rule was applied<sup>437</sup>". The technical profile of this interviewee was vital in switching towards some more critical views.

A high-level negotiator and scholar from the public sector I interviewed also mentioned that:

[So far] there has been no adaptation, because we [already] had the foundations of the WTO (TRIPS)...negotiations at the Chamber of Commerce for the Code of Commerce are adapting what is already [WTO] plus! Currently, you [also] have the reform of the Ingenios Code and the legislation for development...There is no institutionality, the Code [only] reflects the interests of the business community<sup>438</sup>.

Finally, another interlocutor who was a medium-level trade officer sustained that, "the MTA did require secondary legislation, as it happened [when we accessed] the WTO, e.g. we did not have exclusivity periods for trial data periods [in IPR]. These protection periods were not regulated so this was introduced in the Ingenios Code<sup>439</sup>".

There are subtle readings about this discussion. Yet the main presupposition I attempt to assess is that, when it comes to a small state, there are external influential factors that can determine the course of a inter-regional relation. I draw attention to some key issues evoked here: an international agreement implies some commitments that reduce discretionary measures and proceedings; and by itself an agreement requires some secondary regulation, similar to the one undertaken when states accessed international institutions like the WTO. That said, in the case of the MTA it is indeed possible that some legal adjustments have been required, either technical or procedural, and that some positive effects have arisen from them, like prompting institutions and stronger regulations. These matters are precisely the sources of vulnerabilities of small states, which challenge the question of hegemon-based agreements. Ultimately, these are demonstrations of a European normative power (NPE).

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<sup>437</sup> Interview conducted with OZ-EC-015, Negotiator and Trade Officer, Public Sector, May 7 2019, Quito.

<sup>438</sup> Interview conducted with RZ-EC-009, High-level negotiator and Scholar, Public Sector and Academia, April 16 2019, Quito.

<sup>439</sup> Interview conducted with RE-EC-004, Medium-level Trade Officer, Public Sector, April 17 2019, Quito.

In addition to the NPE, the issues of balance of power, drawing back to the basics of IR, were also in play. From this perspective, it is clear that the factors that I expose in this section shaped the inter-regional trajectory. That is, dependence issues, like the GSP expiration, were paired with normative issues, like the WTO plus regime.

In spite of Yarbrough's argument that upholds hegemony-based explanations being explicitly international views of trade policy outcomes (1992, p.12), other voices sustain that configurations of non-hegemonic states within the world system can also determine trade policy performance (Lake, 1988). In this regard, the following section will try to shed light on small states as actors with creative agency (in particular policy domains) and which have exerted influence within inter-regional relations.

### **3.4 Influencing Factors in the EU–Ecuador's inter-regional trajectory**

In this sub-section I seek to elucidate on the influencing factors that could have shaped an institutionalized inter-regional trajectory. In fact, these factors could have prompted the configurations and made the environment suitable for inter-regional negotiations to prosper and conclude. Thus, I contend they were informed by two considerations: motivations and bargaining power.

Subsequently, on one hand I explore the motivations a small state such as Ecuador had in order to entertain such negotiations *vis à vis* a dominant counterpart, and on the other, the extent to which this small state exerted bargaining power in its inter-regional trajectory with the EU.

One should consider that motivations can be contextual. Therefore, it is relevant to explore what drives decision-makers and stakeholders in terms of their political calculations and agendas. Ecuador's motivations are analyzed in the following lines:

#### **3.4.1 Motivations**

Significant IPE literature (Chang, 2002; Gallagher, 2008; Phillips, 2005; Shadlen, 2005, 2008) inquiring into the deeper motives to subscribe to an inter-regional or north-south agreement,

stresses the political dynamics of FTAs and the way asymmetrical bargaining positions switch small and developing countries' understanding about the costs and benefits of subscribing to such agreements<sup>440</sup>. In fact, Heron sustains there is a trade-off between immediate or short-term market access and the long-term cost of surrendering to development policy space<sup>441</sup> (2011, p.343). Thereby, material motivations seem to be common to small states and determined by their political economy. They can exhibit political class calculations that drive them to alter their political agendas in order to place current trade preferences on a stable setting, as was evoked during fieldwork.

First and foremost, non-eligibility for the GSP scheme was the strongest motivation that drove Ecuador (in its small state condition) to conclude inter-regional negotiations with the EU. In this regard, it is manifest that the World Bank's (WB) ATLAS methodology<sup>442</sup> came into play. In fact, in 2011 Ecuador was upgraded to an upper-middle income country category, therefore graduating from eligibility to unilateral preferential regimes. One interviewee suggested it is not clear whether the EU influenced the World Bank to change this methodology in order to draw out some countries and force them to entertain negotiations. In any case, this urgent motivation responds to a factual argument sustaining that 60% of Ecuador's exports benefit from this scheme. Thus, losing GSP preferences would have accounted a loss of 200 million USD according to ECLAC (2015). Yet, Fedexpor estimates a loss of 465 million USD<sup>443</sup>, and the official discourse appraised a cost of 400 million USD<sup>444</sup>. As it happens, Ecuador was motivated to conclude negotiations with the EU in order to reduce the effects of preference erosion, as the EU represents 30% of Ecuador's non-oil exports according to estimates of the Central Bank of Ecuador (2015). In other words, as it was evoked several times during fieldwork "to keep market access to our second largest trade partner,

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<sup>440</sup> For the purposes of this Chapter, for Ecuador, the costs and benefits are understood as the degree of trade liberalization against the political constraints to exert an autonomous development agenda with the aim of transforming the production matrix.

<sup>441</sup> Policy space as defined by the UNCTAD "is the scope for domestic policies, mainly in the areas of trade, investment and industrial policies, which might be otherwise constrained by international disciplines, commitments and global considerations" (2004, p.3).

<sup>442</sup> The WB's Atlas method is used to measure the relative size of economies and classifies countries in low, middle and high-income categories and to define eligibilities, for lending as well as for preferential regimes. In fact, this methodology estimates the size of economies based on Gross National Income (GNI) converted to current USD. (See <https://datahelpdesk.worldbank.org/knowledgebase/articles/77933-what-is-the-world-bank-atlas-method> Accessed August 5, 2021.

<sup>443</sup> Fieldwork carnet, April 18, 2019

<sup>444</sup> Rafael Correa's weekly public outreach (Enlace Ciudadano No. 500, 12 November 2016).

in the same conditions as with the GSP”<sup>445</sup>. In brief, the political cost of having no agreement, would have been higher than the cost of sacrificing some economic sectors. As one negotiator and scholar from the public sector put it, “President Correa decided to conclude the agreement with the EU as if the GSP preferences were not extended. The trade balance would have crashed, which have meant a high political, social and electoral cost”<sup>446</sup>.

Secondly, following Gallagher (2008) it is theoretically feasible for small developing countries to sign an FTA with a larger and richer counterpart, see an increase in the volume of trade, and consequently improve their terms of trade, which justifies the MTA subscription. Therefore, the race against Colombia and Peru motivated Ecuador to sign the agreement, for several reasons. Firstly, the EU is the second largest trade partner of the Andean region<sup>447</sup>. Secondly, these two members had already concluded negotiations with the EU in 2013. Thirdly, there was a potential loss of preferential access for the banana sector, as Peru, Colombia, and several export countries from the dollar zone (e.g. Central American countries), had concluded agreements with the EU and would have lower tariffs than the Ecuadorian exports. All these dynamics would have potentially deviated trade from Ecuador in favor of those competitors. This argument is clarified by an industry association representative who stated: “When you lose the market it is very difficult to get it back. What I mean is, you lost that market and you [definitively] lost it as there is a very strong demand shift.”<sup>448</sup> Therefore, this was the second strongest motivation for Ecuador to subscribe the agreement.

The third strongest motivation was to maintain the market status quo for the Ecuadorian agro and fisheries exports, namely the tuna industry. Once more, echoing IPE (Shadlen, 2008) the export-oriented economic sectors have a particular interest in market openness and are the ones

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<sup>445</sup> Several interviews conducted throughout my fieldwork, all private sector representatives. In other words, this was a consistent argument used by all the interviewees in favor of the agreement.

<sup>446</sup> Interview conducted with OO-EC-014, Negotiator and Scholar, Public Sector and Academia, May 2 2019, Quito.

<sup>447</sup> According to data from the Andean Community, the EU is the second trade partner for Colombia, Ecuador and Peru and the fourth for Bolivia, during the period 2010-2019. See Secretaria de la Comunidad Andina (2020). *Dimensión económico y social de la Comunidad Andina*. Lima- Peru, retrieved from <http://www.comunidadandina.org/StaticFiles/202012149299DimensionEconomicaSocial2020.pdf> pp. 78- 96 accessed August 6 2021.

<sup>448</sup> Interview conducted with AO-EC-011, Industry Association representative, Private (fisheries) sector, April 26 2019, Guayaquil.

determining Ecuador's political class' preference. Consequently, the socio-economic representations will seek to protect these interests. As an Industry Association representative endorsed, "the agreement helps to maintain the investors' expectations for their current and fresh investments in a productive way. If we didn't have that, investments would leave. I love to see a thriving and a fighting industry. I love to see that dynamic."<sup>449</sup>

Ultimately, hegemonic FTAs are based on political agreements in which small (developing) states get increased market access in exchange for further commitments to regulatory harmonization as discussed above (Shadlen, 2005, p.751 as cited in Heron, 2011). The fourth motivation is alluded to the understanding of an interlocutor from the private sector, "[Ecuador's motivation] is having a stable legal framework for business and investments and providing a safeguard/guarantee for investors"<sup>450</sup>. In other words, this agreement can be perceived internally as a way to strengthen regulations. Yet this normative framework could potentially be advancing transnational private interests at the expense of a small state's developmental needs beyond solely market access.

Irrespective of the market access argument, Ecuador was driven by the possibility of expanding its external trade agenda. Thus the MTA was also perceived as a way to set a precedent to undertake further negotiations. An interviewee who was a public sector negotiator and scholar stated, "This [negotiation] is going to drive other [trade negotiation] processes such as with the Pacific Alliance or with the US. This agreement allows us to understand what trade openness is and to prepare for the coming [negotiations]"<sup>451</sup>. Another interviewee, an Exporters Representative and High-level lobbyist argued along the same lines saying, "Expanding the agenda is essential. At the time, it was the urgency. The MTA helps the country to discipline itself and demystify the presuppositions about the tools [for market openness], open our [trade] agenda, and lose the fear of competing."<sup>452</sup> These are inferences from the interlocutors that supported the agreement, who viewed it in its

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<sup>449</sup> Interview conducted with AO-EC-011, Industry Association representative, Private (fisheries) sector April 26 2019, Guayaquil.

<sup>450</sup> Interview conducted with RZ-EC-016, Industry Association representative, Private (textile) sector, May 13 2019, Quito.

<sup>451</sup> Interview conducted with NZ-EC-005, Negotiator and Scholar, Public sector (Agriculture), April 18 2019, Quito.

<sup>452</sup> Interview conducted with LA-EC-006, Exporters Representative and High-level lobbyist, Private Sector, April 18 2019, Quito.

positive landscape and as a propeller to further negotiations. That said, one can consider this as the fifth motivation.

Finally, a few interlocutors vindicated the developmental argument from the point of view of a small state. As one high-level decision-maker and public-private sector representative intimated:

Although, we do not take full advantage of them [GSP preferences], they have opened markets for us, with a drawback. They give you [access] for those [goods] they need, that is, for raw materials and not for manufactured goods. Therefore, one of the motivations of small states like Ecuador is to be able to go beyond being an exporter of raw material, to open access to value-added goods... Another motivation is to aspire to take the leap to manufactured products. For a small state, a state-state negotiation is essential...to allow the entry of products based on preferences. If you want to take the leap, you need to have market access<sup>453</sup>.

In the same vein, a Chief Negotiator and High-level decision maker stressed:

The true success of the MTA is to become an instrument for development. That means a useful tool to increase and diversify commercial exchange, to promote productive European investment in new industries that generate employment, for the transfer of technology and productive innovation, to match production and value chains with our neighbors with the aim of exporting to the large European market<sup>454</sup>.

The latter is a promising motivation if appraising the aggregate interest Ecuador was pursuing as a state. Albeit these interlocutors, due to their trajectories, managed high political communication strategies, describing the MTA as an instrument to meet the developmental objectives as stated in the National Plan for Development<sup>455</sup>, which ended up as a lukewarm ambition.

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<sup>453</sup> Interview conducted with OS-EC-008, High-level Decision-maker and Public- Private Sector representative, Public and private sector interlocutor, April 22 2019, Guayaquil.

<sup>454</sup> Interview conducted through skype with OZ-EC-018, Chief Negotiator and High-level decision maker, Public Sector, September 13 2019, Paris- Quito.

<sup>455</sup> *Plan Nacional para el Buen Vivir* 2009-2013 and 2013-2017. For example, the latter listed as one of its economic objectives “to promote the transformation of the productive matrix” (Objective 10) See <https://observatorioplanificacion.cepal.org/sites/default/files/plan/files/Ecuador%20Plan%20Nacional%20del%20Buen%20Vivir.pdf> Accessed August 9 2021.

**Table 6. Classification of Ecuador’s motivations to subscribe the MTA**

		Degree of outcome alteration (subscription to the MTA)		
		Low	Medium	High
Ecuador's motivation as a small-state	Low	To have an instrument for development (Subjective)*	To expand Ecuador's trade negotiation agenda (Material)*	
	Medium	To have a stable legal framework for investments (Regulatory)*	To avoid trade deviations with main competitors (Material)*	
	High	To preserve EU market access - status quo (Material)*		The GSP regime expiration due to Atlas Method modification (Material)*

Source: Author's own elaboration \*(Type of motivation)

In summary, by assessing the collected data, one could classify the motivations into different types: market or material (derived from pragmatism), regulatory (norm creation), and subjective<sup>456</sup> (to attain economic development). Furthermore, having no reference to shared values, opportunities, job creation, and others suggests Ecuador was driven mainly by material motivations, which endorses IPE’s conventional narrative that short-term objectives prevail over sacrifices for policy space in the long-term. That is, motivations are anchored in a political calculus rather than in national (long-term) preferences. This holds true, considering Ecuador’s presupposed costs and benefits from the agreement. That is, the immediate maintenance of market access against the political constraints to exert an autonomous development agenda with the aim of transforming the production matrix.

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<sup>456</sup> It refers to those motivations that are based on further understandings of the self. Unfortunately, empirical evidence collected in Ecuador did not shed light on subjective motivations. However, Jaramillo Jassir (2020) claim a “change of identity”, as during the “Citizen Revolution” Ecuador transitioned from a weak state to a rising leader, upgrading its visibility in some areas while disregarding the cost of this autonomy.



### 3.4.2 Bargaining power

In this sub-section I seek to elucidate the extent to which Ecuador was able to exert bargaining power in the inter-regional trajectory with the EU. One could infer this category is not useful to explain small states' influence, as they are conditioned to vulnerability, typical of smallness. Instead, a counterintuitive narrative is proposed. To do so, I explore the following questions: To what extent do smaller partners have bargaining power within an institutionalized inter-regional relation? To what degree was bargaining power translated into real influence? Within this analysis, I appraise a preliminary assumption: small states exhibit their bargaining power when attaining their fixed preferences<sup>457</sup> through a strategy that enables them to exert real influence.

By considering the literature available (Da Conceição-Heldt & Meunier, 2014; Drahos, 2003; Heron, 2011; Odell, 2013), one can contend that bargaining power refers to all the resources<sup>458</sup> an actor has available and which can be used to advance its fixed preferences, sometimes at the expense of their counterpart, yet with the aim of seeking a reasoned consensus (Odell, 2013, p.11).

An inter-regional negotiation functions as a bargaining forum, which is typically an asymmetrical relationship, thereby delving a disparity of resources used to pursue one's interest in terms of technical, bureaucratic and negotiating capacities, organizational resources or access to information (Drahos, 2003; Heron, 2011). In that sense, small states might be at the expense of the interest of big proponents of multilateral and inter-regional negotiations. Nonetheless, I aim to disentangle whether small states, even in their condition of smallness, can influence these relations by using an enhanced bargaining leverage.

First of all, it makes sense to evaluate the extent to which smallness played a role when exercising bargaining power vis à vis the trade counterpart. Said differently, if smallness could provide

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<sup>457</sup> Fixed preferences can be distinguished as material, regulatory or subjective. The former comprises preserving market access for the most important sectors (socio-economic representations – agro and fisheries), avoiding trade deviation with main competitors for the same sectors, having a stable regulatory framework to maintain business, and expanding the trade negotiation agenda. Whereas the latter covers having an instrument for development and opening access to value-added/ manufactured goods. For the purposes of this study, the reader should note there is a parallelism between fixed preferences and motivations.

<sup>458</sup> Material like institutional and human capacities, and subjective like ideas, experience, and common identity (Checkel, 2005).

explanatory value to the notion of bargaining power. That said, structural power or the degree to which actors can influence an outcome (Strange, 1996, pp.25-27) could be useful to assess this relation. The following remark by a public sector decision-maker and political stakeholder illustrates this point and suggests that, due to a condition of smallness, that is, an inherent vulnerability towards natural disasters, Ecuador was able to get preferential treatment which in this case was an extension of safeguard measures:

The earthquake [occurred in April 2016] was a real factor that gave [Ecuador] bargaining power...I experienced it, I was emotionally disrupted, because as the numbers [data] demonstrated, it was clear that Manabí [where the earthquake happened] was a province that depended [of exports and therefore] on the agreement. We are talking about thousands of jobs [losses], shrimp and tuna harvest installations were totally destroyed by the earthquake. [During my trip to Europe], wherever I went I showed the [earthquake] images and all the EU community were sensitive to them... In 2016, after the earthquake we requested an extension of this safeguard regime. Europeans were solidary, yet some were very tough. But I explained the issue and it was important for me to go, I promised that if the indicators varied until the end of the year, we would seek to do a prior dismantling [of the safeguards]<sup>459</sup>.

Conversely, some voices assert that small states are not in the capacity of being viable actors<sup>460</sup> in international politics because they cannot afford to have opposition to their purposes (Vital, 1969-2006). One can translate this political viability on the international stage as a form of bargaining power within an international negotiation. Notwithstanding Vital's argument, a demonstration of international political viability occurred in 2009 when Ecuador abandoned region-to-region negotiations between the EU and the CAN, demonstrating its capacity to take that decision in line with its national interest and regardless of the opposition. The quote below from a trade association representative illustrates this:

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<sup>459</sup> Interview conducted with NSI-EC-007, High-level Decision-maker and political stakeholder, Public Sector, April 22 2019, Guayaquil.

<sup>460</sup> Political viability is "an aptitude to alter the course and reconsider political and economic arrangement" and a second degree of viability which is the ability to carry out such political reconsiderations no matter the opposition. (Vital, 1969-2006).

We did have bargaining power, in spite of being a small state... this was thanks to our human capital. The Ecuadorian diplomatic corps who represented us in the EU Parliament and to their capacities... [The outcome] is thanks to them... We are not a negligible state in the geopolitical sphere...if something is considered unfair, then we can stand up from the table and leave... And we have also let the Europeans know that this policy [of quotas] does not apply to Ecuadorian shrimp<sup>461</sup>.

Along the same lines, Ecuador had bargaining power to introduce changes to an agreement that was already in force between the EU, Colombia and Peru. One evidence is the time extensions that were not granted to the Andean partners, which was depicted as follows by a negotiator and scholar from the public sector:

As a small state your bargaining power is to manage to get preferential treatment, which Ecuador did obtain. For example, longer deadlines to liberalize your merchandise... But deep down in the negotiation the important thing was to show them [Europeans] the reality of our economic sector, so that they can understand that accepting certain issues was not possible given the conditions of our industries. In the agricultural case, more specifically, protection conditions were achieved for the dairy sector which Peru and Colombia did not get, even if they have similar production structures<sup>462</sup>.

Additionally, Ecuador succeeded in including some references which were a seminal part of its strategy of economic development (e.g. technology transfer). Finally, the Protocol of Accession, contemplates a footnote for possible injury caused to infant industry. This reference was only adopted for Ecuador, which can be understood as a way to broaden the chances for the country to preserve some policy space and thus, this could be deemed as bargaining power.

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<sup>461</sup> Interview conducted with EOO-EC-010, Trade Association representative, Private (fisheries) sector, April 25 2019, Guayaquil.

<sup>462</sup> Interview conducted with NZ-EC-005, Negotiator and Scholar, Public sector (Agriculture), April 18 2019, Quito.

Yet when evoking IPE's argument about the cost of sacrificing long-term policy space against the short-term market access, the cost of that political independence was extremely high for the Ecuadorian government to overcome. This meant Ecuador's international viability gravitated according to circumstances and to what was considered their fixed preference during negotiations.

Accordingly, the assessment of influential factors also includes other dimensions that are complementary to the analysis of smallness. In fact, the study of small-states acknowledges different notions, which will be discussed in the following lines, which were triggers of Ecuador's real influence within EU-CAN inter-regional negotiations.

Cooper and Shaw (2009) argue about some salient diplomatic strategies small states have used to carve out worthy roles within IPE. *Creative agency* is about the application of renewed diplomatic practices, where resilient small states become significant actors in some policy areas, (e.g. through demonstrations of strength and influence by some economic sectors) either through international diplomatic tactics or by contributing to one sole understanding of national interest. According to Heron, elites<sup>463</sup> crafted bargaining positions to meet their best development needs (2011, p.331). The following quote from a medium-level trade officer from the public sector provides empirical support on how Ecuador exhibited creative agency:

Ecuador's bargaining power was the constitutional constraints on mainly three issues or red lines: Government Procurement, IPR, and services. It was not the fact of being a small state that granted us bargaining power, but the fact of being aware of how to take advantage of a political situation in order to generate movement on your counterpart, that is, explaining the difficulties you have... if you cannot move, you should check what can be moved on your counterpart<sup>464</sup>.

In other words, this interviewee upholds that Ecuador had the capacity to use internal constraints as leverage to persuade and obtain advantageous concessions from its trade partner. The use of these negotiation skills is a demonstration of creative agency. According to Schelling's (1960)

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<sup>463</sup> Traditional Ecuadorian export-oriented sectors, as has been mentioned: agro and fisheries industries.

<sup>464</sup> Interview conducted with RE-EC-004, Medium-level Trade Officer, Public sector, April 17 2019, Quito.

paradox of weakness, negotiators can use the card of weak internal cohesiveness to intensify their bargaining power by obtaining concessions externally (Meunier 2000, p.106 as cited in Conceição-Heldt & Meunier, 2014, p.971)

The quote below from another interviewee, this time an exporters representative and high-level lobbyist, echoes the same convictions:

We understood that we had to tune in a bit with the idea that FTAs were not salable [within the Ecuadorian government], we had to use something more salable. That is why the MTA<sup>465</sup> came out and we always highlighted this...The government had a defensive stance, whereas we [private sector] managed a positive stance, which ended up being a success. There were differences [between government and private associations], yet we changed the discourse within civil society and thereby they were not opposed to the agreement<sup>466</sup>.

Similarly, this was a display of creative agency on three fronts: the Ecuadorian government, civil society who could potentially oppose the agreement, and the EU who accepted to change its negotiation strategy.

Small states can exert influence stemming from particular policy domains and use them as bargaining power. Keohane and Nye (1977) named this as great issue-specific power, that is small states at the unit level can exert influence in particular issue areas (Neumann & Gstöhl, 2006). Indeed, small states usually put in advance those sectors of high relevance, while sectors of less importance are reactive, given they lack sufficient resources and staff to engage in negotiations. In line with Thorhallsson's perspective, size and behavior are to be considered when assessing negotiations (2006, p.218). In Ecuador there were similar behaviors of those export-oriented groups with solid interest to maintain trade openness (Shadlen, 2008, p.14), which tend to deploy

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<sup>465</sup> In fact, once the negotiations between Ecuador and the EU were resumed in 2012, the term free trade agreement (FTA) was replaced by "Multiparty Agreement". One possible assumption to explain this, was avoiding to the use of FTA which had a negative connotation among the Ecuadorian detractors.

<sup>466</sup> Interview conducted with LA-EC-006, Exporters Representative and High-level lobbyist, Private Sector, April 18 2019, Quito.

more resources and are usually more mobilized for negotiations. The remarks below from a private sector industry association representative feature these arguments:

In the world of tuna, we are the second [largest] in the world. Same in flower [exports], we are the second or first. The shrimp and banana sectors are in the same conditions. [That is why], I don't like it when people say we are a small state! ... We should have an agreement because the composition of our trade balance depends on that...[For example] Maquita Cushunchic<sup>467</sup> has an important participation in Manabí. Without them we would not have been able to be so aggressive [in negotiations]. This is why, the stages of tariff reduction are key, over years, the baskets are tariff deductible over time. If there are distortions then, the same agreement contemplates years and terms [to protect your industries]. If I am not wrong, Colombia and Peru did not get this<sup>468</sup>.

This last quote resonates with the supposition that Ecuador has strong socio-economic representations that can be considered sources of great issue-specific power, who mobilized resources during negotiations with the ultimate goal of subscribing to the agreement before the GSP expired.

Contrary to what has been described so far, the following offers a different reading of Ecuador's bargaining power. Typically, these interviewees were sidelined from the negotiations, as they represented sectors that were not central to discussions, and who had more intricate interests. Their standpoints are pertinent to understand Ecuador's negotiation strategies and how a presupposed national interest was constructed. In other words, according to the needs and interests of the strongest representations. Moreover, Ecuador should have continued in a region-to-region negotiation. The following quotes depict this.

One decision-maker and industry association representative from the automobile sector stated:

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<sup>467</sup> Maquita Cushunchic is an organization supporting the development of Popular and Solidarity Economy Stakeholders (AEPYS). They produce non-traditional goods which are exported to the EU in small quantities. They are not part of the strong socio-economic representations.

<sup>468</sup> Interview conducted with AO-EC-01, Industry Association representative, Private (fisheries) sector, April 26 2019, Guayaquil.

Ecuador had very little bargaining power, maybe 3 or 4 highly prioritized topics [which could negotiate], which were basically exceptions... We had to ask Colombia and Peru for authorization [to make modifications]. But that is not the fault of the agreement itself, it was rather Ecuador's fault not to negotiate when it had to negotiate. Perhaps if Ecuador negotiated at the right time, together with the others, it would have had much more bargaining power to define an agenda<sup>469</sup>.

Another industry association representative from the textile sector assessed:

Ecuador had all the possible bargaining power and gave it up [when it abandoned negotiations]. There were only sparks left which served the government to give a signal that we had a lot of bargaining power and that we sat down the Europeans and twisted them, but it was not like that. I think that [by abandoning and resuming negotiations] we managed to scratch certain little things... Yet [by negotiating] in the same table as the CAN we could have achieved more, due to asymmetries... The issue of asymmetries was always on the table, Europe gave concessions for each situation. Maybe little things... but I am not going to change my criteria that we lost time. If you lose time in international trade, you can't get it back<sup>470</sup>.

A public sector decision-maker and political stakeholder elaborated:

Ecuador did manage to have higher thresholds [in chapters like government procurement] in relation to Colombia and Peru. [Yet], I think it is an exaggeration to say that was bargaining power... Bargaining power would mean that Ecuador could have been able to exclude entire chapters from the agreement. For example, excluding IPR, which was not

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<sup>469</sup> Interview conducted with DA-EC-012, Decision-maker and Industry Association, Public and Private (Automobile) sector, April 30 2019, Quito.

<sup>470</sup> Interview conducted with RZ-EC-016, Industry Association representative, Private (textile) sector, May 13 2019, Quito. His interpretation of the fragmentation of region-to-region negotiations into multiparty, may be responding to the fact this interviewee represents to one potential losing sector of the MTA. Someone who was not into the fine print of the *Protocol of Accession*, where one can evidence slightly more advantages for Ecuador.

achieved. So there is no room for maneuver. What you have is a model of agreement with a pre-established text, depending on the model the EU uses. What you negotiate are the deadlines, the lists [of products], the rules of origin, accumulation. You do not negotiate categories, concepts, policies. What you negotiate is absolutely marginal. Referring to bargaining power is too generous...as you can only modify footnotes. [Conversely] in the CAN, there is bargaining power, as you have decisions that have to be taken by consensus. [In fact] our position in the CAN was that we do not want an agreement on financial services...It is different than an agreement of this type [with the EU], where you basically adjust to their parameters<sup>471</sup>.

To conclude, first of all, from the empirical findings, one can elucidate on the level of difficulty to measure bargaining power as an influential factor, given that it is a matter of perception from the different understandings that arise from each interviewee's entrenched trajectories. I can summarize these perceptions as follows: firstly, a high bargaining power stemming from its internal vulnerabilities, political viability, diplomatic skills, and great-issue specific power; and secondly, perceiving inter-regionalism as a misleading bargaining platform. In fact, there was an alleged increase of bargaining power derived from a change of strategy, that is, abandoning region-to-region negotiations.

Ecuador was able to exert bargaining power within the institutionalized inter-regional relation due to socio-economic representations, enhanced diplomatic strategies, and its inherent vulnerability. This vulnerability did not limit its bargaining power. On the contrary, it shaped the political configurations, making it conducive to subscribing to an agreement. Moreover, Ecuadorian socio-economic representations were key players in the country's political economy as they turned negotiations into an institutional fact and were creative agents shaping its fixed preferences.

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<sup>471</sup> Interview conducted through skype with SZ-EC-017, Decision-maker and political stakeholder, Public Sector, August 8 2019, Paris – Quito.



### 3.5 Effects and outcomes

The conclusion of the EU-Ecuador MTA and the entry into force of the Protocol of Accession in 2017 put forth some notions about smallness. In this regard, I seek to acknowledge the economic and political effects of the MTA on Ecuador's smallness, as well as the extent to which Ecuador's smallness conditions shaped the outcome. In brief, the main question this sub-section seeks to address is "what were the effects and outcomes resulting from Ecuador's trajectory with the EU?"

#### 3.5.1 Economic effects

Ecuador's economic perspectives were appraised in terms of preserving market access for its most important sectors. These refer to the socio-economic representations: agro-export sectors of the coast plus fish farmers (aquaculture - shrimp and tuna) (see Table 3: EU Tarif conditions on main Ecuadorian exports). Indeed, Ecuador expected a significant increase in its agricultural exports, mainly banana (28.8% of its total EU exports) and other food products, including canned fish (64.2 % of its EU exports)<sup>472</sup>.

Ecuador's main export products have been increasingly losing competitiveness since the implementation of the EU Agreements with Colombia, Peru, and Central America. The case of the banana industry stands out in this regard. In fact, this sector was not under the GSP plus regime, thus, the differences in the duties paid by Ecuador and its regional competitors had rapidly increased since 2017. This difference stood at EUR 14 per ton in 2014, and would have increased to EUR 39 per ton in 2020. In this sense, the MTA with the EU reduces this gap from EUR 22 per ton in 2015 to only EUR 1 per ton after its implementation, which was entirely eliminated in 2020<sup>473</sup>.

In 2017, Ecuadorian authorities noted that Europe-bound banana exports were 28% higher year-on-year (YoY) in the first quarter and its participation in the European market passed from 29%

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<sup>472</sup> See Directorate-General for Trade. European Commission (2016). Assessing the economic impact of the accession of Ecuador to the EU-Colombia/Peru Trade Agreement. Luxembourg Publications Office. doi:10.2781/089143. p. 36

<sup>473</sup> See Anania, G. (n.d.). "The implications for bananas of the recent trade agreements between the EU and Andean and Central American countries" Retrieved from [https://www.wto.org/english/res\\_e/publications\\_e/wtr11\\_forum\\_e/wtr11\\_1mar11\\_e.htm#table](https://www.wto.org/english/res_e/publications_e/wtr11_forum_e/wtr11_1mar11_e.htm#table) accessed August 9 2021

to 35%. The EU reported that bananas to reached 94% of fruit imports (+10% in 2018 compared to 2017)<sup>474</sup>. The main recipient of Ecuadorian bananas from the EU is Italy, with volumes rising 138% YoY to around 110,737 tons; France imports also rose considerably reaching 2,363 tons<sup>475</sup>.

In summary, the banana sector expects to consolidate again in the EU market and grow 5 or 6% in exports starting in 2017. Regarding the fisheries sector, on one hand, the trade agreement allowed 45 million pounds of shrimp to reach the EU in the first quarter of 2017, 1% more than the same quarter of 2016<sup>476</sup>. On the other, the tuna sector managed to maintain its sales to the EU market due to the maintenance of zero tariff<sup>477</sup> to enter the bloc<sup>478</sup>.

These numbers reflect the direct effect of the Agreement in the agro-export and fisheries sectors. According to one of Ecuador's Exporters Representative, the agricultural groups expect an annual increase of 5% in the first years of implementation because of the considerable tariff reduction and the stability of long term contracts in this sector (as previous contracts in the agricultural sector were valid for up to one year)<sup>479</sup>. This narrative echoes Ecuador's third perspective as evoked in fieldwork. That is, having a stable regulatory framework to maintain business.

In other words, the Ecuadorian agricultural sector is the most important beneficiary of the Agreement. Yet, this fact reinforces the agricultural trade dependence of the Ecuadorian economy, mobilizing important resources for its main producers or socio-economic representations while asserting them as *great-issue specific power groups*.

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<sup>474</sup> According to data from the European Commission. See *Individual reports and info sheets on implementation of EU Free Trade Agreements*, Commission Staff Working Document , Brussels, 14.10.2019, pp. 48 Retrieved from <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019SC0370&from=EN>

<sup>475</sup> According to figures of the *Asociación de exportación y comercialización de banano* (Acorbanec). <http://www.acorbanec.com/>

<sup>476</sup> See Bucheli, A. (2017, April 9). El acuerdo con la Unión Europea comienza a dar frutos. *Diario El Comercio*. Retrieved from <https://www.elcomercio.com/actualidad/acuerdo-union-europea-comercio-exportaciones-precios.html> Accessed November 16 2021

<sup>477</sup> See Table 3: EU conditions to the main Ecuadorian exports.

<sup>478</sup> However, the EU Commission reported a reduction of European imports for fish, crustaceans and preparation of tuna, by 3% and 2% respectively, in the following year (2018). See *Individual reports and info sheets on implementation of EU Free Trade Agreements*, Commission Staff Working Document, Brussels, 14.10.2019, pp. 45. Retrieved from <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019SC0370&from=EN>

<sup>479</sup> Fieldwork carnet, April 18, 2019.

### 3.5.2 Political effects

In political terms, the MTA incurred a greater polarization of the Ecuadorian political class, forming two opposing groups (as discussed earlier in this Chapter) and compromising an exacting economic development project framed as endogenous development. This project targeted a transition towards economic activities of greater added value, both for labor and production. That is, jumping to a manufacturing economy with more qualified and better paid jobs<sup>480</sup>. Whereas the MTA was deemed to strengthen the basis of the agro-export model based on the competitive advantages of the low cost of local labor.

Indeed, according to the detractors of the Agreement, the decision of subscribing to the MTA threatened the so-called transformation of the productive matrix, to a longer and less likely period for its achievement. Certainly, taking this path – considered purely ideological and lacking in practical grounds – could have undermined Ecuador’s domestic governance capabilities, as the public opinion and the main players (socio-economic representations) were driving forces that mobilized towards the conclusion of the deal. In that regard, an unaccomplished process could have resulted in socio-political chaos<sup>481</sup>.

Amid this political polarization, Ecuador could hardly build an ideology of social partnership. In other words, the ideological and cultural cleavages within the concerned actors impeded the country from compromising in such a national project of transformation of the productive matrix while turning the deal into a partisan political tool. On the contrary, the political internal factors that contributed to concluding the deal lacked a vision at the aggregate level, which the fieldwork evoked as without an understanding that national interest equals to a net social benefit<sup>482</sup>.

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<sup>480</sup> See National Development Plan or Plan Nacional para el Buen Vivir (PNBV), 2009-2013, p. 109

<sup>481</sup> At that point, an opposition group to the deal, a more technical group, warned President Correa that beyond the economic cost, there was a social cost and therefore a political cost. What was shown to him was the iceberg graph. That is, what Ecuador would have to compensate for the increase in tariffs, which was an equivalent of approximately 300 million USD, which was equivalent to the gas subsidy. The biggest impact was social, as 90% were labor intensive primary goods. Therefore, the social impact was great. Only in the banana market, since the EU is our main non-oil market, the impact could have been of 400 thousand direct jobs losses from the banana activity. But if we add tuna, shrimp, coffee, cocoa, the rural impact was important; not hundreds, but millions of people in the medium term (Fieldwork carnet, May 2, 2019).

<sup>482</sup> Fieldwork carnet, May 2, 2019.

Finally, a preeminent effect is that the Ecuadorian socio-economic representations were key players in the country's political economy as they turned negotiations into an institutional fact and were creative agents shaping its fixed preferences.

### **3.5.3 Outcomes**

The EU-Ecuador agreement designated two outcomes which cohere with the smallness debate: pragmatism and strategic flexibility.

#### **i. Pragmatism**

In order to situate the prerogatives of pragmatism and smallness within the inter-regional trajectories to be applied to both the EU-CAN MTA and the EU-Mercosur FTA, this section attempts to map out the discussion about pragmatism in the literature.

In social sciences, pragmatism has mainly been studied through a philosophical prism<sup>483</sup>. Yet there is also a body of literature covering an insightful debate about the efforts to bring pragmatism to IR scholarship (Ralston, 2011).

From this perspective, the three main IR currents intersect with some notions of philosophical pragmatism, as discussed by Ralston (2011). Firstly, realism is considered a vector of a fixed conception of state preferences, typically of human nature, where they accumulate too much raw power leaving very little room for experimentation (Ralston, 2011, p.79). Realism is also a practical stance for the making of foreign policy. Relatedly, liberal states are plural actors whose preferences vary across depending on economic, cultural, and governance factors. That said, Ralston argues that in a way, liberalism's orientation towards culture and economics defines it as an IR theory of common sense and therefore in a generic IR theory of pragmatism (2011, p.80). On those grounds, pragmatism should be considered a tool for problem solving, common-sense approaches and best policy making practices. Finally, Ralston stresses that for constructivism, ideas like objectives, narratives, and identities are factors that affect the behavior of actors (2011, pp.81-82). Finally, from a pragmatic stance, beliefs are rooted in history, but are also subject to

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<sup>483</sup> See John Dewey's and Richard Rorty's philosophies.

rational scrutiny (Festenstein, 2016, p.9). Yet these do not construct actors' experiences; what is constructed rather, are the tools used as a means to negotiate these experiences (Johnston, 2009 cited in Ralston, 2011; Prawat, 2000). In fact, amongst Ecuadorian stakeholders, some narratives about the nature and scope of the agreement with the EU were shaped as pragmatic tools, building upon constructivism, towards the conclusion of the deal. The quote below from a fisheries sector trade association representative illustrates this:

Our position was always the same. That is to say that this was a technical debate and this requires adequate support. We are going to avoid entering the ideological debate in every sense. Within the government, the ideological debate was also present. For the president, this was something that weighed heavily on his conscience, knowing that for a long time he had defended a position, but he had a flash of pragmatism. He knew that Ecuador was going to lose much more because of his ego. This is why we tried to sell the deal as a MTA and not as a FTA [as the latter had a great ideological burden within Ecuadorian public opinion]<sup>484</sup>.

Ultimately, a simpler understanding of pragmatism<sup>485</sup> elicits quite a basic question: what proves to be useful or to work in a particular situation? (Ralston, 2011, p.74). According to Tavits, in pragmatic issues, economy and practicality are deemed as “getting things done” (2007, p.154). Yet in a changing environment, being unable to change is considered a sign of stagnation and unresponsiveness, whereas pragmatism stands for responsiveness (Tavits, 2007). This presupposition can be anchored to the smallness debate, particularly with the notion of resilience referred as “the ability to recover from or adjust to change” (Briguglio, 2007, p.105; Briguglio et al., 2010, pp.28-29). This can underpin a pragmatic stance, as well as countervailing the negative externalities of smallness, and in a way to coping with vulnerability. Payne sees resilience as a strategy of states (2009, p.279). Thus, a parallelism can be drawn between resilience and

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<sup>484</sup> Interview conducted with EOO-EC-010, Trade Association representative, Private (fisheries) sector, April 25 2019, Guayaquil.

<sup>485</sup> In etymological terms, in the Greek roots “pragma” stands for “things, facts, affairs, and action”. Our word practice comes from this root (Thayer, 1968, p.5; James, 1981 [1907], p.42) as cited in Ralston, 2016, p.75).

pragmatism, as both are also endogenous responses to a stimulus in the different areas of social and political life.

A pragmatic stance undertaken by the Ecuadorian authorities pushed for an imminent subscription to the MTA that would release the country from a trade diversion risk, as its main Andean partners, Colombia and Peru, already benefited from preferential tariffs and market access for their export oriented sectors<sup>486</sup>. Additionally, not subscribing to the deal would have brought significant economic losses mainly for the export-oriented sectors<sup>487</sup>.

According to Bishop, the sources of vulnerability and resilience are politically, institutionally, economically, and socially embedded (2012, p.956). Yet, IPE has succeeded in advocating for a greater understanding of small-state agency. Meaning that small states can become influential actors in their own right, by building resilience themselves/ This resilience can be built by the implementation of their own policies, along the same lines as the pragmatic stance suggests. Moreover, in economic terms, pragmatism designs a policy in which a state, regardless of its size, seeks to maximize economic benefits with a great power, either in trade or investment issues, disregarding any political confrontations between them (Kuik, 2008, p.167). In Ecuador's case the MTA with the EU was taken as an economic and social fact. This circumstance surmounted political polarization, proved useful in providing continuity to the country's international insertion choice, and facilitated the maximization of the most urgent economic needs.

In the same token, pragmatism is commonly thought to view politics as mainly a matter of collective problem-solving, downplaying core political phenomena such as power and conflict

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<sup>486</sup> In fact, once the agreement with Colombia and Peru came into effect, Ecuador's government shifted its policy towards negotiations. These CAN members were benefitting from better access to the EU market, and in true 'domino effect' (Baldwin, 1993). Thus, Ecuador's government chose to join the Trade Agreement rather than lose out to competitors. See Policy Department, Directorate-General for External Policies. European Parliament. (2016). EU trade relations with Latin America: Results and challenges in implementing the EU-Colombia/Peru Trade Agreement. (Study EP/EXPO/B/INTA/FWC/2013-08/Lot7/12)

[http://www.sice.oas.org/tpd/and\\_eu/Studies/EXPO\\_STU\\_EU\\_COL\\_PER\\_2016\\_e.pdf](http://www.sice.oas.org/tpd/and_eu/Studies/EXPO_STU_EU_COL_PER_2016_e.pdf)

<sup>487</sup> According to various interlocutors, not subscribing to the MTA would have signified a loss of 400 million USD for the Ecuadorian economy (Fieldwork carnet, April 30, 2019). This loss would have particularly affected the so-called socio-economic representations.

(Festenstein, 2016). However, pragmatism is not hesitant about theories and norms, rather it takes them as tools for deliberation and practical solutions (Festenstein, 2016, p.15).

The following two quotes from interviewees are telling in this regard. One decision-maker and industry association representative from the automobile sector opined:

I think that at that time pragmatism sought to win over the ideological part...What we thought was that the president had to be given a tool to make a decision not based on an ideological issue, but in way to bring responses to an imminent adverse scenario. At that specific time, we conducted studies that counterbalanced the other wing of the government, which was the Ministry of Foreign Affairs. Although the Vice Minister had a very pragmatic vision, it was not the case for the Minister [of Foreign Affairs]. As well as SENPLADES, which was governed by a super ideological question, and on the other side, the Ministry of Industries and the Ministry of Production, which saw the issue with a different approach<sup>488</sup>.

One public sector negotiator and scholar explained:

At that time [during second phase of negotiations] it was already envisioned that Ecuador had fiscal problems. When these checkbook problems were already perceived, Correa knew that the resources were not going to be enough...That forced him to switch from a political discourse to a more pragmatic one, which had a series of consequences. There was a change in the economic but also social and political contexts. His speech began to deplete. Already at this stage Correa was fighting against ghosts<sup>489</sup>.

Moreover, in pragmatism, the social and political values are treated not as fixed standards (preferences) but as flexible hypotheses, which implies that they are processed in practice and judged in the light of their consequences for all the involved actors (Festenstein, 2016, p.10). That being said, the Ecuadorian government encountered some disputes in regards to the deal, resulting

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<sup>488</sup> Interview conducted with DA-EC-012, Decision-maker and Industry Association representative, Public and Private (Automobile) sector, April 30 2019, Quito.

<sup>489</sup> Interview conducted with OO-EC-014, Negotiator and Scholar, Public sector and academia, May 2nd 2019, Quito.

in a cleavage. The “pragmatists” and the “idealists” disputed the advancement and conclusion of negotiations. On one side, such an agreement with the EU could have condemned the new paradigm of the 2008 Constitution and the *Good Living National Plan*, both of which envisaged the idea of good living and an administered trade, differing from some legal provisions of the WTO. In parallel, the subscription to the deal would have threatened the so-called transformation of the productive matrix, to a longer and less likely period for its achievement. In other words, the authorities made the state preferences flexible, turning them into a flagship of pragmatism.

In summary, Ecuador’s accession to the Multiparty Agreement can be defined as a pragmatic undertaking and not as a realist stance which puts at risk the international political viability of a small-state as discussed by Vital (1969-2006). The governmental authorities faced an imminent adverse scenario, namely: the downfall of oil prices; the recognition that the European market was so critical to those agro industries that it could not be compensated with oil resources, especially because of the downfall; and the presidential elections in 2013 where the continuity of the ruling party was at stake. That said, the current administration did not push for a foreign policy according to its political project, but preferred a pragmatism-first stance.

## **ii. Strategic flexibility**

The second outcome to be discussed is *strategic flexibility*. Following Baldacchino and Bertram (2009), strategic flexibility exhibits that small societies get involved in activities that provide increased levels of economic, political, and social development in return. In other words, small states’ vulnerability can be transformed into a source of strength. Hence, market openness obliges states to develop conditions to be competitive.

One evidence of strategic flexibility is the secondary legislation the MTA requires, as a product of the asymmetrical inter-regional interaction with a small state – in a parallel situation when states accessed multilateral organizations like the WTO. It is indeed possible that some legal adjustments adopted for the MTA, either technical or procedural, could have some positive effects, like prompting institutions and stronger regulations.



In parallel, Bertram and Poirine's (2007) approach to strategic flexibility considers small states' economic structure as adaptative and not a passive response to external incentives. Whereas Bishop (2012) sustains that small societies have the capacity to adapt to earn multiple sources of income and are willing to do what is necessary to get ahead.

The following quote from an industry association representative from the fisheries sector illuminates the strategic flexibility notion:

The MTA does not prompt innovation but rather nurtures high quality standards in the market. Europe demands these high quality standards... [among them] health qualification standards. This can be thought of as innovation. Yet it is more about a responsibility towards sustainability because tuna [even] being a renewable resource, there are efforts to take care of it and maintain it so that it does not end, [in other words] maintaining it is synonymous with sustainability... This market must be sustained while maintaining high levels of standardization. Developing new alternatives for consumption derived from fish is an effort for sustainability, that means, making better use of this resource<sup>490</sup>.

Along the same lines as Bertram and Poirine (2007), who sustain that strategic flexibility can renovate small states' economic structures as an adaptative response to external incentives, one can highlight how Ecuador crafted one of its institutions intended to meet a particular need. In 2013 the Ministry of Foreign Affairs, Trade and Integration (MRECI) was transformed into the Ministry of Trade<sup>491</sup> under a unique authority and based in the city of Guayaquil. The underlying implications of this reform are somehow explained through Ecuador's pragmatic position. In other words, this restructuring responded first and foremost to the urgency to resume negotiations with the EU<sup>492</sup>. As a matter of fact, the very first function granted to this new entity was the coordination

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<sup>490</sup> Interview conducted with AO-EC-011, Industry Association representative, Private (fisheries) sector, April 26 2019, Guayaquil.

<sup>491</sup> An Executive Decree was released on the June 13, 2013 to create the Ministry of Foreign Trade, based on the capacities the Executive branch had been granted to issue regulatory provisions to reorganize and suppress public entities whose nature is no longer a priority and indispensable for national development or that do not pay efficient and timely attention to the demands of society. See Executive Decree N. 25 Retrieved from [https://www.gob.ec/sites/default/files/regulations/2018-09/Documento\\_Decreto-Ejecutivo-25-Creaci%C3%B3n-Ministerio-Comercio%20Exterior.pdf](https://www.gob.ec/sites/default/files/regulations/2018-09/Documento_Decreto-Ejecutivo-25-Creaci%C3%B3n-Ministerio-Comercio%20Exterior.pdf) accessed November 22 2021

<sup>492</sup> In 2014 a standstill was signed, in which the parties agreed on the text and the tariff elimination schedule. However, the Protocol of Accession was signed two years after (Fieldwork carnet, April 22, 2019). A standstill is a situation in which the parties to a trade agreement commit to keeping the market at least as open in the future as it was as at the

of trade agreement negotiations<sup>493</sup>. Accordingly, a press release explicitly mentions this new Ministry was urged to advance trade negotiations with the EU and insisted on the need for coordinated actions between businessmen and the public sector to promptly reinstall the dialogue with Europe<sup>494</sup>. In other words, firstly strategic flexibility was enacted as institution building and secondly, it provided the political configurations to enable the conclusion of the agreement.

To conclude, the two outcomes described in this last section go hand in hand with a view that small-states have greater agency, and can be perceived as influential actors. In other words, small states were conferred with flexibility, creativity, and pragmatic capacities, which were necessary to exert their own destinies within inter-regional trajectories.

In general terms, this chapter demonstrates how creative agency and great-issue specific power provided greater bargaining power to Ecuador during inter-regional negotiations with the EU. At the same time, these two smallness conditions were transmuted into real influence, resulting in pragmatism, strategic flexibility, and ultimately in a concrete institutional fact.

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time of conclusion of the agreement. That is, the party that decides to fall back to a more protectionist framework, that framework should never fall below the level of openness committed in the deal. See <https://trade.ec.europa.eu/access-to-markets/en/content/standstill-clause> accessed November 22 2021

<sup>493</sup>See Article 4, Paragraph 1, Executive Decree N. 25 Retrieved from [https://www.gob.ec/sites/default/files/regulations/2018-09/Documento\\_Decreto-Ejecutivo-25-Creaci%C3%B3n-Ministerio-Comercio%20Exterior.pdf](https://www.gob.ec/sites/default/files/regulations/2018-09/Documento_Decreto-Ejecutivo-25-Creaci%C3%B3n-Ministerio-Comercio%20Exterior.pdf) accessed November 22 2021

<sup>494</sup> See Diario El Universo (2013, June 13) “Ejecutivo oficializa creación de Ministerio de Comercio Exterior” Retrieved from <https://www.eluniverso.com/noticias/2013/06/13/nota/1023146/ejecutivo-oficializa-creacion-ministerio-comercio-externior/> November 22 2021

## CHAPTER 4 : EXPLANATORY FACTORS, MOTIVATIONS, AND BARGAINING POWER WITHIN INTER-REGIONALISM: THE EU-MERCOSUR<sup>495</sup> FTA, URUGUAY'S MAIN DRIVERS

It is worth to open this chapter with some quotations from my fieldwork in Montevideo -Uruguay, which took place during a historic moment in that country given the change of government to the National Party (President Luis Lacalle Pou) after 15 years of the Frente Amplio (FA) being in office. Interestingly enough, as I was conducting my interviews (March 2020) I observed government officials changing roles and ministers saying good-bye to their colleagues<sup>496</sup>. As this happened, my interlocutors spoke about the particular characteristics of this small-state, which allowed me to better acknowledge its socio-political context.

One interlocutor observed, “In Uruguay we all know each other, and that is a strength we have. We are small and that is why everyone here understands that we have to go out into the world.”<sup>497</sup>

Another interviewee stated, “Uruguay is considered a groaning dwarf (*enano proteston*),” suggesting that they have persuasive capacities by the fact of being whiny. Yet also remarked that the country “is a facilitator of international law, since the legal always comes before the political, that is why Uruguay will never leave the table [of negotiations]”<sup>498</sup>

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<sup>495</sup> Caveat: MERCOSUR at the sub-regional level is not the focus of this study. Rather, I focus on the interregional level between the EU and MERCOSUR with a particular attention on Uruguay.

<sup>496</sup> My fieldwork came to an end just a few days before the COVID-19 pandemic exploded. In fact, when I meet my interlocutors for conducting interviews, they were a bit reluctant about the fact that I was coming from Europe where COVID-19 had already taken the largest magnitude. Yet at that point nobody had imagined the sanitary crisis would take on a global scale. Speaking about scale makes sense as it was something evoked during fieldwork and which can be illustrated through COVID-19. While the virus was spreading exponentially all around, in Asia, Europe, the Middle East and America, in Uruguay it was a question of scale. Only 4 people were contaminated as per March 16<sup>th</sup> 2020 and no deaths had been reported by then. According to Moreno et al., (2020) during the first months of the pandemic, there were 35 deaths and less than 1500 contaminations after patient 0, which was considered an “exceptionally good performance”, as in Uruguay “the accumulated number of COVID-19 cases never reached an exponential stage” (in Hernández Nilson & López Burian 2020). One may think that this was only possible in a country with a population of 3 million within a territory of 176,215 km<sup>2</sup> and a population density of 19.8/km<sup>2</sup>.

<sup>497</sup> Fieldwork carnet, various notes.

<sup>498</sup> Fieldwork carnet, various notes.

These quotes are to some extent used to justify smallness and illustrate Uruguay's common storylines. Nonetheless, these narratives also tend to point out the progressive social policies and the sustained economic development which are characteristic of this small state when compared to other South American countries.

Some voices speak about Uruguay's exceptionality. According to Hernández Nilson and López Burian, *"after the 2002 crisis the economy evolved favorably and the proportion of socially vulnerable population decreased significantly, resulting in the best scores on the regional indicators for inequality, poverty and formal labor"* (2020, p.329). These authors provide several arguments about the country's socioeconomic and political features, which incidentally played a beneficial role in handling the pandemic. Uruguay is recognized for its institutional and political stability, it has good-quality universal basic services, and benefits from geopolitical factors as Montevideo is the largest city and the main interlocutor with the world. Yet one might question if these are somehow related to smallness. Indeed, Uruguay counts a smaller population that is easier to control and which has the capacity of adaptation (Hernández Nilson, & López Burian, 2020) or even resilience. Going further in this line of thought, the authors suggest that smallness is a beneficial feature for the Uruguay's performance: modern health (legalization of cannabis<sup>499</sup>) and education programs (the Plan Ceibal's one-laptop-per-child program<sup>500</sup>). Their success is credited, among others, to the reduced scale of the programs. Thus, the country's smallness is considered an attribute rather than a hindrance. Additionally, Uruguay counts a flexibility which outweighs a possible lack of material resources (Real de Azúa, 1977, p.170 in Hernández Nilson & López Burian, 2020). This has been coined in the literature as "strategic flexibility", as it will be discussed further.

Within these introductory lines, it is also worth pointing out that, at the time of writing, Uruguay had announced they would advance in bilateral negotiations for an FTA with China without MERCOSUR. As some Uruguayan media sources have claimed, what is beyond this announcement is the "government's interpretation that Uruguay does not need the endorsement of

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<sup>499</sup> See Chávez Sabando, N. (2021). Impactos de la movilización en el cambio normativo. El matrimonio igualitario, la interrupción voluntaria del embarazo y la regulación del consumo de cannabis en Ecuador y Uruguay [Doctoral dissertation, Universidad de Girona].

<sup>500</sup> See Larrouqué, D. (2012), *Le Plan Ceibal en Uruguay. Un exemple de bonne gouvernance ?*, Paris, L'Harmattan.

the other partners to advance in an FTA”<sup>501</sup>. In other words, Uruguay is mobilizing a debate that is apparently needed in MERCOSUR through an exercise of agency.

The purpose of this chapter is to explore some influential and external factors that have shaped EU-MERCOSUR’s institutionalized inter-regional trajectories in different ways and to different degrees, resulting in a particular outcome. I therefore seek to examine what an asymmetrical relation implies in terms of the motivations of small states to pursue an inter-regional negotiation and to what extent smaller partners have bargaining power to exert real influence within inter-regionalism.

To do so, I will firstly assess the long-lasting negotiation process towards an FTA between the EU and MERCOSUR (as part of a wider Association Agreement including political dialogue and cooperation) and the last version of the agreement’s text, in order to tackle one of this study’s core question: to what extent do small-states have bargaining power within an institutionalized inter-regional relation? However, several sub-questions will be also discussed.

What type of inter-regionalism was grounded between MERCOSUR and the EU? To what extent did this bargaining power translate into real influence? What outcomes resulted from MERCOSUR’s inter-regional trajectory with the EU? To what extent was Special and Differential Treatment (SDT) included in the EU-MERCOSUR FTA? What are the main special measures granted to Uruguay, if any?

Secondly, I will explore the external factors that shaped the inter-regional trajectory with the EU. In fact, when it comes to an asymmetrical negotiation in terms of influence, there are external forces that can determine the course of inter-regionalism.

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<sup>501</sup> La Diaria (2021, September 7th) “Uruguay recibió aval de China y comienza estudio de prefactibilidad de un tratado de libre comercio sin el Mercosur” Retrieved from <https://ladiaria.com.uy/politica/articulo/2021/9/uruguay-recibio-aval-de-china-y-comienza-estudio-de-prefactibilidad-de-un-tratado-de-libre-comercio-sin-el-mercosur/> accessed September 8 2021.

Thirdly, I will examine the influential factors that could have shaped this institutionalized inter-regional trajectory. In fact, these factors could have prompted the configurations and made the environment suitable for inter-regional negotiations to prosper and conclude. In this manner, I explore the motivations a small state such as Uruguay would have to entertain such negotiations vis à vis a dominant counterpart, as well as the bargaining power it could have exerted and the extent to which it turned into real influence. The corollary I attempt to assess is that Uruguay can be depicted as a small state with agency capacity on one side, yet with vulnerability towards external factors, on the other.

#### **4.1 The long-lasting negotiation process between the EU and MERCOSUR**

The complex and prolonged process of negotiations (since its launching in 2000, a total of thirty-nine rounds of negotiations were held) towards an Association Agreement between the EU and MERCOSUR has resulted in at least three negotiation stages influenced by different factors, some exogenous and others specific to the internal complexities of each regional bloc.

##### **4.1.1 Historical background of the inter-regional negotiations**

From a historical perspective, trade relations between the EU and MERCOSUR date back to the 1990s. Jörg Faust recalls that the first signals of inter-regional cooperation between MERCOSUR and the EU dated to only a few days after the creation of the southern bloc in 1991, when South American foreign ministers were welcomed to the EU Commission to discuss about future collaborations (as cited in Aggarwal and Fogarty, 2004, p.43). That said, in 1992 the EU and MERCOSUR signed an Inter-institutional Agreement to provide technical and institutional support for the southern cone institution building (Giordano, 2003, p.11). Concurrently, in 1995 both parties subscribed to an Interregional Cooperation Framework (EMIFCA) which foresees EU financial support and technical assistance for the creation of a common legal framework necessary for institution building in MERCOSUR and to enhance regional market integration (Börzel & Risse, 2015, p.56). The establishment of this kind of inter-regional relation, served the EU, permitting it to project its own integration model in order to reflect its power as an international actor (Sanahuja, 2007). However, it is yet to be explored which kind of power (normative or market, as discussed in previous chapters) prevailed in the trajectory with MERCOSUR.

In 1999, the EMIFCA entered into force, establishing the pillars of political dialogue and cooperation as priorities, as well as approaches in the economic sphere with a view to liberalizing trade through a negotiation process between both regions<sup>502</sup>. In other words, the EMIFCA served as a framework for the Association Agreements “*Acuerdos de Asociación*” that ultimately include all aspects of trade liberalization (including liberalization of all trade goods and services in conformity with WTO rules<sup>503</sup>) as well as forms of political dialogue and cooperation<sup>504</sup>.

Additionally, EMFICA had a deeper coverage in issues related to trade, including investment, IPR, and trade in services, among others<sup>505</sup>. The fact of being a mixed agreement required a negotiation mandate from the EU Commission. In this regard, a proposal for a negotiation mandate was presented to the EU Council, together with an impact study analyzing the possible consequences of trade liberalization with MERCOSUR (Faust, 2004, p.44). Finally, official inter-regional negotiations were launched in Madrid in 1999, under the principle of single undertaking<sup>506</sup> and the technical issues of market access and liberalization were to be discussed by a Bi-regional Negotiation Committee<sup>507</sup> (Faust, 2004, p.46), created for that purpose.

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<sup>502</sup> Acuerdo Marco Interregional de Cooperación entre la Comunidad Europea y sus Estados Miembros, por una Parte, y el Mercado Común del Sur y sus Estados Partes, por otra. See Diario oficial: DO L 112 de 29.4.1999

<sup>503</sup> As MERCOSUR and EU members are committed to WTO conformity, Article 24 of the GATT implies that a preferential agreement between both blocs should include all sectors and more than 90% of all products (Bulmer-Thomas 2001, p.1). This confirms my suspicion about the inclusion of “substantially all trade”, which was a controversy for the Andean members of the CAN. Yet at least for Uruguay it seemed to be a non-contentious issue.

<sup>504</sup> According to the EU Commission (1998), trade liberalization is part of a broader development approach aiming at sustainable development, macroeconomic stability, poverty alleviation, and the consolidation of democracy and good governance. This was the ultimate goal of negotiations with MERCOSUR. That said, the EMIFCA puts in evidence the diffusion of norms and ideas from the EU to MERCOSUR.

<sup>505</sup> Due to its coverage, EMFICA was classified as a mixed agreement, which required ratification by the European Parliament and by each member state (as it was discussed in Chapter 2). After 4 years of ratification process, EMFICA finally acquired formal status as an interregional agreement in 1999. Accordingly, the EU issued a negotiation mandate for officially starting negotiations on trade liberalization (Faust, 2004, p.44).

<sup>506</sup> It is a WTO negotiation principle claiming that every item of the negotiation is part of a whole and indivisible package and cannot be agreed separately. That is, one cannot close a negotiation if agreeing on every item in advance. In other words: “Nothing is agreed until everything is agreed”. See WTO, How the negotiations are organized? Retrieved from [https://www.wto.org/english/tratop\\_e/dda\\_e/work\\_organ\\_e.htm](https://www.wto.org/english/tratop_e/dda_e/work_organ_e.htm) accessed September 8 2021

<sup>507</sup> The Birregional Negotiation Committee is constituted by Council Members, members of the Commission’s General directorate of Commerce and Foreign Relations and the Foreign Ministers of Mercosur. It also comprises 3 technical groups dealing with: trade in goods and tariffs; services and IPR and; competition and regulated markets (see IADB, 2002, p.43). This Committee is also in charge of establishing a timetable of negotiations and creating a network of public and private stakeholders (Faust, 2004, p.59).

#### **4.1.2 MERCOSUR in inter-regionalism: continuities and discontinuities in (pure) inter-regionalism**

The literature review evoked some of the main features of inter-regionalism. Therefore, here I explore the form and dynamics of inter-regionalism between the EU and MERCOSUR as to directly answer these questions: what type of inter-regionalism was grounded between MERCOSUR and the EU? as well as the implications for MERCOSUR about this form of interaction. One should consider that the EU has prioritized inter-regionalism as the governance form to deal with its trade policy (Aggarwal & Fogarty, 2005). However, there is evidence that demonstrates some exceptions (North America), variations (EU-CAN) and continuities potential (dis) continuities in inter-regionalism (EU- MERCOSUR).

Indeed, at first glance a pure inter-regional relationship<sup>508</sup> between the EU and MERCOSUR has remained constant. As it will be discussed further, there have been several attempts on MERCOSUR's side to override bloc-to-bloc interactions, particularly from smaller members. As Barreto y Carrau argue, Uruguay has supported the idea of flexibility in the bloc's legal framework (2018, p.8). This very particular phenomenon of altering governance forms or "lateralisms", may respond to a series of factors, yet among the most relevant ones are divergences that stem from asymmetries' within MERCOSUR states<sup>509</sup>. Secondly and perhaps more noticeably, governance forms may respond to shifts in political regimes and to turns in regionalism's strategies with divergent goals<sup>510</sup>. Thirdly and most importantly, Uruguay, in its condition of smallness, has the entrenched need "to open up to the world" as was evoked persistently during fieldwork. This fact

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<sup>508</sup> For the discussion on the different types of inter-regionalism see Chapter 3.

<sup>509</sup> MERCOSUR has not advanced in its attempt to conform itself as a common market, certainly due to the very dynamic of size and economic asymmetries which has caused internal disputes. In fact, each member has different needs in terms of (domestic) market dynamics, which has resulted in the wide use of Common External Tariff (CET) exceptions to protect its national industries; for instance, the car and sugar industries are sectors excluded from the CET (Grieger, 2019). Thus these are sensitive in market access negotiations with the EU. The persistence of these economic asymmetries facilitates the understanding of the obstacles to inter-regional negotiations.

<sup>510</sup> These differences are due to different contexts, as Sanahuja argues, back in the nineties MERCOSUR was created as an instrument for globalization, and therefore based on open regionalism. Yet today we are facing a crisis of globalization. So the scenario that enabled MERCOSUR's convergence is not viable anymore. Thus, each member is looking for a different governance form, including bilateralism. See Universidad de la República, "Simposio virtual «30 años del Mercosur. Trayectorias, flexibilización e inter-regionalismo» - (7, 8 and 9 September 2021) in <https://www.youtube.com/watch?v=rm3J9IC6rXs>



could explain Uruguay's capacity of agency in attempting to disrupt the inter-regional trajectory with the EU.

Certainly, an eventual failure to conclude the agreement with the EU would imply a setback to pure-inter-regionalism and Uruguay could seize this opportunity to pursue negotiations bilaterally with China or with other developed countries<sup>511</sup>. In the strict sense, MERCOSUR's Decision 32/00 recommends its members states "to jointly negotiate agreements of a commercial nature with third countries or blocs"<sup>512</sup>. Yet on several occasions during Tabaré Vasquez' last administration (2015-2020), Uruguay had already attempted to bypass this decision. In fact, a legal report prepared by the Uruguayan government argues that, "*from a legal point of view, the decision does not constitute the slightest limitation, which became a self-imposition that curtails Uruguayan sovereignty in its handling of commercial policy in pursuit of a customs union that does not exist.*"<sup>513</sup>

Finally, the report by the Uruguayan government upholds that Decision 32/00 is merely declarative. Hence, it was neither incorporated into the legal system of MERCOSUR nor had it entered into force. The argument underlying this statement is that MERCOSUR does not deal with trade policy on a common basis nor is it a customs union. Therefore, it is not obliged to systematically negotiate as a bloc. That said, Uruguay was able to subscribe to agreements with Chile<sup>514</sup> (2016) and Mexico (2003) outside the bloc<sup>515</sup>.

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<sup>511</sup> According to Oviedo (2020), Uruguay's motivations for signing a FTA with China match with the Asian country's global free trade policy, while enabling the removal of MERCOSUR's protectionist barriers (p.201). Moreover, some voices have claimed that extending commercial relations is absolutely necessary for Uruguay (Fieldwork carnet, various notes).

<sup>512</sup> In order to preserve its project, "members may not sign new preferential agreements or agree to new trade preferences in agreements in force within the framework of ALADI, which have not been negotiated by MERCOSUR. See MERCOSUR/CMC/DEC N° 32/00 – "Relanzamiento del Mercosur - Relacionamiento externo" Retrieved from <http://www.sice.oas.org/trade/mrcsrs/decisions/dec3200s.asp> accessed October 8 2021

<sup>513</sup> See El Observador (2018, March 3), "Gobierno concluyó que puede negociar por fuera del Mercosur" Retrieved from <https://www.elobservador.com.uy/nota/gobierno-concluyo-que-puede-negociar-por-fuera-del-mercosur-201833500> accessed October 8 2021

<sup>514</sup> In fact, this agreement will coexist with other instruments already signed between both countries, such as the "Acuerdo de Complementación Económica" (ACE No. 35, Chile-MERCOSUR) within the Latin American Integration Association (ALADI).

<sup>515</sup> See Natalevich, M. (2018, March 3). Gobierno concluyó que puede negociar por fuera del Mercosur. Retrieved from <https://www.elobservador.com.uy/nota/gobierno-concluyo-que-puede-negociar-por-fuera-del-mercosur-201833500> accessed October 8 2021

Once we have discussed the dynamics of the EU-Mercosur inter-regionalism, we can get deep into the FTA negotiation process. It is possible to identify at least three phases during the 20 years of negotiations to subscribe to this agreement. Each of these stages have been characterized by a rupture, as will be discussed in the next sections.

#### **4.1.3 First phase of inter-regional negotiations 2000-2004: an excess of enthusiasm and the agricultural divide**

Based on the Interregional Framework Cooperation Agreement, inter-regional negotiations started in November 1999, once MERCOSUR and EU delegations had issued a document detailing the negotiations' structure, methodology, and calendar (Giordano, 2003, p.11). Subsequently, in 2000 the first round of negotiation was held in Buenos Aires. In this first phase, the parties agreed on selected issues pertaining to the political and cooperation dialogue, but also exchanged preliminary information on tariff and non-tariffs barriers (Giordano, 2003, p.11). All this was to be negotiated under two principles: reciprocity between partners, as well as the single undertaking principle (Molle, 2008).

As trade talks advanced, by July 2001 parties had started to exchange texts for negotiating goods, services, and government procurement. Thus, market access negotiations had effectively started. That said, during the first year of negotiations, several advances were made in terms of tariff negotiations; however, disagreements arose in the agricultural sector (Giordano, 2003, p.11). It is noteworthy that the South American bloc sought the elimination of all barriers to agricultural trade, particularly non-tariff trade barriers including distortions derived from export subsidies, as well as restrictions created by Technical Barriers to Trade (OTC)<sup>516</sup> and Sanitary and Phytosanitary Measures (SPS)<sup>517</sup>. Likewise, dissensions over the issue of asymmetries or differences in

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<sup>516</sup> The WTO recognizes the right of its members to apply measures to reach legitimate policy objectives, such as the protection of human health and safety, or the protection of the environment. These are typically included and negotiated in bilateral FTAs under the rules of the WTO. See The Agreement on Technical Barriers to Trade (TBT) [https://www.wto.org/english/tratop\\_e/tbt\\_e/tbt\\_e.htm](https://www.wto.org/english/tratop_e/tbt_e/tbt_e.htm) accessed September 13 2021

<sup>517</sup> The Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures sets out the basic rules for food safety and animal and plant health standards. It also allows countries to set their own regulations, provided that they are based on science and they should be applied only to the extent necessary to protect human, animal or plant life or health, otherwise they can be considered as unjustified protectionism. See [https://www.wto.org/english/tratop\\_e/sps\\_e/spsund\\_e.htm](https://www.wto.org/english/tratop_e/sps_e/spsund_e.htm) accessed September 13 2021.

development between the two blocs was becoming apparent, MERCOSUR had requested SDT. These issues constituted red lines for the southern bloc (Makuc, Duhalde & Rozemberg, 2015, p.10).

Another economic obstacle that inhibited negotiations was the EU's reaffirmation to make the agreement's scope compatible with the WTO provisions. That is, covering 90% of historical trade, which according to Article XXIV of the GATT applies to "substantially all trade". In fact, for the EU it was possible to reach that 90% without compromising the liberalization of sensitive products<sup>518</sup>, whereas MERCOSUR had more sensitivities and thus had more interest in excluding products from tariff liberalization (Makuc, Duhalde & Rozemberg, 2015). Yet, products that the EU would exclude were of great interest for MERCOSUR (Makuc, Duhalde & Rozemberg, 2015, p.11).

Further disagreements during this first stage of negotiations occurred around possible modifications to the proposed text: while Mercosur wanted to introduce changes, the EU was much more restricted and worked with a single negotiation template which is validated in advance by member states through the EU Commission<sup>519</sup>. Differences in levels of integration between the two blocs challenged the progress of negotiations. In the same vein, the political context set the pace of the inter-regional dialogue and ultimately made it more complex.

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<sup>518</sup> According to Molle (2008), although within the WTO there is no consensus about "substantially all trade", the EU Commission has insisted in applying 90% of the value of imports from the historical period (p.104). In the case of negotiations with MERCOSUR, this percentage fits their interests, as EU imports are concentrated in more than 90% of industrial products; whereas the EU extra-zone agricultural imports are below 10% of its total imports. The unilateral definition of the EU Commission makes it possible to exclude from the offer the liberalization of sensitive products because the tariffs that protect them prevent imports or restrict them to the volumes of the tariff quotas with lower intra-quota tariffs (Molle, 2008).

<sup>519</sup> This is due to the EU's supranational bodies, which make it necessary to establish prior agreements within the EU bloc. In addition to this, given the EU Commission is the body that governs the bloc's commercial policy, they do agree on a negotiation template which is typically the one proposed and used with all other trade partners and regions. As discussed in Chapter 2, the text being a template, its core usually remains the same, while the majority of the modifications take the form of references in footnotes. This assumption comes from my own professional experience. In fact, as an analyst I explored the texts of a typical FTA, which have a pre-established structure and wording. Yet, in the United States the format differs from the European one, as the latter integrates questions of cooperation and regional integration among others.

The international political context is to be considered when addressing the advancement of inter-regional negotiations. As Valle argues (2010), during late 2001 and early 2002, the international context was unfavorable for MERCOSUR in terms of geopolitics and new priorities were introduced on the EU's agenda<sup>520</sup>, slowing down the expected progress of the process. At the regional level, there was a switch towards a social and developmental MERCOSUR<sup>521</sup>. From then on, negotiations transited to a harder stage (Valle, 2010, p.10).

It is not clear whether during this period the parties agreed to carry out a negotiation based on SDT, or to what extent it was considered later in negotiations. As will be discussed further, there was no transversal inclusion of SDT along the text, rather specific references to SDT regarding SPS<sup>522</sup>. Conversely, the various references to the principle of “non-discrimination” throughout the text<sup>523</sup> leads one to contend that negotiations were based on the same treatment and same level of commitments for both blocs.

#### **4.1.4 A prolonged stalemate (2004 – 2010)**

Between 2002 to 2005 both regions did their best efforts to exchange market access offers. At the round of negotiations in 2002 in Buenos Aires, the parties elaborated a first draft of the political dialogue and cooperation pillars, yet they did not advance in the commercial pillar (Molle, 2008, p.105). Once again, the main impasses revolved around the EU's insistence that MERCOSUR should liberalize 90% of its historical trade, whereas the southern bloc continued to reject it. In

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<sup>520</sup>The EU was focused on the enlargement of the bloc (incorporating 10 new members), which took place in May 2004. In terms of external factors, it is worth mentioning the consequences of the events of September 11, 2001 in New York and Washington and subsequently in Madrid (2004) and in London (2005). From then on, international terrorism dominated the international agenda (Valle, 2010).

<sup>521</sup> In fact, a conjunction of governments with similar projects regarding South American integration made MERCOSUR countries turn their attention to the regional level more and achieve greater proximity with Latin American countries. See María Silvia Portela de Castro, 30 años del Mercosur: ¿un sobreviviente o una posibilidad?, Opinión, Revista Nueva Sociedad, Abril 2021. Retrieved from <https://nuso.org/articulo/30-anos-del-mercosur-entre-las-posibilidades-y-la-supervivencia/> Accessed September 24 2021.

Also, starting in 2002, a new context in MERCOSUR should be considered as 3 of the member countries changed administrations: Lula da Silva in Brazil, Néstor Kirchner in Argentina, and Nicanor Duarte in Paraguay, who since the beginning of their mandates, expressed their interest in “relaunching MERCOSUR” (Valle, 2010, p.24).

<sup>522</sup> The same was observed in the EU-CAN MTA text, which confirms the fact that the EU uses a pre-determined text template for trade negotiations.

<sup>523</sup> See for example references to non-discrimination in: Title X “Trade in Goods”, Article 6: Import and Export Licensing Procedures; Article X “Regional Integration; Chapter “Technical Barriers to Trade”, Article 7: Conformity assessment procedures and accreditation.

2003, even if some improved offers were exchanged, it was clear that the EU was unwilling to liberalize agricultural trade (Molle, 2008, p. 105). In the same vein, MERCOSUR decided not to present their initial offer in government procurement (Molle, 2008, p.107) as a strategy to pursue the EU granting better access conditions for MERCOSUR's goods. Finally, a last version of market access offers was exchanged in September 2004, but a month later negotiations were officially disrupted.

Following Ghiotto and Echaide after the financial crisis of 2008, the world's exports were impacted and consequently regional blocs sought to gain access to markets; thus, the EU Commission in this case regained interest in extending bilateral trade negotiations with different blocs, including Mercosur (2020, p. 22). Rather, other voices state that the period between 2004 and 2009 is to be distinguished by a "mutual disinterest" (Sanahuja & Rodríguez, 2019, p.11) as officials tried to resume negotiations without having the political conditions to enable them (Ghiotto & Echaide, 2020).

In brief, during this first period of negotiations, the differences between the parties were due to dissonances regarding the scope of the agreement<sup>524</sup>, and to divergent economic interests (Giordano, 2003). Although both parties were aimed to access the market of goods, the EU was interested in having a "deep scope" agreement, through which it would try to warrant trade in services for its companies, as well as the possibility of entering the market of government procurement, investments and Intellectual Property rights (IPR) (Valle, 2010). In other words, the EU's interest was broader, hence its particular insistence on including the so-called Singapore issues, which transformed the agreement into a third generation one. As Makuc, Duhalde and Rozemberg (2015) sustain, the panorama of negotiations was gradually unbalanced, especially due to the disagreements on the agricultural issue which was an important factor in the interruption of negotiations.

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<sup>524</sup> As discussed in Chapters 2 and 3, the scope refers to the levels of market liberalization required for an agreement based on Article XXIV of the GATT 1947, in addition to the disciplines that the Agreement would include. According to this article, liberalization should compromise "substantially all trade", whose percentage has been subject to dissensions, as discussed above.

#### **4.1.5 Second phase of inter-regional negotiations (2010-2013): Latin America's regionalism turn and the exchange of offer's impasse**

Within this context of impasses, negotiations were interrupted, giving rise to a distance between the parties, which is partly attributed to the overturning of the so-called “post” regionalisms that took place in South America<sup>525</sup> such as post-liberal (Motta Veiga & Rios, 2007; Sanahuja, 2008) and post-hegemonic regionalism (Briceño Ruiz, 2006; Riggiozzi & Tussie, 2012). Indeed, changes and transformations in the international arena, and particularly in the regional sphere<sup>526</sup>, started to drive the parties away from their initial interest in reaching an association agreement based on trade liberalization with the EU. Thereby, other negotiations' irruptions influenced the region, the Free Trade Agreement of the Americas (FTAA) was one of the turning points.

Certainly, there was a temporal coincidence between EU-MERCOSUR and FTAA negotiations<sup>527</sup>, the latter starting in 1998. From then on, the EU had a clear interest in being present in the region and in speeding up negotiations with some Latin American partners; in fact, Mexico and Chile subscribed to agreements in 2000 and 2003 respectively with the EU (Makuc, Duhalde & Rozemberg, 2015, p.18). Yet, FTAA negotiations turned controversial and broke out due particularly to a change of some Mercosur members' negotiation position, particularly Argentina and Brazil which were followed by Venezuela, Bolivia, and later on by Ecuador and Nicaragua<sup>528</sup>.

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<sup>525</sup> The complexity of MERCOSUR has several dimensions. One of them is the fact that it is a bloc that was originated at the outset of South American open regionalism and that over the years had to adapt to the changes over time that came with the waves of regional integration. In fact, transformations of power in world politics gave rise to other types of interactions in which regional leaders took control. See Peixoto & Perrota (2018).

<sup>526</sup> According to some voices, this distancing had its origin in several factors. For instance, the opposition to negotiations of the Free Trade Agreement of the Americas (FTAA) caused during times of change in South American regionalism (with a post-commercial and post-hegemonic focus) as well as the inclination towards south-south agreements and a rapprochement of MERCOSUR bloc to CAN (Peixoto & Perrota, 2018). Similarly, with the emergence of new allies and new cooperation projects with the BRICS bloc or with China, negotiations' standstill with the EU was partially mitigated. In other words, MERCOSUR's strategy was to remain autonomous from traditional hegemonies.

<sup>527</sup> Negotiations for a FTA that included all the hemisphere (from Tierra de Fuego to Alaska, but excluding Cuba) were launched at the Summit of the Americas held in Miami in December 1994. The proposed agreement, spearheaded by the US government, sought to create a hemispheric wide free trade area. The project was abandoned due to dissensions particularly from some Latin American countries, yet for the United States the abandonment of this project represented the conjunction of diverse bilateral trade agreements (Bouzas, 2005).

<sup>528</sup> In fact, the four countries together with Cuba had formed the Bolivarian Alliance for the Peoples of our America (ALBA). This forum was founded on December 2004 when presidents Hugo Chavez of Venezuela and Fidel Castro of Cuba signed protocols bringing the agreement into existence. The ALBA itself can be seen as the FTAA's antithesis given how it defines itself in direct opposition the free trade ideology which underlies agreements such as the FTAA. See <https://albainfo.org/what-is-the-alba/> accessed September 17 2021.

During negotiations, these countries opposed the US' position in terms of social, culture, education, defense, security, fight against terrorism, and drug trafficking (Makuc, Duhalde & Rozemberg, 2015). Finally, as FTAA negotiations were abandoned in 2005, the US being the largest trading partner of several countries in the Latin American region, decided to launch a bilateral trade negotiation strategy (Makuc, Duhalde & Rozemberg, 2015). This was in turn a signal for the EU to secure its interests against the threat of trade diversion and a steep inclination of power towards North America.

Ultimately, within an adverse international context<sup>529</sup> but amid a more stable regional environment, in 2010, the IV EU-MERCOSUR Summit was held in Madrid<sup>530</sup>. On this occasion negotiations officially resumed<sup>531</sup>. That said, a new stage began in a two-speed scheme: on the one hand negotiations for the regulatory framework, and on the other exchange of offers (Makuc, Duhalde & Rozemberg, 2015, p.28). In a round that took place in Brussels in October 2010, matters related to trade defense, services, Technical Barriers to Trade (TBT), rules of origin, and customs cooperation were addressed. Although there was no exchange of market access offers at this time, some small progress was made in the regulatory and normative texts regarding those disciplines (Valle, 2010).

The EU proposed a substantive extension of the protection of IPR, focused on compliance of Geographical Indications (GIs). In particular, it raised the need to modify some provisions as embodied in Trade-Related Aspects of Intellectual Property Rights (TRIPS)<sup>532</sup> in relation to wines

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<sup>529</sup> Some examples that account for this are the limited progress of the WTO Doha Round and subsequent stalemate, the midst of the war on terror after the 9/11 attacks, and the aftermath of the financial crisis of 2008 among others.

<sup>530</sup> Within the joint statement of that summit, the parties declared the resumption of negotiations with a view to concluding with the Association Agreement, adding on this occasion a difference of wording. That is, referring to reaching an ambitious and "balanced" agreement. This last term was not included until then in their dialogues. Therefore one can assume that the parties were ready to negotiate on another tenor given the previous divergences on the (non) recognition of structural differences and the different levels of development between both blocks.

<sup>531</sup> However, a group of European countries opposed the reopening of the negotiations. This group, led by France, and including Poland, Ireland, Hungary, Luxembourg, Austria and Finland, sent a letter to the EU Commission rejecting the negotiations. They criticized the secrecy of the process and warned that an agreement with Mercosur would immediately lead to a 70% increase in beef imports and a 25% increase in poultry imports (Ghiotto & Echaide, 2020, p.22)

<sup>532</sup> It is the most comprehensive multilateral agreement on intellectual property. Its role is to facilitate trade in knowledge, dealing with trade disputes over IPR and enabling WTO members to achieve their national policy

(elimination of exclusions that were attempted in the agreement), and to extend the existing GIs in wines to other products. At this moment, MERCOSUR acted only as a platform to convey the EU's policy intentions (Makuc, Duhalde & Rozemberg, 2015).

During the rounds that took place between 2011 and 2012<sup>533</sup> there were no exchanges of market access offers. At this point, it seemed that the unfeasibility of complying with the commitment to present offers became a constant in the negotiation process (Makuc, Duhalde & Rozemberg, 2015). Additionally, in MERCOSUR's intraregional dynamics there were also several events that indirectly affected the course of the negotiations with the EU. In 2012, Paraguay was suspended from the group given the internal political and institutional crisis against then president, Fernando Lugo. Consequently, this small landlocked country was isolated from MERCOSUR's decisions, which in turn allowed Venezuela to finally enter the bloc as Paraguay was unable to veto its accession decision (Sanahuja & Rodríguez, 2019). Likewise, in that same year the Protocol of Accession of Bolivia to MERCOSUR was signed, without this having translated to a real adoption of the commitments with the bloc to this day.

The last round of negotiations was held in Brasilia in October 2012, where no tangible results were achieved. In fact, 2012 was considered a time of slow progress of negotiations (Ghiotto & Echaide, 2020). Accordingly, MERCOSUR's internal dynamics were also a constraint. Once the bloc was finally constituted as a common customs territory<sup>534</sup>, it could more legitimately sign an inter-regional agreement with the EU. However, this enthusiasm was quickly marked by the intra-bloc differences, particularly with a more protectionist stance by Argentina (Messerlin, 2013 as cited in Sanahuja & Rodríguez, 2019, p.13) and the willingness of Uruguay to have a two level speed of negotiations which meant advancing bilaterally (Makuc, Duhalde & Rozemberg, 2015, p.41).

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objectives. The TRIPS also frames the IP system to make it marketable in terms of innovation, technology transfer and public welfare. See [https://www.wto.org/english/tratop\\_e/trips\\_e/trips\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/trips_e.htm) accessed September 16 2021

<sup>533</sup> Rounds that took place in Brussels in July and November in Uruguay 2011; March in Brussels and October in Brasilia 2012. See INTAL, 2012. Informe MERCOSUR N° 17, Retrieved from [https://publications.iadb.org/publications/spanish/document/Informe-MERCOSUR-No-17-\(2011-2012\).pdf](https://publications.iadb.org/publications/spanish/document/Informe-MERCOSUR-No-17-(2011-2012).pdf) Accessed September 17 2021

<sup>534</sup> In fact, the bloc put in place a Customs Code in 2010, they agreed in abolishing the double collection of tariffs, to be applied gradually between 2012 and 2019 and agreed on an income system of the common external tariff (Sanahuja & Rodríguez, 2019).



By 2013, the exchange of offers that was supposed to occur was finally postponed by the EU to 2014. Yet, during that time MERCOSUR had progressed in a new proposal of its offers, while the EU reported that it had not yet defined its own<sup>535</sup>. Finally, in 2015 both parties agreed to exchange offers by the end of that year, which ended up taking place in May 2016 (Makuc, Duhalde & Rozemberg, 2015). Within this context, the EU Commission had announced the suspension as of 2014 of the commercial concessions within the framework of the GSP for countries that from then on were considered upper-middle-income countries, including Argentina, Brazil, Uruguay, and Venezuela. As will be discussed further, this announcement was exhibited as pressure towards MERCOSUR to accelerate the negotiations (Makuc, Duhalde & Rozemberg, 2015), which seemingly were not sufficient incentives to advance.

#### **4.1.6 Third phase of inter-regional negotiations (2016- 2019): Osaka’s inter-regional picture “Smile and say Cheese”! and the politization of the trade deal.**

After several years of being on standby, the negotiations between the EU and MERCOSUR resumed in 2016<sup>536</sup>. In fact, a new exchange of offers from both parties was delivered in May of

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<sup>535</sup> This is explained in part by the fact the EU was much more involved in the Transatlantic Treaty negotiations with the United States, leaving apart the priority of other blocs. The Transatlantic Trade and Investment Partnership (TTIP) sought to be a free trade agreement between the EU and the United States. It had the aim of promoting trade and multilateral economic growth. It would have been the largest bilateral trade initiative ever established, having involved the two largest economic areas in the world and a potential global reach to further agreements. In fact, in 2013 the EU Council gave the EU Commission the mandate to initiate negotiations with the US for a trade and investment agreement, so negotiations were pursued until 2018 as they were halted by former president Donald Trump, followed by this incident, in 2019, the EU Commission declared them no longer relevant. See Council of the EU Decision <https://www.consilium.europa.eu/media/39180/st06052-en19.pdf> accessed September 21, 2021.

<sup>536</sup> On the European side, two important factors that encourage negotiation are the fact that the EU's participation in MERCOSUR trade was on a downward trend (Bartesaghi, 2013, p.23) and that the European bloc has been displaced as a trading partner by US and China (ECLAC, 2012). For this reason, European interest groups demand the "reconquest" of the MERCOSUR market. In the case of MERCOSUR, an element to consider is the new impulse in South America to open regionalism-type integration projects. The ECLAC refers to open regionalism, as “a process that arises from reconciling...the interdependence resulting of special preferential agreements and the one driven by the concurrent market signals of trade liberalization. What is sought with open regionalism is that explicit integration policies are compatible with policies aimed at increasing international competitiveness, and to make them be complementary”. See CEPAL, *El regionalismo abierto en América Latina. La integración económica al servicio de la transformación productiva con equidad* (CEPAL, 1994, p.12). In a Seminar organized by the Universidad de la República, Uruguay, held on the 7, 8 and 9 of September 2021, Jose Antonio Sanahuja asserted that open regionalism and neo-liberalism should not be used irrespectively as synonym terms. In fact, “within open regionalism there is a huge space for public action. It gives rise to active policies, which is not the case in neo-liberalism”. See “Simposio

that year. It is manifest that both negotiation positions remained unchanged<sup>537</sup> and the exchange of offers continued to reflect opposition. On one side, MERCOSUR claimed that there were no improvements in the EU offer of access for agricultural products. For instance, the tariff quota of 150,000 tons per year and the annual tariff quota for beef imports of 99,000 tons, were both considered insufficient for MERCOSUR, who demanded free access (Sanahuja & Rodriguez, 2019, p.15). On the other side, the EU insisted on an increase in the coverage of the trade liberalization up to 90%, including processed dairy products and wines to enter the southern cone market (Sanahuja & Rodriguez, 2019, p. 15).

That said, MERCOSUR's interest to resume negotiations was to keep certain of its industries as competitors while granting certain protection to its sensitive industries. In other words, this bloc wanted to benefit from longer terms to open its markets in order to strengthen certain manufacturing sectors considered sensitive (Bartesaghi, 2013). However, the EU claimed that tariff reduction schedules should be of a maximum of 10 years. Differences were also expressed in the automotive sector, which is regulated through bilateral agreements, in particular between Argentina and Brazil, outside the common external tariff of MERCOSUR. In this regard, MERCOSUR requested an increase in the transition period for the import of European vehicles and auto parts to up to 15 years compared to the initial proposal of 10 years (Sanahuja & Rodriguez, 2019, p.15).

It becomes apparent that the commercial incompatibilities were not the driving forces for the subscription to the agreement. Rather, some changes that occurred subsequently in the international political economy brought the two parties closer to concluding an agreement; for instance, a broad questioning of globalization and multilateralism, a liberal turn in MERCOSUR, and Trump's election in 2016. This opened the political will to conclude negotiations<sup>538</sup>; yet further

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virtual «30 años del Mercosur. Trayectorias, flexibilización e inter-regionalismo» - Día 3, in <https://www.youtube.com/watch?v=rm3J9IC6rXs>

<sup>537</sup> See ANSA Latina (2019, June 28) “Cronología de las negociaciones UE-Mercosur”. Retrieved from [https://www.ansalatina.com/americalatina/noticia/economia/2019/06/28/cronologia-de-las-negociaciones-ue-mercosur\\_5c797d6d-16b0-4562-98ea-c2853ed7f743.html](https://www.ansalatina.com/americalatina/noticia/economia/2019/06/28/cronologia-de-las-negociaciones-ue-mercosur_5c797d6d-16b0-4562-98ea-c2853ed7f743.html) accessed September 16 2021

<sup>538</sup> The setback to multilateralism that signified the failure of the WTO Summit in Buenos Aires in December 2017, brought MERCOSUR, led by former Argentine President Mauricio Macri to hold an official visit to French President Emmanuel Macron in January 2018, aiming to reach an agreement before the G-20 meeting to take place in December 2018. However, France remained reluctant to advance negotiations without solving the main differences between the

opposition in both blocs (mainly France and Brazil) prevented the parties from finally subscribing to the deal. Notwithstanding it was not until Venezuela was suspended from the bloc in 2017<sup>539</sup> and subsequently when Jair Bolsonaro took office in Brazil in 2019, that negotiations were imbued with a new momentum. Certainly, during this last period of the negotiations, according to Ghiotto and Echaide (2020), “MERCOSUR abandoned its interest in reaching a balanced agreement” thereby, the last six months were decisive to negotiations (p. 23) which finally concluded in June 2019<sup>540</sup>. Nolte and Gomes Saraiva (2021) claim that, “the conclusion of such negotiations was due to an extraordinary favorable political constellation on both sides of the Atlantic” (p. 67).

Accordingly, as Sanahuja and Rodriguez (2019) sustain, the negotiations can be deemed as re-politicized. In other words, subscribing to the agreement had normative, political, and geopolitical implications. On one hand, the EU-MERCOSUR negotiation was considered as a political tool to defend market openness and the multilateral trade system. On the other, it defends liberal norms and values and this is a political sign to re-balance power. Negotiations are therefore seen as a European pretension to establish itself as a normative power vis-à-vis United States, and lead new coalitions in favor of the liberal order and globalization (Sanahuja & Rodriguez, 2019, pp.15-16).

Nevertheless, for the international community the event on June 29, 2019 was mostly visual, as the G20 Summit in Osaka was the occasion for both blocs’ authorities to say “*cheese to the camera*”. That said, after that announcement there has been no progress in concrete terms and neither party has sent concrete signals to ratify the deal. Echoing Caetano and Pose (2020), Ghiotto and Echaide (2020) as well as Nolte and Gomes Saraiva (2021), it is not clear in which terms this will occur as there are political tensions in both blocs that leave doubts about the future of the ratification process.

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two blocs. See Agencia EFE (2018, January 25) “Macri llega a París para entrevistarse con Macron”. Retrieved from <https://www.efe.com/efe/america/politica/macri-llega-a-paris-para-entrevistarse-con-macron/20000035-3503855> accessed September 20 2021

<sup>539</sup> Based on a decision of MERCOSUR, which states: “Considering that any breakdown of the democratic order constitutes an unacceptable obstacle to the continuity of the integration process within the framework of Article 5 of the Ushuaia Protocol”. See “Suspension de Venezuela en el Mercosur”, August 5 2017 retrieved from <https://www.mercosur.int/suspension-de-venezuela-en-el-mercosur/> accessed September 20 2021

<sup>540</sup> Parties announced the conclusion of negotiations at the G20 Summit in Osaka, Japan. MERCOSUR was represented by Argentinian and Brazilian presidents Macri and Bolsonaro (Caetano & Pose, 2020).

First and foremost, regarding the protection of the environment and the fight against climate change, the greener public opinion that has emerged in the EU rejects the forest fires in the Amazon and has mobilized opposition against the agreement and against Brazil's announced withdrawal from the Paris Agreement<sup>541</sup> (Nolte & Gomes Saraiva, 2021, p.70). The European agricultural sector will continue to oppose the deal as an increase in access quotas to their markets, particularly in beef, would affect European producers. Yet the clashes with the manufacturing sectors who support the agreement have not been solved either at the national level or at the regional one (Ghiotto & Echaide, 2020, p.19). In MERCOSUR, the opposing economic sectors (wine, cheese, and automotive industries, among others) have not managed to organize themselves as active opponents, as "it is the government that voices their opinion on the agreement" (Nolte & Gomes Saraiva, 2021, p.71), impeding politicization or a real mobilization against it as in the case of the EU.

Similarly, the reluctance of Argentina after Alberto Fernandez's election in 2019 increased the uncertainty about the future of the agreement. Since the beginning of his mandate, Fernandez has shown a rift in MERCOSUR's position regarding the deal, evoking damages to the industry and an impact to Argentinian labor<sup>542</sup>; thus supposing protection to Argentina's sensitive industries is required. Moreover, he claims in particular an enhanced recognition of the existing asymmetries between the two blocs<sup>543</sup>, which has been one of Argentina's prerogatives to conclude the agreement with the EU. Relatedly, as Nolte and Gomes Saraiva argue (2021), Brazilian President Jair Bolsonaro has not publicized against the deal with the EU, while appearing favorable to it. The authors posit that the Amazon region seems to be more of a question of strategic defense and sovereignty than a matter of environmental protection (p. 76), which outrages international public

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<sup>541</sup> After the fires in the Amazon gained international visibility in 2019, shortly after the G-20 Osaka Summit, Donald Tusk, former President of the European Council, declared that in the context of the fires in the Amazon, it is "difficult to imagine" that an agreement with MERCOSUR will be implemented. See La Nación (2019, August 24) "Para la UE, es "difícil de imaginar" un acuerdo con el Mercosur por los incendios en el Amazonas". Retrieved from: <https://www.lanacion.com.ar/politica/la-ue-considera-dificil-imaginar-acuerdo-mercosur-nid2281127>

<sup>542</sup> See Clarin (2019, June 28), "Alberto Fernández cuestionó el acuerdo entre el Mercosur y la Unión Europea: "No genera nada para festejar", retrieved from [https://www.clarin.com/politica/alberto-fernandez-cuestiono-acuerdo-mercosur-union-europea-genera-festejar\\_0\\_PNFknXoB.html](https://www.clarin.com/politica/alberto-fernandez-cuestiono-acuerdo-mercosur-union-europea-genera-festejar_0_PNFknXoB.html) accessed September 24 2021

<sup>543</sup> See La Nación, (2021, June 9), "Alberto Fernández, a Pedro Sánchez: "Todos tenemos vocación de encontrar un acuerdo UE-Mercosur" retrieved from <https://www.bilaterals.org/?alberto-fernandez-a-pedro-sanchez&lang=en> accessed September 24 2021

opinion and the EU itself. Ultimately, Paraguay has largely supported the agreement as, similar to Uruguay, they are a small market that needs to open up to the world and prefers negotiating in bloc<sup>544</sup>.

On MERCOSUR's side, a case that illustrates its paralysis towards the agreement is the bloc's 30 year celebration back in March 2021, which was full of political tensions. According to Portela de Castro (2021), this paralysis is due to the crises Latin America is experiencing, namely the effects of the COVID-19 pandemic and the divergent perspectives of the governments about regional integration projects<sup>545</sup>. At the inter-regional level, resistance of both states and communities has been more active and organized. In fact, a large alliance comprising around 400 European and South American civil society organizations named "*Stop EU-MERCOSUR*" has been mobilized against the agreement<sup>546</sup>. Their drivers gravitate from economic, social, environmental to ideological stances as Nolte and Gomes Saraiva claim (2021, p.71). Yet in the practice, France has been one of the main opponents to the MERCOSUR trade deal. It has even held cultural events campaigning against it. In Paris, at the time of writing a photography exhibition of the Amazon by Sebastião Salgado<sup>547</sup> took place (See Appendix 6). After attending this event, one could perceive a political mobilization against the agreement that depicts the direct stakeholders, community representatives of different Brazilian- Amazonian indigenous groups<sup>548</sup>. The imbrications between

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<sup>544</sup> See En Perspectiva. (2021, July 9). ¿Qué va a pasar con el Mercosur? Lo analizamos con expertos de Uruguay, Argentina, Paraguay y Brasil [Video]. YouTube. <https://www.youtube.com/watch?v=oF15SzSyPm4> Accessed July 13 2021

<sup>545</sup> See Maria Silvia Portela de Castro, 30 años del Mercosur: ¿un sobreviviente o una posibilidad?, Opinión, Revista Nueva Sociedad, Abril 2021. Retrieved from <https://nuso.org/articulo/30-anos-del-mercosur-entre-las-posibilidades-y-la-supervivencia> Accessed September 24 2021

<sup>546</sup> Petitions and statements (issued in 9 languages) have been two of the main tools this coalition has mobilized. See <https://stopeumercosur.org/> Accessed September 27 2021

<sup>547</sup> Salgado is a renowned Brazilian photographer. A typical trait of his work portrays individuals living in desperate economic circumstances. According to Lisa Hostetler, "Salgado's photography communicates a subtle understanding of social and economic situations that is seldom available in other photographers' representations of similar themes". See Handy et al. Reflections in a Glass Eye: Works from the International Center of Photography Collection, New York: Bulfinch Press in association with the International Center of Photography, 1999, p. 226. Together with his wife, Salgado runs the Instituto Terra, dedicated to environmental protection and education. In this framework, exhibitions such as Amazônia, have quite an impact mobilizing environmental causes.

<sup>548</sup> This includes Davi Kopenawa, spokesman and leader of the Yanomani community (Northern Amazon). On several occasions, including Salgado's exhibition he has expressed opposition to action taken by Bolsonaro's government in Brazil. See Democracy Now (2019, December 4), Brazilian Indigenous Leader Davi Kopenawa: "Bolsonaro is killing my people and destroying the Amazon". Retrieved from [https://www.democracynow.org/2019/12/4/yanomami\\_indigenous\\_leader\\_protecting\\_amazon](https://www.democracynow.org/2019/12/4/yanomami_indigenous_leader_protecting_amazon) Accessed September 27 2021.

government and non-state actors (artist community in this case) illustrate the politicization of the EU-Mercosur agreement.

In sum, Ghiotto and Echaide (2020) argue that what has been left in the shadows by most analysts, is the lack of transparency and democratic control in the EU-Mercosur negotiation process. My fieldwork confirmed this presupposition, as many interlocutors raised the secrecy around negotiations, that they allege was to avoid controversy and opposition<sup>549</sup>. Finally, after the official announcement in Osaka in June 2019, the agreement entered in a process of technical and legal review, which means negotiations in some issues are still in. Argentinian scholar Luciana Ghiotto has insisted on the fact that it is common to see differences in what was agreed when negotiations closed and what is actually in the text when a trade deal is subscribed course<sup>550</sup>, which means agreed texts may undergo modifications as a result of the process of legal revision<sup>551</sup>.

## **4.2 Uruguay in the EU-Mercosur inter-regional trajectory**

### **4.2.1 Assessing the agreed FTA text: implications for Uruguay**

In this sub-section, I provide a deeper reading of the EU-Mercosur FTA content, focused on the question of asymmetries between the two blocs, which was one of the main demands of Mercosur and one of the backlashes during the negotiation process. By assessing the texts, I seek to answer these questions: to what extent was Special and Differential Treatment (SDT) included in the Agreement? What are the main special measures granted to Uruguay, if any? Additionally, this sub-section will focus on the conflicting policy areas from Uruguay's perspective. In general terms and irrespective of the Uruguayan economic sectors that could be impacted negatively by the accord (the wine, cheese and dairy sectors were of particular concern), the widespread sense in

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<sup>549</sup> Fieldwork carnet, March 9 2020

<sup>550</sup> See Ghiotto's intervention during the "Simposio virtual «30 años del Mercosur. Trayectorias, flexibilización e inter-regionalismo» Universidad de la República, (7, 8 and 9 September 2021) retrieved from <https://www.youtube.com/watch?v=rm3J9IC6rXs> Accessed September 9 2021.

<sup>551</sup> See Disclaimer of the EU-Mercosur trade agreement: annex on tariff elimination schedule (2021, July 15). Retrieved from [https://trade.ec.europa.eu/doclib/docs/2021/july/tradoc\\_159728.pdf](https://trade.ec.europa.eu/doclib/docs/2021/july/tradoc_159728.pdf) accessed September 28 2021

Uruguay was in favor of the agreement<sup>552</sup>, which is the case of the various business chambers and the private sector (Ghiotto & Echaide, 2020, p. 44).

## 4.2.2 Conflicting policy areas

### 4.2.2.1 Agriculture (beef sector)

As discussed in the previous section, one of the most conflicting areas for both parties during the negotiation process was the agricultural sector. While MERCOSUR aimed for an enhanced access to the European market for its agricultural goods (beef, sugar, rice, and ethanol), the EU itself had a more protectionist stance<sup>553</sup> (Valle, 2010). This was reflected in the quota treatment applied to MERCOSUR's beef sector, whose complexity was continuously evoked during fieldwork. In fact, the agreement includes a quota of 99,000 tons of beef, to be distributed among the 4 MERCOSUR partners, with an entry fee to the EU of 7.5% except for the "Hilton quota"<sup>554</sup> which will enter without tariffs<sup>555</sup>. This is not a minor issue, as the Hilton quota volume of 6,376 TM with no tariff accounts for an annual saving of USD 15 million for Uruguay's economy<sup>556</sup> (Caetano & Pose, 2020, p.39).

According to an interlocutor who was an industry representative from the beef sector, what was agreed in terms of beef access to the European market is a "frustration" for Uruguay as it is the MERCOSUR partner "that most needs the external market". In brief, this interlocutor summarized the main motives for why Uruguay considers the agreement on beef a fiasco:

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<sup>552</sup> It should be mentioned that, a large portion of data collected about Uruguay during fieldwork, as well as the consulted press releases and official reports, all kept similar narratives with limited confrontation between stakeholders. This might reflect the appearance of a lack of opposition the agreement elicited.

<sup>553</sup> In fact, MERCOSUR will liberalize 95% of imports agri-food industries, whereas the EU will liberalize 82%. Goods such as sugar, ethanol, rice, or honey are subject to quotas to enter the European market (Sanahuja & Rodriguez, 2019).

<sup>554</sup> It is a quota that exists since 1980. It was agreed to avoid claims in the WTO. In brief, the EU grants this quota to particular countries, including Uruguay, and has definitions of the type of livestock or the type of feed that the livestock must have to meet the quota requirements. In a very ingenious way, the EU convinced the diplomats who negotiated it, restrictions that limited the supply capacity of the exporting countries (Fieldwork carnet, March 2, 2020).

<sup>555</sup> The EU Hilton quota of 67 000 tones currently allows MERCOSUR beef imports at an in-quota tariff of 20 %. The in-quota tariff would be eliminated for MERCOSUR, whereas imports from other countries (Australia, the US, and New Zealand) would continue to be subject to the 20 % tariff (Grieger, 2019, p.9).

<sup>556</sup> It is not a minor issue, also because Uruguay covers a high percentage of that quota, probably the 20%, whereas Argentina, Brazil, or Australia or New Zealand do not necessary cover it as they have better access to other markets (Fieldwork carnet, March 6, 2020).

The first [motive] was a question of quantity: back in 2004 the proposal was for 350,000 tonnes. We were all aware that this was a utopia due to consumption reduction issues. Therefore, the proposal changed to 160,000 which is much more than 99,000 tonnes (and it was always said to be without bone, which was not the case), which was the quantity agreed. It ended up being with bone, which makes it 30% less, so the real quantity granted is 76,000 tonnes. That is the first great frustration for Uruguay as we cannot export with bone; there is no market for that as buyers look for boneless beef. Secondly, it was a matter of specification [or technical measures], MERCOSUR claimed that both chilled or frozen beef should be treated in the same terms. But the EU proposed a 55% export quota of chilled beef and 45% of frozen beef. This was the second frustration for us as the frozen is worth more or less 2,500 USD less per ton...The third frustration was a tariff matter: we wanted 0% and they gave us 7.5%, which at the end is not that bad as that 7.5% is immediately accessible. What is phased is the quota, the 99,000 tonnes are distributed over 8 years, in 7 steps, with the same tariff. [In sum], those were the great frustrations for Uruguay, because as I said we use by far all the available options, so we feel we gained the least and consider the agreement is very petty in that sense...we expected much more of this negotiation”.<sup>557</sup>

Finally, the distribution of the beef quota is key for Uruguay. Thus far, this quota has not been yet distributed, which means that if the agreement is subject to a provisional clause<sup>558</sup>, Uruguay could benefit from the whole quota<sup>559</sup>.

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<sup>557</sup> Interview conducted with OM-UR-013, Industry Representative, Public and private (beef) sector interlocutor, March 6, 2020, Montevideo.

<sup>558</sup> That means the agreement could be effective for the parties that manage to ratify and make the commercial pillar enter into force in advance. A provisional application of the part of the agreement that affects community competences (its commercial pillar) is likely to happen as it only requires approval in the EU Council, the European Parliament and the four members of MERCOSUR. The majority represented by the parties in favor of the agreement (socialists and the center-right) could enable its approval in that chamber, although in the period 2019-2024, the appearance of political groups that question free trade (Greens, nationalists and Eurosceptics) could turn the approval more complex (Sanahuja & Rodriguez, 2019, p.22).

<sup>559</sup> Fieldwork carnet, March 2, 2020



Even on the issue of beef, which was the most controversial matter for Uruguay, there is a similar perception coming from the different stakeholders. Both beef representatives belonging to the public and private sectors consider the agreement as a defeat.

According to an industry representative from the beef sector, in 2015 his institution ran a campaign at the political level for the new government, the one of Tabaré Vasquez, to convince Brazil and Argentina to resume negotiations with the EU. This suggests that the influence this stakeholder played as a high-level lobbyist, representing an organized interest group with strong interests and who have been benefiting from state revenues<sup>560</sup>. In fact, the beef sector is deemed both a socio-economic representation and a political interest group in Uruguay, with a tough stance: “We have to get out of MERCOSUR’s corset and start negotiating bilaterally even if it costs us sweat and tears. We have to repeat the formula that was achieved with Mexico.”<sup>561</sup>

#### 4.2.2.2 Government procurement

The Chapter on Government Procurement enforces the principle of national treatment applied to both MERCOSUR’s and European companies. This is problematic from the point of view of small states as it can restrain development programs aiming to incentive national production and promote strategic sectors, particularly those addressed to SMEs. Yet Uruguay succeeded in excluding the family farming plans and the public procurement program for development implemented in 2008, which in fact allows the State to discriminate in favor of the national industry<sup>562</sup>; that means, privileging national suppliers<sup>563</sup>.

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<sup>560</sup> Informal discussion with an economist and Uber driver at Montevideo (March 2, 2020). Indeed, during the conversation with the Beef Processing Industry representative, he raised the fact they always accompanied the Uruguayan delegation to the rounds of negotiations with the EU, he even mentioned *being tired of flying to Brussels* (Fieldwork carnet, March 2, 2020). This illustrates their influential role and the mobilization capacities of this actor.

<sup>561</sup> Interview conducted with LI-UR-007, Exporters Representative and High-level lobbyist, Private (beef) sector, March 2, 2020, Montevideo.

<sup>562</sup> According to Ministry of Foreign Affairs report, Uruguayan public companies were excluded from this chapter. For instance, this report, sustains that the activities of the National Administration of Fuel, Alcohol and Portland (Administración Nacional de Combustible, Alcohol y Portland -ANCAP is an Uruguayan state-owned company that produces petroleum products, Portland cement and alcoholic beverages.) were excluded from the agreement and the rest of the state monopolies are protected by the Services chapter (Ghiotto & Echaide, 2019, p.8). This information is yet to be confirmed, as the published texts do not allow to do so (Ghiotto & Echaide, 2019, p.106).

<sup>563</sup> Fieldwork carnet, February 26, 2020.

Underpinning the logic of the Government Procurement Chapter is that states are providers of goods and services, thereby their markets must open to any private companies to invest in the two blocs. Nonetheless, from the EU's standpoint, the agreement would make it easier for European companies to win tenders and would prevent them from being discriminated against, making the processes "more transparent and fair" (EU Commission, 2019, p.11)<sup>564</sup>. Finally, from the stance of the Uruguayan government, the agreement would be flexible enough in some sensitive "WTO-plus" disciplines for the economic and social development of Uruguay (Caetano & Pose, 2020, p.40).

#### 4.2.2.3 Intellectual property rights (IPR)

IPR was one of the chapters that blocked the negotiation process. In fact, a briefing report by the EU Parliament reveals that the EU considers non-tariff barriers as the ones related to IPR issues which includes GIs (Grieger, 2019, p.4). Albeit, MERCOSUR maintained an offensive strategy against the European position (Ghiotto & Echaide, 2020, p.121) and the Uruguayan public opinion asserts that IPR was at least a partial triumph for MERCOSUR<sup>565</sup>. On the one hand, MERCOSUR rejected the demand of including additional patent protection other than the TRIPS, which means a refusal by MERCOSUR of a WTO plus which would signify changes in their legal frameworks such as the regime of trademarks, industrial designs, and copyrights of the south cone countries<sup>566</sup>. On the other, MERCOSUR agreed on moving towards the accession to the International Union for the Protection of New Varieties of Plants (UPOV 91) measures for the protection of plant varieties, which implies that seeds of new varieties can be re-sold without the obligation of paying the corresponding fees, which could increase the cost of inputs used for agricultural production (Caetano & Pose, 2020)<sup>567</sup>.

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<sup>564</sup> In this regard, according to Ghiotto and Echaide (2020), the Public Procurement chapter was practically proposed by the EU as at least 12 of MERCOSUR's negotiating positions were eliminated from the text published in 2019 (p. 108). Ultimately, it could be presumed that the EU had a winning position, which explains their rather positive stand towards the outcome of this chapter.

<sup>565</sup> See Uval, Natalia (2019), Acuerdo Mercosur-Unión Europea: ¿qué cambia para Uruguay?. NODAL, (2019 July 12). Retrieved from: <https://www.nodal.am/2019/07/acuerdo-mercosur-union-europea-que-cambia-para-uruguay-por-natalia-uval/> accessed September 30 2021

<sup>566</sup> See Uval, Natalia (2019), Acuerdo Mercosur-Unión Europea: ¿qué cambia para Uruguay? NODAL, (2019 July 12). Retrieved from: <https://www.nodal.am/2019/07/acuerdo-mercosur-union-europea-que-cambia-para-uruguay-por-natalia-uval/> accessed September 30 2021

<sup>567</sup> According to Caetano and Pose, Uruguay also compromised by not moving towards The Hague Convention on industrial designs (2020).

However, it is evident that within IPR, the most conflictive issue was GIs<sup>568</sup> which accordingly required a lot of tough negotiations, particularly during the last phase (Fieldwork carnet, March 9, 2020). Thus far, the EU has introduced and protected a list of 360 GIs<sup>569</sup>, while MERCOSUR protects 220 GIs. It was in the interest of MERCOSUR to protect a large number of agricultural products that they have historically produced, as the agreement will limit the production of some (Fieldwork carnet, March 9, 2020). That said, upon signature of the agreement, MERCOSUR producers cannot use for the first time the names: "gruyere", "parmesan", "manchego", and "fontina" for their cheeses, or "cognac", "champagne" and even "grapamiel" for alcoholic beverages<sup>570</sup>. In the case of Uruguay, it mainly protected wines, while a variety of cheeses were subject to harsh negotiations. The main issue at hand in the GIs was the cultural factor, as Uruguayan negotiators uphold that the production of cheese in MERCOSUR forms part of a cultural tradition that dates back to European immigration, when the traditional names of cheese started to be produced, becoming generic names (Fieldwork carnet, March 9, 2020). That is why GIs were so controversial. In any case, the GIs ban does not apply to existing company brands, known as the "grandfather clause<sup>571</sup>", which Grieger (2019) interprets as grandfathering rules to be applied to certain Mercosur products (e.g. 'parmesan' and 'gorgonzola' cheese producers) that have used these names prior to 2017 (p.10).

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<sup>568</sup> GIs are used for products that have a specific geographical origin and whose qualities, reputation and characteristics are mainly due to their place of origin. This allows producers have the exclusive right to use the indication, which prevents a third party from using it if their product does not meet the origin standards. See [https://www.wto.org/english/tratop\\_e/trips\\_e/gi\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/gi_e.htm) accessed October 5 2021

<sup>569</sup> Compared to other agreements in the Latin American region, the EU protected more with MERCOSUR than with other partners. For instance, in the FTA EU-Mexico, Europeans included 340 GIs, while with CAN the list included around 200 GIs. Yet, Sanahuja and Rodriguez (2019) claim the EU- Mercosur agreement includes the highest number of GIs of all EU trade agreements (p.19).

<sup>570</sup> See Uval, Natalia (2019), Acuerdo Mercosur-Unión Europea: ¿qué cambia para Uruguay?. NODAL, (2019 July 12). Retrieved from: <https://www.nodal.am/2019/07/acuerdo-mercotur-union-europea-que-cambia-para-uruguay-por-natalia-uval/> accessed September 30 2021

<sup>571</sup> The Protocol of Provisional Application of the GATT gave rise to the grandfather rights, which allowed parties to continue to apply pre-existing legislation that was incompatible with the bulk of the GATT rules. See Provisional Protocol, supra note 15, at art. I(b) Retrieved from [https://www.wto.org/english/res\\_e/booksp\\_e/gatt\\_ai\\_e/prov\\_appl\\_gen\\_agree\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/gatt_ai_e/prov_appl_gen_agree_e.pdf) accessed October 4 2021

Along the same lines, the text grants the possibility of excluding products<sup>572</sup>. For instance, “mozzarella” cheese was excluded from the agreement (the European product will not have a preferential tariff to enter MERCOSUR). In fact, the Uruguayan Chief negotiator argued that mozzarella, even if it was a type of cheese, is a generic name, for which protection is addressed to “mozzarella di bufala” written in Italian (Ghiotto & Echaide, 2020, p.120), while Uruguay commercializes this product under “muzzarela” (Fieldwork carnet, March 9, 2020). IPR negotiators claimed this was a victory for Uruguay. As small state it had exerted bargaining power within a conflictive policy area such as IPR.

#### 4.2.2.4 Market access and special safeguards

Inasmuch as one of the conflictive issues was the scope of liberalization, some voices assert that MERCOSUR was granted SDT as longer periods of liberalization were contemplated. In fact, MERCOSUR will liberalize 72% of trade, while the EU will do so with 92% of trade. 70% of the EU tariffs will be eliminated immediately, whereas the 30% left will be liberalized in periods of 3, 7, and 10 years (Ministerio de Relaciones Exteriores, Uruguay).

Considering that trade liberalization can cause damage<sup>573</sup> to sensitive sectors (insofar they are protected by longer periods for reducing tariffs), trade agreements typically foresee safeguard clauses. According to Article XIX of the GATT, measures can be implemented to sectors that are exposed to damage derived from an increase of imports, resulting from trade preferences<sup>574</sup>. The EU-MERCOSUR agreement recognized a bilateral safeguard measure, applicable for two years, with the possibility of extending it for another equal period and taken up to the first 12 years after the entry into force (see text of the Agreement). That said, if the measure is applied by the EU,

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<sup>572</sup> Parties agreed on two levels of protection: with a “specific level of protection” and “with full protection”, although with some exceptions. The second one includes the list of products that can no longer be used as generic names, in both the EU and Mercosur, without any exception (Ghiotto & Echaide, 2020, p.121).

<sup>573</sup> This should be based on the demonstration of an objective and quantifiable basis that the injury (or threat of injury) is being generated and that there is a causal relationship between the importation of the product in question and severe injury or threat of harm. See Trade part of the EU-Mercosur Association Agreement Without Prejudice. Chapter regarding sanitary and phytosanitary measures. Article 19. 28 June 2019. Available at [https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc\\_158158.%20Trade%20Defense%20-%20Bilateral%20Safeguards.pdf](https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_158158.%20Trade%20Defense%20-%20Bilateral%20Safeguards.pdf) accessed October 6 2021.

<sup>574</sup> See [https://www.wto.org/english/tratop\\_e/safeg\\_e/safeg\\_e.htm](https://www.wto.org/english/tratop_e/safeg_e/safeg_e.htm) accessed October 6 2021.

Paraguay will be exempted from its application. Ultimately, Uruguay did not receive any preferential treatment regarding the application of safeguard measures.

#### **4.2.3 Special and differential treatment (SDT)**

It should be noted that, one of the founding principles of the multilateral system of trade non-discrimination, has guided the EU-MERCOSUR negotiations. In other words, a state of reciprocity among its members would undermine the recognition of development differences in the framework of agreements signed on the basis of Article XXIV of the GATT; therefore, the application of SDT across chapters would be contrary to the GATT's provisions. In the same fashion, the EU insisted in not applying it along Chapters 1-24 of the agreement, alleging that MERCOSUR is an agricultural power<sup>575</sup>. This explains why there is no mention of a SDT as an overarching principle to the entire agreement that would have benefited Mercosur as a relatively less developed partner. Nonetheless, there are some indications that shed light upon the implementation of a preferential treatment only to the least developed party, namely Paraguay. The following are some examples:

By appraising Article 19 of the Chapter on Sanitary and Phytosanitary Measures (SPS), there are some provisions that grant a special treatment to Paraguay. For example, Paraguay can make consultations with the EU, if having identified difficulties with a proposed measure by an EU member, so the parties can agree on alternative import conditions, technical assistance, or a transitional period of 6 months to apply the proposed measures<sup>576</sup>.

Similarly, in Chapter I, the Title on Trade in Goods, Article 3, there is the possibility of granting a two-year period in which the EU would not increase tariffs on goods originating in Paraguay. Chapter II: Non-tariff measures, Article 5: Fees and Other Charges on Imports and Exports,

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<sup>575</sup> See Frydman, Felipe (2018), "Unión Europea-Mercosur: un acuerdo a medias", INFOBAE (2018, February 8), Retrieved from <https://www.infobae.com/opinion/2018/02/08/union-europea-mercursos-un-acuerdo-a-medias/> accessed September 30 2021

<sup>576</sup> It also states that the transitional period could be extended on an exceptional basis for another period of no longer than 6 months. See EU-Mercosur Association Agreement Without Prejudice. Chapter regarding sanitary and phytosanitary measures. Article 19. 28 June 2019. Available at [https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc\\_158155.%20Sanitary%20and%20Phytosanitary%20Measure%20s.pdf](https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_158155.%20Sanitary%20and%20Phytosanitary%20Measure%20s.pdf) October 6 2021

paragraph 3 grants Paraguay with a 10-year (instead of 3 granted to the rest of parties) transitional period after the entry into force of this Agreement.

According to Caetano and Pose (2020), in line with SDT provisions, MERCOSUR managed to preserve some preferential measures, for instance the use of temporary admission<sup>577</sup> and drawback mechanisms<sup>578</sup> which are particularly useful instruments for small states (p.41). In contrast, some fieldwork discussions sustain that SDT remains as a politically correct declaration.

One decision-maker from the public sector asserted, “In my 20-year experience working in commercial negotiations, SDT does not exist. It is about geopolitical power; the only one that gets this power is Brazil because of being bigger ...Perhaps if you analyze the texts, you can see there are some considerations. But those are due to what I was telling you before, in terms of market. What Uruguay gives does not matter, so I can let them have a monopoly in telecommunications; what is really at stake is the Brazilian market...as negotiations are plain and simply mercantile.”<sup>579</sup>

In the same fashion, another interviewee, who was an industry association representative from the private sector, maintained that there was no SDT, stated, “... rather what prevailed was rationality. Yet in terms of IPR, GI and rules of origin, I do not think there was SDT...although being able to use Muzzarella (for cheese production) could be read as SDT granted for Uruguay...but it is not clear to me and I do not dare to say there was SDT [as a whole]”.<sup>580</sup>

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<sup>577</sup> The published text of the FTA defines temporary admission as the “customs procedure under which certain goods (including means of transport) can be brought into a customs territory conditionally relieved, from payment of import duties and taxes and without application of import prohibitions or restrictions of economic character. Such goods must be imported for a specific purpose and must be intended for re-exportation within a specified period and without having undergone any change except normal depreciation due to the use made of them”. See Trade part of the EU-Mercosur Association Agreement Without Prejudice. Chapter regarding customs and trade facilitation. Article 20. 28 June 2019. Available at [https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc\\_158151.%20Customs%20and%20Trade%20Facilitation.pdf](https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_158151.%20Customs%20and%20Trade%20Facilitation.pdf)

<sup>578</sup> It refers to the refund by a government, in whole or part, of customs duties assessed on imported goods that are subsequently exported. It allows conditional relief from duty on imported materials and components for use in manufacture of products for export. See [https://trade.ec.europa.eu/doclib/docs/2009/april/tradoc\\_142927.pdf](https://trade.ec.europa.eu/doclib/docs/2009/april/tradoc_142927.pdf) accessed October 6 2021

<sup>579</sup> Interview conducted with NA-UR-004, Decision-maker, Public Sector, February 26, 2020, Montevideo.

<sup>580</sup> Interview conducted with RL-UR-002, Industry Association representative, Private Sector, February 2, 2020, Montevideo.

In summary, considering the fieldwork data, it is doubtful as to whether Uruguay was legitimately granted SDT as interviewees had dissonant understandings about what exactly can be considered as preferential treatment. Considering the assessment of the text, Uruguay does not benefit from SDT in the same trade disciplines that Ecuador did, primarily in SPS or safeguard measures. Ultimately, by using the same analytical lenses applied to the case of Ecuador, Uruguay was granted some preferential measures in the Government Procurement Chapter to exclude family farming plans and a public procurement program for development, which in fact allows Uruguay to discriminate in favor of their national industry. Yet they did not get SDT in terms of market access, which was one of its main interests, suggesting that bloc-to-bloc negotiation with such an asymmetrical bloc as MERCOSUR, considered as an agricultural power by the EU, could have been detrimental to Uruguay's interests.

### **4.3 External factors in the EU-MERCOSUR inter-regional trajectory**

This section will examine the external factors, whether normative (adaptation of rules), material (GSP dependence) or practical (secrecy) that could have shaped the EU-MERCOSUR inter-regional trajectory. The corollary that I intend to survey is whether there were some external factors that somewhat blurred the EU-MERCOSUR inter-regional negotiations, some of them stemming from vulnerabilities of a small state like Uruguay. In general terms, there are several external factors that seem to have shaped inter-regional negotiations with the EU, as informed during fieldwork.

#### **4.3.1 SGP graduation and the fantasy of unilateral preference regimes: unequal commercial relations between the EU and MERCOSUR**

The dynamics of commercial relations between the EU and MERCOSUR provide some insightful notions about the prospects of the inter-regional relations. In fact, the longstanding inequality in north-south commercial exchanges allows one to foresee the interdependence that results from the application of unilateral trade regimes which have the ultimate goal of subscribing to predictable trade arrangements.

Indeed, the composition of trade between the two regions denotes a typical North-South relational pattern<sup>581</sup>. That is, MERCOSUR exports primary or low value-added products, whereas the EU is concentrated in manufactured and technological goods. Historically, MERCOSUR's extra-regional exports have been mostly raw material and commodities from the agro-industrial sectors (e.g. beef, pulp, soya, and dairy products)<sup>582</sup>. Data until 2019, preceding the COVID-19 pandemic, shows that Mercosur's main exports to the EU were: foodstuffs, beverages and tobacco (21.2% of total exports); vegetable products including soya and coffee (17.4%); and meats and other animal products (6.5%)<sup>583</sup>. Conversely, the main EU exports to MERCOSUR were machinery (28.6% of total exports), transport equipment (12.7%), chemicals and pharmaceutical products (24.2%)<sup>584</sup>

A backdrop within EU-MERCOSUR commercial relations is the arrival of policy switchers. Between 2001 and 2017, China's participation in MERCOSUR's foreign trade grew from 5% to 17%. That means it changed from being a marginal partner to the second largest trading partner in 2017. This fact ousted the EU from its position in first place as an external partner of MERCOSUR (Sanahuja & Rodriguez, 2019, p.12). In the particular case of Uruguay, the EU is the second largest commercial destination for Uruguayan export goods; according to recent data 20% of Uruguayan exports go to the European market<sup>585</sup>. Yet up to today Uruguay's largest commercial destination market is China (28%), and the third one is Brazil (13%)<sup>586</sup>.

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<sup>581</sup> Due to this unequal trade structure, one could argue that the EU-MERCOSURs agreement turns out to be a hegemon-based agreement. See discussion in Chapter 3.

<sup>582</sup> See Sistema de Estadísticas de Comercio del Mercosur (2019), *Relaciones Comerciales Mercosur- Unión Europea*, Retrieved from <https://estadisticas.mercosur.int/> accessed October 7 2021

<sup>583</sup> See Sistema de Estadísticas de Comercio del Mercosur (2019), *Relaciones Comerciales Mercosur- Unión Europea*, Retrieved from <https://estadisticas.mercosur.int/> accessed October 7 2021

<sup>584</sup> See European Commission (2021), *European Union, Trade in goods with Mercosur*, Retrieved from [https://webgate.ec.europa.eu/isdb\\_results/factsheets/region/details\\_mercosur-4\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_mercosur-4_en.pdf) accessed October 7 2021

<sup>585</sup> See Ministerio de Relaciones Exteriores Uruguay (2019), "Acuerdo de Asociación Mercosur-Unión Europea: síntesis del acuerdo". Retrieved from <https://www.gub.uy/ministerio-relaciones-exteriores/sites/ministerio-relaciones-exteriores/files/inline-files/SINTESIS%20DEL%20ACUERDO%20DE%20ASOCIACION%20MERCOSUR%20Y%20UNION%20EUROPEA.pdf> accessed October 7 2021

<sup>586</sup> See Ministerio de Economía y Finanzas de Uruguay (2019), "Acuerdo Mercosur-UE". Retrieved from <https://www.gub.uy/ministerio-economia-finanzas/sites/ministerio-economia-finanzas/files/documentos/noticias/Acuerdo%20Mercosur%20UE%2028%20de%20agosto.pdf> accessed September 12 2021



Insofar as the EU remains the second destination for both MERCOSUR and Uruguay's exports, subscribing to an agreement remains a salient objective for both actors. However, its relevance has varied over the 20 years of negotiations due to the emergence of China as the first trade partner, with an increased dependency of commodity exports (Bartesaghi, 2020). Similarly, the fact that MERCOSUR members have been beneficiaries of the GSP and have therefore had unilateral preferential access to the EU market had generated particular dynamics which can be deemed as trade dependence (Heron, 2011).

MERCOSUR members no longer benefit from the GSP due to their classification as high middle-income countries, which makes them no longer eligible for the EU GSP plus<sup>587</sup>. Paraguay was the last Mercosur member to lose its beneficial status at the end of 2018 after graduating to an upper-middle income country (Grieger, 2019, p.3). In fact, the logic that lies behind the EU GSP eligibility is that countries classified as high-income or upper-middle-income, have achieved a high level of economic diversification and competitiveness and no longer require preferential treatment (UNCTAD, 2016, p.6).

According to the Uruguayan Ministry of Economy and Finance (MEF), the withdrawal of Uruguay from the list of beneficiary countries of the EU GSP as of 2014 has had a significant commercial impact. Amid the concerned sectors are citrus fruits and fisheries; in particular mandarins, concentrated orange juice, concentrates, and preparations made from fish and seafood (2013, p.13). It is precisely in these sectors that Uruguay's exports to the EU are highly concentrated (Uruguayan Ministry of Economy and Finance, 2013). In a similar fashion as the Andean region, the GSP contribution to the diversification of Uruguay's production has been far from steadfast and has probably been one of the factors that has created trade dependence, but certainly not the only one.

For instance, with the FTA, 70% of MERCOSUR's exports to the EU will benefit from immediate tariff elimination; namely fisheries, leathers, giblets, fats and edible offal of the bovine species, apples, pears, cherries and plums, legumes, nuts and raisins, mineral water, beers, spirits, flour,

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<sup>587</sup> In fact in 2014, the EU made some changes to this regime. Based on the EU Commission's Impact Assessment Study, it was concluded that some of the main beneficiaries of the GSP scheme of the EU had become competitive on a global level and that the benefits of the GSP had become less important for these countries (UNCTAD, 2016, p.6).

and soybeans. Thus far these goods pay tariffs to enter the EU market, hence many of them will recover preferences that they used to have under the GSP that expired in 2014 (Bartesaghi 2020, p.25).

In summary, given the trade data discussed in this section and despite the fact that some policy switchers that have come into play in the last decade, it could be presumed that both MERCOSUR and Uruguay have lived in the fantasy of unilateral trade preference regimes which has conditioned its economies to trade dependence. Yet the Uruguayan fantasy has to be nuanced, as one cannot consider it as political trade dependence<sup>588</sup>.

In fact, an interviewee who was a chief negotiator from the public sector provided information about the many sectors (citric fruits, fisheries, leather, as well as the clothing industry) that lost GSP preferences in 2014 and drew attention to the relative impact they had; he stated “for example fisheries, they went from exporting a lot to the EU to exporting practically anything...Another example is leather, which are sectors that went through a process of economic conversion, and looked for other markets and opportunities. And it is precisely when we negotiated this agreement, we made sure to have a rapid liberalization of tariffs so that they can put production back in Europe.”<sup>589</sup>

Another interviewee, who was also a public sector decision-maker, raised a related argument which permeates the alleged political trade dependence stance, mentioning “The (citrus and fisheries) are sectors which, even if important in our market, are small and therefore their lobbying power does not lead to change...They play a role in the economy at the level of departments of the country, but not at the national level, in the aggregate.”<sup>590</sup>

Along the same lines, there were claims about job losses, which are illustrated in the quotes below from a private sector industry association representative:

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<sup>588</sup> See discussion in Chapter 3.

<sup>589</sup> Interview conducted with AI-UR-006, Chief Negotiator and High-level decision maker, Public Sector, February 27, 2020, Montevideo.

<sup>590</sup> Interview conducted with NA-UR-004, Decision-maker, Public Sector, February 26, 2020, Montevideo.

Today the [Uruguayan] clothing industry is dead. Large industries that were historically exporters, between 30 to 50 manufacturing companies, are now closed...The [removal] of GSP partly explains it, but there are also other variables. For example, the [competition] of the Argentinian industry. The leather as well as the tannery were threatened after the loss of the GSP, these sectors sent their employees to unemployment insurance.

...About the job losses, I can tell you what is only my perception: we lost industrial jobs, knowledge labor...In some cases, [these workers] might be working in commerce, or they might have been inserted in other industries...Even if we have the pension system and unemployment insurance, it is finite in time. By law, you are covered during 6 months and in some cases, I am sure this is the case of FRIPUR<sup>591</sup> workers, may have been extended a few more months or even a year. There are numbers out that speak of 50.000 to 70.000 jobs losses in recent years. Companies such as FRIPUR or the tannery industry, which at the time employed 300 to 400 people, announced 15 days ago they were closing<sup>592</sup>.

This is presumably the main difference with Ecuador's affected sectors and thus could explain why, in the Ecuadorian case, the GSP loss reached the degree of political trade dependence. While in Uruguay, concerned sectors, even if dependent of GSP, were subject to other variables like the competition of the Argentinian industry on one hand or had experienced a transition to other economic sectors.

#### **4.3.2 MERCOSUR's internal divide**

Quite a few interviewees agreed on the fact that besides from the EU GSP loss, there were other external factors that shaped inter-regional negotiations. As in the case of the CAN, the fear of trade deviation from other trade competitors who had already subscribed to FTAs with the EU, and secondly, MERCOSUR lagging behind because of internal political disagreements. However, following Bianculli (2020), MERCOSUR's internal politicization has not negatively affected their

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<sup>591</sup> Pioneer firm in the production and export of fishery products.

<sup>592</sup> Interview conducted with RL-UR-002, Industry Association representative, Private Sector, February 21, 2020, Montevideo.

strategy of international insertion; on the contrary it has strengthened its capacities to deliver common positions as a bloc (p. 261).

This was partly confirmed during fieldwork, as one informant contended, "...the EU advances its negotiation processes with other countries. Thus our competitors achieve market access while we [MERCOSUR] remain in worse conditions. That is something that made us [MERCOSUR members] get closer [as a bloc] in order to sign [the EU] agreement"<sup>593</sup>. In the same lines, another interviewee from the public sector contended, "One factor is that all our neighbors [and competitors] have agreements. New Zealand is our big headache. This is a topic that constantly pops up [in Uruguay]"<sup>594</sup>.

Concurrently, Mercosur's politicization towards the agreement seemingly switched, as a decision-maker from the public sector sustained:

...the change of orientation, first in Argentina under Macri and the final impulse in Brazil, which the current [MERCOSUR] authorities recognize: it is false that the governments of the PT (Worker's Party) did not want the agreement. The PT governments always showed reasonable postures. The hardest positions were from Argentina, I think Itamaraty had more tradition, always with reasonable positions and the last impulse in the end was to make concessions with a more ideological stance. Brazil had to pay for certain things, but perhaps the deal could have gone without those final concessions. In other words, I believe that a commitment by [former Brazilian President] Temer and in the end Bolsonaro was in the same direction, both were for the agreement...<sup>595</sup>

In other words, continuity in Brazil and variation in Argentina<sup>596</sup> both reoriented the bloc without causing variation in the international agenda. As Bianculli (2020) sustains, there was no formal

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<sup>593</sup> Interview conducted with AA-UR-001, Exporters' Association Representative, Private sector, February 20, 2020, Montevideo.

<sup>594</sup> Interview conducted with SA-UR-005, Negotiator and Trade Officer, Public Sector, February 26, 2020, Montevideo.

<sup>595</sup> Interview conducted with NA-UR-004, Decision-maker, Public Sector, February 26, 2020, Montevideo.

<sup>596</sup> While in Paraguay and Uruguay positions remained mostly unchanged at least during the last negotiation phase (2016-2019).

contestation of asymmetric or North–South agreements mostly pursued within the new or open regionalism paradigm (p.262). That said, even within the theoretical developments on the waves of regional integration in Latin America (Dabène, 2009, 2012b) negotiations with the EU were not largely contested. In brief, MERCOSUR’s politicization did not alter the bloc’s external agenda, at least until the agreement’s subscription in 2019. Yet at a first glance the bloc’s divide that loomed at MERCOSUR’s 30 year celebration occurred in March 2021 could potentially change the course of history.

Finally, the divide was also visible due to Mercosur’s asymmetries in many aspects like size, power, interest, and preferences. It was also due to the absence of internal cohesion, produced by the economic and political crises that affected its member states. This lack of cohesion was also caused by the intergovernmental nature of its institutions (Valle, 2010, p.22). Accordingly, these factors could have downsized their bargaining power capacities to face the EU. The following quote from a negotiator and industry producers representative from the dairy sector is eloquent on this regard:

In principle, the EU negotiated with MERCOSUR [as a bloc], but when it came to-call-the-shots, at least you saw the EU talking with Brazil or Argentina ...and not so much with Uruguay...And [these negotiations] went under the table... you realized, for example they projected the text on the screen and it was not the same as I [Uruguay] had, and we said it, they played dumb. Or an e-mail that we had sent and down there was a conversation between the coordinator of Brazil and Argentina and you felt that something was being plotted...In sum, it happened that sometimes Brazil and Argentina’s positions were agreed beforehand and when we went to the meetings with Europeans we didn't know where those texts came from ... that [illustrates] a bit the dynamic we had<sup>597</sup>.

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<sup>597</sup> Interview conducted with SR-UR-014, Negotiator and Industry Producers Representative, Public (dairy) sector, March 9, 2020, Montevideo.

### 4.3.3 WTO plus and regulatory adaptation<sup>598</sup> – EU normative power?

During fieldwork I enquired if certain secondary laws would have to be modified so as to match the agreement's provisions, given Uruguay's condition of smallness. On one hand, a report prepared by the Ministry of Foreign Affairs (MFA) of Uruguay (2019) contends that there would be no such question; this was outweighed by the empirical evidence collected. In fact, the legal underlying rationale is that the agreement being a broader legal corps would necessarily modify some of the domestic secondary laws. Some interviewees provided persuasive responses. For example, regarding the IPR Chapter one public sector decision-maker stated:

Uruguay must be stricter in the application of IP and GIs at the border, which is not being done today. All this is in the agreement and Uruguay will not draw up specific regulations. that is to say that when the agreement is approved, Uruguay's customs will have to control those things and it will be possible to make a complaint regarding the use of geographical indications in trade. [Therefore], it is false and daring to say that there are no changes in the domestic regulations. There are no changes that we did not want to accept or that did not have a political majority at the time, but these agreements do change domestic regulations."<sup>599</sup>

Along the same lines, one interviewee, who was an industry association representative from the private sector, informed:

...the MFA made a report, which we have read and when we got to the chapter on IPR, there are some alarms raising. Now there have been meetings that attempt to fix things, because there are certain issues that were not completely closed...and after those meetings with the official sector, worrisome versions begin to appear. For example, if the agreement enters into force, the dairy industry located in Colonia, where there is a historic Swiss colony, which brought recipes. Well, that will not be able to be used anymore...and even

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<sup>598</sup> In line with the analysis undertaken for Ecuador's case in Chapter 3, this subsection should be understood as the extent to which the FTA is considered WTO plus and secondly, if Uruguay had to previously adapt its domestic legislation in order to close the agreement.

<sup>599</sup> Interview conducted with NA-UR-004, Decision- maker, Public Sector, February 26, 2020, Montevideo.

packing of a cheese, salami or cold cuts, cannot even have the colors of the Italian flag because it is associated with the GI. This is going to affect us...<sup>600</sup>

Accordingly, another interviewee from the academia asserted, “Surely [Uruguay] will have to make adaptations to its legislation. But that also depends on the degree of progress achieved in the Agreement’s implementation phase, without generating too much resistance. It depends a lot on that balance between the agreement details and the reaction that the public may have.”<sup>601</sup>

In other words, if the agreement is not implemented completely, there are secondary laws that will remain the same. Whereas the more deeply the deal is implemented the more that changes will be required. Echoing this last quote, the question of regulatory adaptation is linked to the secrecy issue as the government had the authority and autonomy to decide on the agreement’s subscription without involving stakeholders and non-state actors, avoiding public scrutiny and politicization. In summary, regulatory adaptation is not only conditioned to the question of smallness (in terms of lack of regulatory capacities), it is also a way for the EU to promote its normative power.

Moreover, according to Caetano and Pose (2020), the relative lack of politicization towards the EU agreement within Uruguayan political class is partly due to a perception the WTO plus disciplines included in the agreement<sup>602</sup> are less problematic for Uruguay’s developmental concerns than the MERCOSUR partners (p.35). Certainly, given Uruguay’s small market, any development strategy is critically linked to a regional project. Thereby, even the most dubious stances about free trade are urged to have a somewhat more balanced position towards an agreement that is seemingly more flexible in terms of policy space preservation for upcoming development policies.

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<sup>600</sup> Interview conducted with RL-UR-002, Industry Association representative, Private Sector, February 21, 2020, Montevideo.

<sup>601</sup> Interview conducted with LE-UR-009, Scholar, Academia, March 3, 2020, Montevideo.

<sup>602</sup> For instance, the agreement does not include an investment chapter, which implies the absence of an investor-state arbitration mechanism, which is very contested within South American pink wave political class; secondly, tariff sensibilities are less problematic for Uruguay if compared to the high sensitivities for the Argentinian and Brazilian economies (Caetano & Pose, 2020). In other words, Uruguay’s sensitive sectors were already liberalized when the country joined Mercosur back in the nineties.

#### 4.3.4 Secrecy in inter-regionalism: a way to bypass politization?

Following Alvarez and Zelicovich, trade agreements can be deemed as strategic actions with political ends (2020, p.110) and thus can become partisan tools. Based on that prerogative, the use of secrecy during the EU-MERCOSUR FTA negotiations, as contended by some interlocutors, becomes salient. In fact, in a context of a geopolitical race, trade agreements may not be motivated by real needs of the concerned domestic stakeholders but by systemic conditions, which in the EU-MERCOSUR case could have been professed by the demands of the EU Commission.

As it happens, during the last period of the EU-MERCOSUR inter-regional negotiations, secrecy about the progress of the talks was used strategically. The empirical evidence collected during fieldwork acknowledged that voices coming from diverse sectors that were opposed to the agreement did not come out with critical positions when it was signed, which can be partly explained by their unawareness of the deal's terms (Fieldwork carnet, March 3, 2020).

The following quotes depict the alleged strategic use of secrecy during EU-Mercosur negotiations.

One interviewee who was a private sector exporter's association representative contended, "A strategy of making the negotiation secret as it advanced was undertaken to avoid opposition. Even though, people in Uruguay have normalized the fact that the country needs to internationalize its markets which explains why negotiations for the agreement with the EU did not to cause much opposition."<sup>603</sup>

Another negotiator and industry producers representative from the dairy sector asserted:

...it is not the same to negotiate with Europeans than to do it among ourselves in the [Latin American Integration Association] ALADI sphere. Negotiations with the EU were publicized daily. So I think that the reservation was due to the fear that if the information leaked, it could generate disadvantages for us in the negotiation, or the idea that we were

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<sup>603</sup> Interview conducted with NA-UR-004, Exporters' Association Representative, Private Sector, February 20, 2020, Montevideo.



giving information to the EU... that is why it was decided that the Chief Negotiators were the only spokespersons...in many cases the press contacted us to ask the state of negotiations and when it was going to close. Obviously that was the journalist's interest but we could not say when it was going to close because it could happen that everything turns around the next day. So there was a lot of pressure from the press and in Europe much more was being published than what being published here.<sup>604</sup>

Similarly, one interviewee from the academia endorsed:

...it is quite strange that even with the announcement of the end of negotiations in June [2019], the tariff reduction schedules are not published, neither is the institutional part of the deal and the liberalization of services is available...I was searching about it and I talked to [some] of the negotiators, but everything is reserved. There are a lot of things that have not been published and somehow that is revealing that there is something not fully resolved...<sup>605</sup>

In the same fashion as this last quote, reservation about the state of the deal could have prompted a sense of lack of legitimacy. The lines below offer a complementary reading on this matter.

Asides from being used for political aspirations, secrecy can create other risks. Caetano and Pose point out the opacity in terms of the dissemination of the information and the general ignorance of the “fine print” of negotiations (2020, p.43). When this occurs, the society cannot appropriate the content of negotiations and this may cause a lack of legitimacy of the deal. In other words, an appropriate involvement of the direct stakeholders contributes to increasing the legitimacy (Caetano & Pose, 2020).

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<sup>604</sup> Interview conducted with SR-UR-014, Negotiator and Industry Producers Representative, Public (dairy) sector, March 9, 2020, Montevideo.

<sup>605</sup> Interview conducted with LT-UR-008, Scholar, Academia, March 3, 2020, Montevideo.

However, this also depends on the government in office willingness' to turn the deal into a legitimate tool for both the society and the stakeholders. The following remark from a trade union representative builds upon this presupposition:

So far we have had a very fluid, cordial and trustworthy relationship with the Ministry of Foreign Affairs (MFA) authorities, even with those directly responsible for the negotiation, in this case Valeria, who is considered a friend. This started with an inter-institutional interaction during a stay [round of negotiations] in Brussels and thus you build a link of another nature. So it turned to be a good relationship. But this by no way implies it is a binding relationship... Yet it was always very cordial. Whenever we asked for information, especially in the last stage, we got it. Not as much as we would have wanted, because there are many aspects of jealousy. But if I should say that of all the instances we have had with the Foreign Ministry, even Gargano's, it was good. The one that was worse was Mujica's with Almagro. Let's say it started well, but ended badly. And with Nin Novoa, he has always opened the doors for us. Yet, the MFA internal directives were very limited. In other words, we did not get the information that we would have wanted, the response that we would have expected, beyond the fact that they always opened the doors for us.<sup>606</sup>

Finally, the following quote from a negotiator from the dairy sector provides empirical support to the question of smallness and a positive outcome during negotiations:

However, a positive issue that might derive from smallness is good communication ... There was a lot of openness and trust in us, the technical negotiators, because we spent a year and a half working like crazy and very connected with each other. We had a WhatsApp group between us... the way of negotiating may be very sui generis. Perhaps in Europe the negotiators do not have a WhatsApp group. They may have other forms or they are more professional. But I consider we were like a group of friends.<sup>607</sup>

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<sup>606</sup> Interview conducted with OA-UR-011, Trade Union representative and Advisor, Public Sector, March 4, 2020, Montevideo.

<sup>607</sup> Interview conducted with SR-UR-014, Negotiator and Industry Producers Representative, Public (dairy) sector, March 9, 2020, Montevideo.

In summary, interviewees agreed on the fact that the government used secrecy to strategically advance negotiations and avoid opposition. Nonetheless, in this context more transparency in the diffusion of information is crucial, as secrecy undermines trust and legitimacy towards the agreement and reduces the possibility for actors to appropriate of the potential benefits of new regulations the deal could bring (Caetano & Pose, 2020, p.45). Yet irrespective of secrecy, personal interactions between Uruguay's negotiation staff and in general with external stakeholders was foreseeable, which is partly alluded to smallness, as a more familiar relationship was imposed among those actors.

#### **4.4 Influencing factors in the EU-MERCOSUR's inter-regional trajectory**

In this sub-section I seek to elucidate on the influencing factors that have shaped the institutionalized inter-regional trajectory between the EU and MERCOSUR. I attempt to assess how they could have encouraged configurations and made the environment conducive for inter-regional negotiations to prosper and to finally conclude with a deal, which is still to be ratified. Thereby, I contend these influencing factors were informed by two considerations: motivations and bargaining power.

On those grounds, I firstly explore the motivations a small state like Uruguay had in order to pursue negotiations with a hegemonic counterpart. In so doing, I focus on this question: what motivates small states to engage in institutionalized inter-regional trajectories? In fact, motivations can be contextual. Therefore, one should survey what drives stakeholders in terms of their political calculations and agendas.

##### **4.4.1 Motivations**

Schneider (2017) stresses the political economy framework that illustrates a leader's motivations to endorse regional integration. In other words, political leaders are led by decision-making calculus to sign agreements under the pressure of different societal groups with particular economic interests (p. 231). Concurrently, smallness is a condition that influences political choices (Vital, 1969-2006). Therefore, there are particular motivations that seem inherent to small states and determined by their political economy. In other words, their vulnerability drives them towards

market openness (Briguglio, 1995) and obliges them to reach competitiveness within open markets (Baldacchino & Bertram, 2009).

In light of these claims, according to Caetano and Pose (2020), Heron (2011), and Shadlen (2005), free trade deals, such as the EU-MERCOSUR, can limit the domestic policy space to promote development policies. This is the trade-off incurred by small states for improved market access and greater participation in international trade. In this regard, the EU agreement seems necessary for Uruguay. In the eyes of these authors the agreement is less demanding than a WTO-plus deal and thus it represents one of the less costly options for the international insertion of the country (Caetano & Pose, 2020, p.45).

When considering the political economy of integration, it is useful to assess the demand and supply, as there is a widespread sense that FTAs can produce winners and losers (Schneider, 2017). First and foremost, governments should deal with pressure from groups who expect to get benefits. As Schneider sustains, some domestic groups that favor free trade arrangements are export-oriented firms and multinational corporations (Manger 2009 as cited in Schneider, 2017, p.234). Whereas it is not clear to which sectors opponents pertain, either to the public opinion or to groups within the government<sup>608</sup>.

Yet one decision-maker brought to the table the alleged opponents to the EU-Mercosur agreement, without divulging their identities:

...I believe that in Uruguay there was a very strong political campaign against the [government] of Frente Amplio (FA) for [attempting to sign] agreements of this type. That put a lot of pressure to the pro-agreement sectors. As I participated in the second stage [of negotiations], at the domestic level, those sectors put more obstacles during this last stage.<sup>609</sup>

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<sup>608</sup> The presupposition here refers to “those groups” other than the economic sectors that face potential losses and who according to a widespread sense, have not raised voices against negotiations, due among others, to a lack of mobilization and resources (Fieldwork carnet, February 21, 2020). In fact, fieldwork demonstrated that these groups (in both of my case studies) pertain to sections of the government who themselves identified as detractors of FTAs.

<sup>609</sup> Interview conducted with NA-UR-004, Decision-maker, Public Sector, February 26, 2020, Montevideo.

In the following paragraphs, I have attempted to classify Uruguay's motivations with the aim of better understanding what lies behind inter-regional negotiations. In fact, empirical support, a product of the fieldwork, allows one to infer that among the Uruguayan political class there was a consensual approach about the motivations to pursue negotiations with the EU. In fact, the majority of the interlocutors pointed out similar views in this regard. Even with some nuances in the wording, particularly in reference to Uruguay's smallness condition, the main motivation can be summarized in one term: market access.

According to Maas (2008), small states are conditioned to the effect size has on them<sup>610</sup>. Indeed, in Uruguay there is a widespread understanding that the country must remain open to markets due to the smallness of its internal market. In other words, trade openness is related to the size of a market (Alesina & Spolaore, 2005). That said, one high-level decision-maker stated, "*Uruguay's main motivation is to access more markets, which is compatible with the country's national interest agreed at a highest level*"<sup>611</sup>.

Accordingly, an interviewee from the private sector had other persuasive responses on this regard:

Conquering new markets and conquering better access to the EU. There is no doubt about that. Here at [my institution] we try to build a favorable narrative [in that sense] because we truly believe that the way to grow is outwards<sup>612</sup>.

In the same token, a negotiator and trade officer suggested:

The motivations are quite clear. As a small state we need to open up to the world because we cannot live off the internal market. We are 3.3 million people! In fact, in regards to the

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<sup>610</sup> Yet in 2009 he published an article in which he argues that size and behavior should be treated as independent variables and therefore other categories should be introduced in this debate about smallness. See Maas (2009).

<sup>611</sup> Interview conducted with AI-UR-006, Chief Negotiator and High-level decision maker, Public Sector, February 27, 2020, Montevideo.

<sup>612</sup> Interview conducted with RL-UR-002, Industry Association representative, Private sector, February 21, 2020, Montevideo.

beef [market], as we have the highest per capita consumption rate, which makes a 70%-30%. That is, 70% is exported and 30% is consumed locally, which is nonsense because we have 12 million cows, which makes a total of 4 cows per person...that is to say that even if this government was more skeptical about FTAs, in the end a small state like us has to go out and look for partners”<sup>613</sup>.

Concurrently, Baldacchino and Bertram (2009) sustain that trade openness can render small states strong, as it obliges them to reach high competitiveness standards within open markets and can even prevent them to fall into protectionist measures (p.147). As discussed in the case of Ecuador, in Uruguay the socio-economic representations had an increased voice and mobilization in favor of trade openness, the beef sector is one example. Once more, the export-oriented economic sectors have a particular interest in market openness and are the ones determining in this case, Uruguay’s fixed preferences (Shadlen, 2008). These quotes clearly illustrate this. One industry representative from the beef sector stated, “*the motivation is Europe because it is where tariffs that are paid for our beef exports are.*”<sup>614</sup> Another interlocutor evoked, “*For the winery industry, the motivation is to increase exports while standing for quality.*”<sup>615</sup>

Akin to the arguments above, the perspective provided in the following quote from a negotiator from the dairy sector, allows one to understand the second motivation, which vindicates the question of smallness:

Uruguay as a small state cannot close itself to a group of 4 countries, where there are two big ones and due to the CET<sup>616</sup> armor we buy [to our MERCOSUR partners] as it is cheaper. Rather, within MERCOSUR we should be able to bilateralize negotiations or negotiate individually. It is also a question of reputation. Uruguay has always been a fairly open country. Yet for a small state it is better to have [a platform] like MERCOSUR which

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<sup>613</sup> Interview conducted with SA-UR-005, Negotiator and Trade Officer, Public Sector, February 26, 2020, Montevideo.

<sup>614</sup> Interview conducted with OM-UR-013, Industry Representative, Public and private (beef) sector interlocutor, March 6, 2020, Montevideo.

<sup>615</sup> Interview conducted through skype with LZO-UR-015, Negotiator and Industry Producers Representative, Public (wine) sector, April 15, 2020, Canelones- Paris.

<sup>616</sup> This stands for Common External Tariff.

gives us negotiating power. Otherwise we have a very low weight in negotiations. This seems to be contradictory [taking the bilateral path vs remaining in MERCOSUR], but it is not; as a small state we want to negotiate with China, with Korea but we can only do it through MERCOSUR because the entire bloc has [more] weight.<sup>617</sup>

Indeed, the second motivation is precisely the strengthening of MERCOSUR. The following remarks from the Exporters' Association illustrate this: “*For Uruguay it is better to have MERCOSUR as a platform to access the big markets and also to bring productive investment*”<sup>618</sup>. Two other informants endorsed the same argument.

One decision-maker mentioned, “*Revitalizing MERCOSUR as a negotiating platform with the world, that is, turning it into a strategy of open regionalism*”<sup>619</sup>.

Another chief negotiator from the public sector revealed:

I really feel that what is in the DNA of Uruguayan society is [international] insertion as a response to being able to live better, the agreement would have an impact on consumers and people see that. But regarding MERCOSUR, the dairy sector depends on Brazil (for value chains) so Uruguay cannot negotiate alone. MERCOSUR is a platform for Uruguay”<sup>620</sup>.

It should be noted that these two last quotes pertain to high-level decision makers, which to some extent could not detach themselves from the official narratives. Yet their remarks are still along the same lines as other actors, namely representatives of the private sector.

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<sup>617</sup> Interview conducted with SR-UR-014, Negotiator and Industry Producers Representative, Public (dairy) sector, March 9, 2020, Montevideo.

<sup>618</sup> Interview conducted with AA-UR-001, Exporters' Association Representative, Private sector, February 20, 2020, Montevideo.

<sup>619</sup> Interview conducted with NA-UR-004, Decision-maker, Public Sector, February 26, 2020, Montevideo.

<sup>620</sup> Interview conducted with AI-UR-006, Chief Negotiator and High-level decision maker, Public Sector, February 27, 2020, Montevideo.

This second motivation raises the dilemma between bilateralism and a regional bloc, which falls in the “*lateralisms*” debate. In terms of bargaining power, on one hand, bilateralism will typically consider asymmetries between parties, on the other, negotiation in a bloc enables the formation of coalitions to face the dominant party and this may boost smaller member’s bargaining power (Thompson & Verdier, 2014). It is evident that Uruguay’s perception stresses the same concerns, which reveals the debate on the effects of the different institutional forms makes part of the political preferences that marked MERCOSUR’s agenda.

Based on Vital (1971), Maas (2009) argues that behavior is a category that shapes influential capacities of states, while East (1973) identifies particular patterns of smallness behavior. Following the constructivist turn, it is not that much measurable smallness that determines conduct, but a further subjective understanding of small states capacities within an unequal system dominated by hegemonic powers (Gibert & Grzelczyk, 2016, p.3). That said, the third factor that motivated Uruguay to entertain inter-regional negotiations with the EU is being able to position itself as a mediator or a bridge between MERCOSUR’s two big powers in order to face the EU. The quote below depicts the perception of a high-decision maker on this matter:

...it is impossible to think that Uruguay can be a leader in the traditional concept of leadership. [Rather] I believe that Uruguay has the capacity to make everyone sit down and talk. Having moderate attitudes that make the parties get closer, being responsible, serious and always keeping attitudes open to dialogue; that is the strength of Uruguay. Uruguay is a reference state in terms of calm and stability in a shaky region. It has been the country’s historical role. That has not changed due to ideological orientation...there is no doubt about that. Uruguay is a “buffer state<sup>621</sup>” between two great powers and in order to survive it has had to learn about the interests of the big ones, and defend its positions with intelligence so that they understand and support each other. This makes part of the idiosyncrasy of an Uruguayan.”<sup>622</sup>

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<sup>621</sup> In fact, Hannerz & Gingrich (2017) refer to “buffer constellations” a phenomenon occurring when a country’s “relative smallness” emerges in relation to more than one major neighboring power whose general interests tend to differ from each other (pp. 8-9). See also Pedi (2020).

<sup>622</sup> Interview conducted with AI-UR-006, Chief Negotiator and High-level decision maker, Public Sector, February 27, 2020, Montevideo.



By the same token, a political stakeholder underlined similar issues:

...Uruguay is the main promoter of a negotiating agenda of MERCOSUR as a bloc, [at least] as of 2016. I want to emphasize on the fact that there could be different positions within the Frente Amplio (FA), but when consensus is needed, the majority prevails...I think that these issues [trade negotiations] should be depoliticized, because when you negotiate trade agreements you are negotiating interests and sovereignty.<sup>623</sup>

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<sup>623</sup> Interview conducted through skype with NO-UR-016, Medium-level officer and political stakeholder, Public Sector, May 18, 2020, Montevideo- Paris.

**Table 7. Classification of Uruguay's motivations to subscribe the FTA**

		Degree of outcome alteration (conclusion of the FTA) <sup>624</sup>		
		Low	Medium	High
Uruguay's motivation as a small-state	Low	To act as a mediator and a bridge between the two big MERCOSUR states in order to advance both Uruguay and Mercosur's interests (subjective basis)*		
	Medium		To increase its bargaining power by using MERCOSUR as a negotiating platform (Material & subjective basis)*	
	High			To increase its market access (material basis)*

Source: Author's own elaboration \*(Type of motivation)

To summarize, Uruguay's motivations are presumed to be inherent to smallness and they can exhibit political class calculations that drive them to alter their agendas, specifically to negotiate in bloc. Yet as it will be discussed in sub-section 5, at the time of writing Uruguay's behavior changed, asserting the bilateral path which demonstrates the importance of contextual backdrop and the prevalence of political calculus rather than fixed preferences. Finally, I raised the fact that Uruguay was committed to institutionalized negotiations, not only because it pursued material ends but also because it believes in its intersubjective role.

#### 4.4.2 Bargaining power

Henceforth I seek to elucidate the extent to which Uruguay's bargaining power was an influencing factor in the inter-regional trajectory with the EU, and to some extent within MERCOSUR. The underlying assumption is that a small state like Uruguay faced the leadership of bigger powers in

<sup>624</sup> In an attempt to classify motivations, I firstly emphasized the degree of outcome alteration (conclusion of the FTA) and classified them by low, medium, or high motivations according to the number of times evoked by my interviewees. Secondly, I linked it to the different motivation's nature: subjective (based on further understandings of the self) or material.

both trading blocs by exerting negotiating leverage. To do so, I explore these questions: to what extent do smaller partners have bargaining power within an institutionalized inter-regional relation? To what degree was bargaining power translated into real influence? Within my analysis, I appraise a preliminary assumption: small states exhibit their bargaining power when attaining their fixed preferences<sup>625</sup> through a strategy that enables them to exercise real influence.

In line with what has been proposed as “fixed preferences”, bargaining power can be read from the two approaches described above: the subjective (ideas, experience, common identity or further understanding of themselves) and the material (institutional and human capacities) with the aim of finding a satisfactory consensus (Odell, 2013, p.11) that allows one to advance those fixed preferences.

In order to give more sense to the collected empirical data, in Uruguay’s case I was able to classify responses into 4 viewpoints about the fact they exerted bargaining power: yes- high; yes- low; yes – conditioned; non-existent bargaining power.

**i. YES- HIGH – first view**

The following quotes reveal this first view:

A chief negotiator stated:

We had an enormous bargaining power...People do not understand what the role of Uruguay is in MERCOSUR, and not even its role with the EU. We are the only state within the 4 of MERCOSUR that has not changed its position in terms being in favor of trade agreements, which grants us great legitimacy. This means that when Uruguay raises a position, either regarding a sensitivity or an offensive interest...they believe us. So, although Uruguay’s role changed during the first stage in which we had to convince the

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<sup>625</sup> For the purposes of this chapter, we will concentrate on Uruguay’s fixed preferences (in a parallelism with motivations) which can be distinguished as material and subjective preferences. The material consists of getting market access (for its more important sectors the socio-economic representations are beef and dairy products) and increasing its bargaining power by using MERCOSUR as a negotiating platform. Whereas the subjective stands for acting as a mediator and a bridge between the two big MERCOSUR states in order to advance both Uruguay and MERCOSUR’s interests.

rest that the agreement was good and that we all had to go together. Already in a second stage, we were all together and no one had to be convinced. Uruguay has had a clear continuity in this whole process ...That means that even being the smallest country, that one could say that Uruguay's interests do not matter, it is not so much the case. This is because Uruguay has always been very consistent when it comes to defending those interests...So I always say that Uruguay's role is to build ties, bridges. Bringing people closer together, bringing countries closer, even within Mercosur.<sup>626</sup>

Another decision-maker explained:

...All the exceptions that Uruguay requested [in market access] were indeed granted. This is because Argentina and Brazil are the markets that interest the EU. So they [the EU] had no problem in solving the Uruguayan situation with a footnote. For example, the obligation to use customs brokers is eliminated. That is a footnote that does not apply to Uruguay and Paraguay. With regards to the European market access, the quotas of sensitive products were clearly paid by Argentina and Brazil, there is nothing that Uruguay can give the EU to change a beef quota size, that is, that quota was negotiated by the concessions of the big ones. So on that, the bargaining power was very limited.<sup>627</sup>

This quote can be interpreted as a high bargaining power given all the exceptions that were granted in the interest of Uruguay. Yet the sub-regional context nuances this presupposition and therefore the level of bargaining power becomes relative.

## **ii. YES- LOW –second view**

An inter-regional negotiation functions as a bargaining forum in which asymmetric forces display a disparity of resources in terms of technical and organizational capacities as well as access to information (Drahos, 2003; Heron, 2011). Nonetheless, I aim to emphasize small states' capacities

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<sup>626</sup> Interview conducted with AI-UR-006, Chief Negotiator and High-level decision maker, Public Sector, February 27, 2020, Montevideo.

<sup>627</sup> Interview conducted with NA-UR-004, Decision-maker, Public Sector, February 26, 2020, Montevideo.

to influence those relations through an innovative bargaining leverage. The following quote from a private sector industry association representative depicts this:

We had a low bargaining power, I rather believe that Uruguay's bargaining power is attributed to the talent of those who negotiated rather than to the specific weight of the country. Uruguay has little weight and I tell you this so that you can make yourself your own composition. Internally we fight for it as if it was a world war, but we are aware that we cannot always obtain everything as in an ideal scenario. We made every effort possible. When building the offer of tariff elimination schedule, each MERCOSUR state worked on their offers individually, which was helpful. Then the 4 offers were combined in one and we finally got the worst of the offers, of any of those 4 partners<sup>628</sup>.

Another trade union representative suggested:

Uruguay has always had a state policy, particularly in things like the peaceful settlement of disputes, that is something that does not change with any government. But in general, the Uruguayan Foreign Ministry [staff] is quite professionalized, beyond the government parties and it has certain premises that are [considered] state policy. I think there is a recognition, which turns convenient for Alberto Fernández to get along well with the Uruguayan Foreign Ministry and Bolsonaro, [the latter] has Itamaraty<sup>629</sup>, who are the top of diplomatic professionalization, so they are above the good and evil and that grants credibility and bargaining power<sup>630</sup>.

This second view can be read as follows: even if Uruguay's smallness' condition did not result in high bargaining power, by obtaining more exceptions or more market access (fixed preferences), what was substantive for Uruguay in the inter-regional trajectory was the professionalization of its

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<sup>628</sup> Interview conducted with RL-UR-002, Industry Association representative, Private sector, February 21, 2020, Montevideo.

<sup>629</sup> Refers to the Brazilian Foreign Service staff working for Ministry of Foreign Affairs (or Itamaraty Palace) who are known to be highly professionalized and being elected through a system of meritocracy.

<sup>630</sup> Interview conducted with OA-UR-011's colleague, Trade Union representative, Public Sector, March 4, 2020, Montevideo. As this colleague came through the place of the interview, he got interested in the conversation and introduced himself in the discussion. It was positive to have someone else's point of view on the issue at stake.

human staff, particularly its technical staff and its political continuum. This outweighs an alleged disparity of resources in terms of technical and organizational capacities within an asymmetrical inter-regional negotiation.

**iii. YES – but conditioned – third view**

In fair terms, political stakeholders and representatives from the defensive economic sectors (wine industry) consider that Uruguay did have an influential capacity, even though conditioned by the sub-regional level. The following quote from a negotiator from the wine sector is very eloquent in this regard:

I could say that it was necessary to negotiate a lot within MERCOSUR...In this sense, we must distinguish between three main themes: IG, Wine Annex, and tariffs liberalization schedule. The bargaining power was different in each of these themes. Regarding GI, Uruguay did not have to make much concessions as in 1993 we stopped using EU GIs and created our own. But regarding the terms the EU considers traditional, it took a lot of negotiation and mutual waiving. Regarding the Wine Annex, Uruguay was able to include clauses that were fundamental, such as the prohibition of the use of water...but we had to give up to some as well. Finally, regarding the Tariff liberalization schedule, there was no bargaining power, the issue directly passed through the Chief Negotiators...The sector will be impacted in the long term, so they will have to get prepared... Broadly speaking, we can say that the text issues were considered in the talks, but not the tariff liberalization schedule. The reason is that the tariff issues were not accompanied by MERCOSUR partners<sup>631</sup>.

In other words, what this interviewee from the winery sector evokes is that the gains Uruguay obtained were thanks to the fact that it was negotiated individually and not with MERCOSUR partners. In summary, Uruguay's bargaining power was conditioned to the sub-regional level.

**iv. NO- non-existent bargaining power – fourth view**

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<sup>631</sup> Interview conducted through skype with LZO-UR-015, Negotiator and Industry Producers Representative, Public (wine) sector, April 15, 2020, Canelones- Paris.

A public sector trade officer and negotiator posited:

In a nutshell, I don't think [Uruguay] had [bargaining power]. The only product in which it had was rice. They [EU] asked us, what do you want ...well, Uruguay has around 80 percent of the trade. For the rest, it was all negotiable...It is true that on the defensive part, Uruguay's position was always heard, especially in the wine sector, [our position] was reflected. It was like a stone in the shoe, because wine exports reach 8 million USD, so the National Institute of Viticulture went to all negotiation rounds, it even participated more than the National Institute of Milk. Obviously European wine imports terrify us. But the problem was not the GIs...Here we have recognized champagne for 15 years. Argentina has not recognized it. The problem is EU production is more efficient, they are subsidized. So we were afraid of cheaper wine in our market<sup>632</sup>.

An exporters representative and high-level lobbyist from the beef sector insisted:

There was no bargaining power. We are too small, that is the reality. In any case we conveyed our interests... But Uruguay has no market, it doesn't attract anyone...there is no volume to tempt us, that has limited us a lot with the Chinese. In 2018 the Chinese government already said it clearly, we are willing to sign an FTA with Uruguay. [Otherwise], they are going to erase us all from the world. We are very small, that is the truth. The only thing we can do is put will, strength and a some intelligence, nothing more<sup>633</sup>.

An industry association representative from the rice sector explained:

Our case was simple, we wanted access quotas to be increased so that we can export more. Obviously we got less than what we aspired, less than what we needed and less than what would be reasonable. But we were a bargaining chip because Europe did not have a position

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<sup>632</sup> Interview conducted with SA-UR-005, Negotiator and Trade Officer, Public Sector, February 26, 2020, Montevideo.

<sup>633</sup> Interview conducted with LI-UR-007, Exporters Representative and High-level lobbyist, Private (beef) sector, March 2, 2020, Montevideo.

against our sector, an issue with rice. They had issues with the beef, or milk, or rules of origin, but not with rice<sup>634</sup>.

A negotiator and industry producers representative from the dairy sector elaborated:

...the same happens recurrently, I mean Argentina and Brazil lead the way on many issues, mostly at the political level, which I believe comes from the fact of being big country with a spirit of greatness, which is not the same as a small state...even if there is alignment, what you do is let those who have strength to do it. Yet we are highly respected on a technical level...at the time of the meetings together, there was always a lot of respect. I was respected as much as the Chief Negotiator was... At the time of the heaviest negotiation, Brazil had its weight, and in some sectors such as dairy, Uruguay was left alone fighting for market access. In GIs we had to give up some things as we were menaced about making the agreement to fail if we did not accept and we would have been blamed, which could have weighed, politically speaking<sup>635</sup>.

The four views have each a distinctive view on the extent to which Uruguay had bargaining power within an institutionalized inter-regional relation. In summary, one could argue that the degree of bargaining power was high for Uruguay's lowest motivation (or subjective fixed preference) (see Table 7), that is for building bridges between and among actors (the EU) and defending those interests in a consistent way. Secondly, the degree of bargaining power was perceived as low but existent, due to its professionalized and skilled staff which contributed to the relatively enhanced bargaining power of MERCOSUR. Again this relies upon a subjective fixed preference. Finally, Uruguay had no bargaining power to attain its material fixed preference: market access for beef. This could have been entangled at MERCOSUR's level, as beef was not in the interest of Argentina or of Brazil. Yet conversely, MERCOSUR was to some extent a platform to enhance bargaining power in other sectors like wine.

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<sup>634</sup> Interview conducted with ALI-UR-010, Industry Association representative, Private (rice) sector, March 4, 2020, Montevideo.

<sup>635</sup> Interview conducted with SR-UR-014, Negotiator and Industry Producers Representative, Public (dairy) sector, March 9, 2020, Montevideo.



Within a larger landscape, the assessment of influential factors also includes other dimensions, such as creative agency, great-issue specific power, ideology of social partnership (Campbell & Hall, 2009; Baldacchino & Bertram, 2009; Cooper & Shaw, 2009; Keohane & Nye, 1977) that are complementary to the analysis of smallness, as they were major drivers or real influence in inter-regional negotiations as discussed in the following lines.

First and foremost, one can advocate for the salient diplomatic capacities that Uruguay exerts, which have brought forth the virtuous roles of a small state within IPE. Cooper and Shaw (2009) have named this phenomenon creative agency<sup>636</sup>. The quote below from a medium-level officer from the public sector depicts how Uruguay gravitated through this journey:

...I undoubtedly think that we have initiative and diplomatic recognition, e.g. we have a fairly important representation in the EU: in Spain, Italy, in Brussels. In other words, we have a certain trajectory at the diplomatic level that obviously paves Uruguay's way at the international level, which is a positive aspect. There are times that this can help, but not always, as during trade talks you negotiate state's interests. So it is not only because Uruguay has international recognition that agreements are going to be signed. [In any case] I think we have clout at the diplomatic level, without any doubt. Although, to affirm that we can use our international reputation to make agreements be subscribed, that is not the case"<sup>637</sup>

In other words, this political stakeholder upholds that Uruguay's diplomatic clout comes from its reputation. Yet this does not presume Uruguay has real influence or the capacity to alter an outcome.

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<sup>636</sup> They refer to the application of renewed diplomatic practices, where resilient small states become significant actors in some policy areas; in other words through demonstrations of strength and influence by some economic sectors, either through international diplomatic tactics or by contributing to one sole understanding of national interest (Cooper & Shaw, 2009).

<sup>637</sup> Interview conducted through skype with NO-UR-016, Medium-level officer and political stakeholder, Public sector, May 18, 2020, Paris- Montevideo.

On the same lines, what has presented Uruguay as a credible actor in international negotiations seems to lie in its creative agency, according to an industry representative, whose quote is quite substantial:

Historically we have had well-known international references, in spite of being a small state, we have been in positions of responsibility. In multilateral bodies such as the WTO, the Atomic Energy Agency, Uruguay has had an important presence in many areas. We have had references that have stood out in historical moments of international negotiations. In the process of creating the WTO, for example, the case of the Uruguay Round that was proposed by Julio Maria Sanguinetti...besides that, Uruguay has also had coherence, consistency and continuity in governmental policy, regardless of the party in office. I think that helps us. What does not help us is that we are very small, we are not attractive. I think that others perceive us as harmless due to our small scale, Uruguay is not an enemy, thus they don't treat us defensively, and this can be offset as an element of clout [as opposed to smallness].”<sup>638</sup>

The second dimension, ideology of social partnership, has a constructivist purview. Following Campbell and Hall (2009), it exhibits a common culture, cooperation, and strong national identity as determinants for state action based on national interest. The absence of cultural cleavages allows individuals to focus on national problems, thus having a positive effect in socio-economic performance. With regards to Uruguay in particular, some of the political internal factors that contributed to the conclusion of the FTA with the EU were the fact that industrial chambers shared with the rest of the Uruguayan business chambers, the same vision in trade matters. This vision is based on shared ideological beliefs such as the same identity as businessmen, about the role of the market, and the importance of trade openness in the organization of the economy (Caetano & Pose, 2020, p.36), whose image has been mostly embraced by the political class and the relatively cohesive Uruguayan society.

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<sup>638</sup> Interview conducted with OM-UR-013, Industry Representative, Public and private (beef) sector interlocutor, March 6, 2020, Montevideo.

In fact, the strategy of the private sector, largely represented by the Uruguayan Chamber of Industries, has been to support negotiations with the EU. As informed in a press release, they consider that there is a generalized consensus that the FTA with the EU implies a net gain in different sectors, allowing the majority of the population to access cheaper products, even if it could also generate short-term challenges to industries<sup>639</sup>. This narrative denotes that a strong identity can act as a vector to positive effects in socio-economic performance, in line with Campbell and Hall (2009), which was translated in Uruguay's enhanced common position in negotiations.

In the same fashion, some interlocutors evoked a close relationship developed between the different stakeholders and Uruguay's negotiating team, sometimes based on similar political stances, which results in a solid national identity with further positive effects in the socio-economic and political dynamics. The following quote from a trade union representative builds upon this:

...we felt we were an important actor for the Ministry of Foreign Affairs [during inter-regional negotiations], to the point that they sometimes consulted us before making a public appearance, which was not the case before...these changes respond to the internal composition of the government in office. Foreign Ministry Almagro, responded to [former] President Mujica, and Mujica responded to his political sector, which is the Popular Participation Movement (movement within the FA), a movement that does not have a very strong ideological reconfiguration. But when Nin Novoa takes office, under president Tabaré Vázquez, who comes from the socialist party and it turns out that the International Relations Secretary of our trade union is a socialist too. Thus, there is a much closer ideological link, we connect from a different place. So of course, that influences a lot...it feels like it flows differently. That said, [the ones in charge of negotiations] at the Ministry of Foreign Affairs were in constant communication with us and I would even say we

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<sup>639</sup> Isabel Chaquiriand, Chamber of Industries Directory. See La Mañana "Isabelle Chaquiriand: «El tratado UE-Mercosur obliga a la industria a reinventarse», (2020, August 20) Retrieved from <https://www.lamañana.uy/actualidad/isabelle-chaquiriand-el-tratado-ue-mercosur-obliga-a-la-industria-a-reinventarse/> accessed October 21 2021

consider each other friends, that made negotiations [for the agreement with the EU] easier.<sup>640</sup>

A negotiator and industry producer's representative from the dairy sector asserted:

...the two Chief Negotiators were brilliant people, very intelligent, very alert to things, they worked closely with us. All that was positive, which is something you do not see elsewhere. The only thing people think is how much the EU will be able to export here and nothing else. So that is why they say [the agreement] is horrible ...But yes the [negotiating team] are very capable people. And they are also good people...I mean, it is not the typical chief negotiator as I imagine is in the US that you don't even get to know that person. Here we were used to have meals together at the same table...Once we were in Asunción, Paraguay, [the weather] was horribly warm, we were all in a hotel and we were all working next to the pool having “[yerba] mate<sup>641</sup>” at 9 pm...these instances only happen to us. This is also due to the links we have. I can tell you about the people I worked with: one of them is the husband of a friend of mine, who is in the MEF [Ministry of Economy and Finance] and was a colleague of mine in college, etc...That happens a lot in Uruguay, because we are few people and few working in these issues, we see each other everywhere and I think this “Uruguayan way” worked in favor...there was a very interesting level of equity”<sup>642</sup>

An industry representative from the beef sector observed:

Uruguay has a small but skillful negotiating team. We cannot compare it with Brazil's or Argentina's in terms of capacities. We have back-office technicians who work very well...and of course [our institution] made its contributions and the negotiating team

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<sup>640</sup> Interview conducted with OA-UR-011, Trade Union representative and Advisor, Public Sector, March 4, 2020, Montevideo.

<sup>641</sup> Mate is a herbal preparation from a plant species that is brewed in hot water and is consumed during the day. It is traditionally consumed in central and southern regions of South America, primarily in Paraguay, Argentina, Uruguay, southern and central-western Brazil, the Gran Chaco of Bolivia, and southern Chile. Uruguayans in particular consume it on any occasion and it is very common to share it with colleagues, friends, partners, and others which gives a sense of closeness and friendship.

<sup>642</sup> Interview conducted with SR-UR-014, Negotiator and Industry Producer's Representative, Public (dairy) sector, March 9, 2020, Montevideo.

articulated them. We know that they reasonably defended Uruguay's interests, so we do not question their abilities, recognizing that Uruguay within the bloc itself has relative weight. I will also mention an important element which is TRUST...So I have the impression that when Uruguay speaks, they believe in us, which does not mean that what we ask is ultimately granted, because the EU conditions other things. But [once again], when Uruguay speaks others believe us.<sup>643</sup>

Ultimately, the role of shared identities and intersubjective beliefs in the formulation of trade policy preferences, can contribute to reaching material interests. That is, having an impact on the socio-economic level. As Woll (2008) sustains these intersubjectivities come from the interaction of private and public actors (government and firms), both embedded in political settings that are decisive. On these grounds, Alvarez and Zelicovich (2020) argue that inter-regionalism can foster the convergence of values (subjective fixed preference) (p.119). Indeed, after 20 years of interregional talks, the EU was one of MERCOSUR's most important external processes in terms of identity formation (Oelsner, 2013 as cited in Alvarez & Zelicovich, 2020), which was limited to Uruguay's capacity to act as a bridge within MERCOSUR, yet not in a broader convergence of common ideas, interests, and values as expected by Oelsner.

Finally, the third dimension concerns what Keohane and Nye (1977) have named great issue-specific power. They acknowledge that small states can exert clout that stems from the presence, strength and mobilization some policy domains have. In other words, at the unit level, small states can exercise influence on those issue areas (Neumann & Gstohl, 2006). In fact, these export-oriented groups or *socio-economic representations*, were engaged in negotiations to advance their interests, which can be distinguished by having the same behavior in terms of the deployment of many resources and mobilization in negotiations so as to remain open to international markets. The following remark from an industry representative depicts this sector's influential role and

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<sup>643</sup> During this discussion, I asked the interviewee if the question of trust could have impacted Uruguay's bargaining power and ultimately if trust can be attributed to smallness (as everyone knows each other and so trust is generated). They responded that they were unsure of that presupposition. Yet, trust was a value evoked quite frequently during fieldwork, as a matter pertaining particularly Uruguay from the fact they are 3 million habitants and "everyone knows each other". Therefore, this evidence suggests that there is a connection between size and particular values, yet not resulting in an increased bargaining power. Interview conducted with OM-UR-013, Industry Representative, Public and private (beef) sector interlocutor, March 6, 2020, Montevideo.

mostly their mobilization capacities: “we always accompanied the Uruguayan delegation to the rounds of negotiations with the EU. I can tell you, I was sick of flying to Brussels”<sup>644</sup>.

One negotiator and trade officer from the public sector also remarked:

...It is true that on the defensive part, Uruguay’s position was always heard, especially in the wine sector, [our position] was reflected. It was like a stone in the shoe, because wine exports reach 8 million USD, so the Wine Producers' went to all negotiation rounds, it even participated more than the Milk Producers Representative.”<sup>645</sup>

In any case, in Uruguay this last dimension was blurred at the MERCOSUR level, as the voice of these socio-economic representations standing as great issue-specific power was relatively less powerful than in the case of Ecuador. In fact, their ambitions of market access had a scarce and sketchy outcome which they considered a failure. Nor they were able to turn inter-regional negotiations into an institutional fact (as in the case of Ecuador). Nonetheless, the explanatory factors to shed light on this are not clear. Yet one can suppose that the lack of strong coalitions at the sub-regional level, that is among MERCOSUR’s industrial sectors, to undermine great issue-specific power.

In brief, Uruguay was able to exert limited bargaining power within the inter-regional negotiation due to its creative agency, namely its policy continuity and capacity to emerge as a bridge within MERCOSUR members. This is also due to one of its smallness determinants, that is an enhanced diplomatic recognition as opposed to a predetermined vulnerability. Thirdly, due to its ideology of social partnership, shared values and equitable human relationships resulted in a solid national identity based on credibility and political leverage. Yet these were not enough conditions to alter the fixed preferences and turn negotiations into an institutional fact.

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<sup>644</sup> Fieldwork carnet, March 2, 2020.

<sup>645</sup> Interview conducted with SA-UR-005, Negotiator and Trade Officer, Public Sector, February 26, 2020, Montevideo.

## 4.5 Effects and outcomes : A *cars for cows* agreement<sup>646</sup> ?

The conclusion of the EU-MERCOSUR FTA brought to the table some notions about smallness that appear useful to understand particular outcomes<sup>647</sup>. Furthermore, considering the cars and cows agreement, what could be its effects on the pending ratification process? What could be the effects in MERCOSUR and particularly in Uruguay? The responses to the last two questions are yet to be answered as at the time of writing two important events occurred: the COVID-19 pandemic regrew in the Southern Cone and particularly in Uruguay; and secondly, the COP26 outcome might shape some of the upcoming decisions in Europe regarding the complexity of a cars for cows agreement on the environmental question<sup>648</sup>. Similarly, MERCOSUR is currently transitioning to a period of instability regarding their regional project which could hamper inter-regional negotiations' outcome.

### 4.5.1 Effects

In economic terms, for the smallest members of MERCOSUR, Paraguay and Uruguay, more significant gains will be in the agricultural sector (Ghiotto & Echaide, 2020, p.44). Accordingly, Uruguay's main exports to Europe (beef, rice and honey) will be subject to a progressive elimination of tariff barriers (Ministerio de Relaciones Exteriores Uruguay, 2019) which can be considered a gain. Yet one of the latest assessment studies commanded by the EU Commission sustain that the expected impact on Uruguay's GDP would barely reach 1%<sup>649</sup>. Concurrently, considering MERCOSUR members graduated from the GSP regime and therefore entered into a

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<sup>646</sup> Particularly in Europe, the EU-MERCOSUR agreement is widely seen as a cars-for-cows exchange, as the EU pushes for access for its car producers in exchange for increased access for MERCOSUR agricultural products (Grieger, 2019; Nolte & Correa Ribeiro, 2021). In other words, this slogan designates the opposition of European stakeholders with defensive interests (agricultural: beef, ethanol, poultry and sugar), while EU automotive (manufacturers and suppliers sectors) and business sector have welcomed the agreement (Grieger, 2019). That said, the EU-MERCOSUR FTA is a trade-off between cars and cows, which, on the European side, has a heavy environmental levier. In that regard, what are the effects of this so-called cars and cows agreement on the pending ratification process? What are the effects in Mercosur and particularly in Uruguay?

<sup>647</sup> A caveat to consider is that effects and outcomes of the EU-MERCOSUR FTA might be biased by the COVID-19 pandemic, as in both the Latin American and European regions the pandemic exploded in March 2020, months after Osaka's announcement.

<sup>648</sup> This is particularly due to the controversies around Brazil's behavior towards the international climate change regime, which have resulted in an increasing European reluctance towards the ratification of the FTA with MERCOSUR.

<sup>649</sup> See LSE (2019). Sustainability Impact Assessment in Support of the Association Agreement Negotiations between the European Union and Mercosur. Draft Interim Report. Retrieved from [http://www.eumercosursia.com/uploads/4/0/7/2/40728425/final\\_in-terim\\_report\\_publication](http://www.eumercosursia.com/uploads/4/0/7/2/40728425/final_in-terim_report_publication) Accessed 1 Oct 2021

period of instability in regards to its international trade relations, the FTA, beyond its economic impact, is conducive in terms of stabilizing expectations, as market access conditions are institutionalized.

In political terms, inter-regional negotiations with the EU encountered convergences within the Uruguayan political class<sup>650</sup>. Although within the Frente Amplio (FA) there were two political forces with different perspectives about Uruguay's economic model and thus regarding FTAs. On the one hand, the agreement with the EU was considered as providing certainty about rules regarding the attraction of foreign investment as a way to foster economic development. On the other, a second force within the FA deemed the benefits of the agreement were scarce and the demands about certain disciplines related to trade (IPR, government procurement, and services) would limit the capacity of the state to formulate its own policies in favor of their own development (Caetano & Pose, 2020, p.35). Yet the opposing stances about the EU FTA did not succeed in imposing their vision. In line with the ideology of a social partnership dimension, most Uruguayan economic stakeholders acknowledge that the development strategy of the country goes hand in hand with a regional project<sup>651</sup>, given the smallness of its market (Caetano & Pose, 2020; Fieldwork carnet, February 21, 2020).

#### **4.5.2 The ratification process<sup>652</sup>: towards bilateralism?**

In terms of the inter-regional project, the possibility of MERCOSUR to take the bilateral path is one effect that cannot be neglected. In other words, a failure in the process of ratification of the agreement and therefore a disruption to pure inter-regionalism can result from the disagreement among the parties.

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<sup>650</sup>Indeed, this was not the case during FTA negotiations with the US (2006) or during the WTO plurilateral negotiations for the Trade in Services Agreement TISA (2015) (Caetano & Pose, 2020, p.34), which were abandoned due to political opposition.

<sup>651</sup> Nonetheless, its most perverse effect is that it undermines the country's policy space to undertake its own long-term development policies; this being a typical feature of the political economy of a small state.

<sup>652</sup> Given the fact the FTA is a mixed agreement affecting both the EU and member state competences, it must be ratified by each EU member, the EU Parliament, and the EU Council as well as by each parliament of the MERCOSUR members.



On one hand, the FTA with the EU is a strategic instrument to renew MERCOSUR's internal convergence and further its integration into global value chains through ambitious preferential trade deals, while being a way to support the multilateral system of trade as to face rising economic nationalism and unilateralism (Grieger, 2019, pp.2-6). On the other, this accord could erode intra-regional preferences within MERCOSUR, causing the loss of formal and well-paid jobs in industrial sectors of both MERCOSUR and Uruguay. Consequently, this could affect the bloc's productive structure and thus have a re-primarization effect (Caetano & Pose, 2020, p.41). In the same manner, there is a growing controversy about the agreement's potential impact on climate change, rights of indigenous people, the future of EU farmers, and EU food safety (Grieger, 2019, p.2), all of which are linked to the slogan *cars for cows agreement*. These opposing perspectives have weakened the integration dynamics<sup>653</sup> while creating meaningful challenges for its ratification.

As Malacalza and Tokatlian (2021) claim, exogenous shocks erode many integration processes, but they do not endanger all of them in the same manner. These authors suggest that in terms of the effects, it is necessary to make the distinction between the EU-CAN MTA (abandoned by Bolivia and Ecuador, and ultimately resumed by the latter) and the EU-MERCOSUR FTA, which has been menaced by Uruguay but so far with no real effects.

In fact, Uruguay announced on the July 8, 2021 its somehow unilateral decision to move forward with trade negotiations individually, alleging that the norms regulating relationships with third parties were never internally ratified by MERCOSUR members<sup>654</sup>. As some Uruguayan media sources have claimed, what is beyond this announcement is the “government's interpretation that Uruguay does not need the endorsement of the other partners to advance with a bilateral FTA”<sup>655</sup>.

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<sup>653</sup> In fact, a decline in intra-zone exchanges began in 2011 and was accentuated, abruptly, by the advance in demand for primary products from China which, at the same time, contributed to the acceleration of a primarization process. See Bernabé Malacalza y Juan Gabriel Tokatlian (2021, July 25). “Es posible la desintegración del Mercosur?” Retrieved from [https://www.eldiarioar.com/opinion/posible-desintegracion-mercotur\\_129\\_8162296.html](https://www.eldiarioar.com/opinion/posible-desintegracion-mercotur_129_8162296.html) November 2 2021

<sup>654</sup> “Mercosur: planteo de Uruguay generó tensión con Argentina previo a cumbre virtual de presidentes”, La Diaria, July 8 2021. <https://ladiaria.com.uy/politica/articulo/2021/7/mercotur-planteo-de-uruguay-genero-tension-con-argentina-previo-a-cumbre-virtual-de-presidentes/>

<sup>655</sup> La Diaria (2021, September 7th) “Uruguay recibió aval de China y comienza estudio de prefactibilidad de un tratado de libre comercio sin el Mercosur” Retrieved from <https://ladiaria.com.uy/politica/articulo/2021/9/uruguay->

In other words, Uruguay is mobilizing a debate that is apparently needed in MERCOSUR through an exercise of agency. On the contrary, this may hamper the ratification and eventual entry into force of the EU -Mercosur FTA<sup>656</sup>.

In brief, at best Uruguay's capacity of agency could generate a rupture of pure- inter-regionalism with the EU, at worst it could trigger Mercosur's disintegration. As Malacalza and Tokatlian (2021) argue, there are political ambivalences due to the different weight and value that each political regime grants to integration projects which can erode cohesion and lay the foundations for disintegration. In spite of this, EU-MERCOSUR relations continue to be governed by the 1995 Interregional Framework Cooperation Agreement enforced up to our days, seeking to contribute to MERCOSUR's integration process<sup>657</sup>. That said, MERCOSUR continues to face the EU in a bloc, even if the ratification process from both sides is still pending<sup>658</sup>, unlike the CAN's experience which transitioned from pure to mixed inter-regionalism.

The ratification process also brings momentum to the question of the cars and cows agreement, as depending on the incentives in each bloc, the agreement captures different meanings for its ratification. From the viewpoint that privileges material economic and commercial interests, the negotiations were concluded as an instrument for opening markets between the two blocs (Alvarez & Zelicovich, 2020, p.111). That said, if the agreement deems more markets for Uruguay, it does target its fixed preference. Yet from a strategic viewpoint, the EU-MERCOSUR FTA is a political tool, which for the EU is a matter of diffusion of norms that convey its normative power. Whereas

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[recibio-aval-de-china-y-comienzo-estudio-de-prefactibilidad-de-un-tratado-de-libre-comercio-sin-el-mercosur/](#)  
accessed September 8 2021.

<sup>656</sup>As Nolte and Correa Ribeiro (2021) argue, the overlap of different kinds of trade negotiations and the internal economic and political dynamics on each bloc, such as international economic cycles and governmental changes, could both interfere with the conclusion of the agreement, in this case the EU-MERCOSUR FTA ratification. Uruguay's project of undertaking a bilateral trade agreement with China could definitely hinder any effort to ratify the deal with Europe.

<sup>657</sup> In fact, the text of this cooperation agreement, declares that "Cooperation between the Parties shall seek to further the objectives of MERCOSUR's integration process and shall encompass all the areas of this Agreement". See Title IV Encouraging Integration, article 18 retrieved from [http://www.sice.oas.org/tpd/mer\\_eu/negotiations/Framework1995\\_e.pdf](http://www.sice.oas.org/tpd/mer_eu/negotiations/Framework1995_e.pdf) accessed October 8 2021

<sup>658</sup> Indeed, the risk of a setback in the ratification process gravitates within several EU members, due to the increasing weight of nationalist and far-right parties and the reluctance of various social sectors towards economic liberalization (Sanahuja & Rodriguez, 2019, p.22).

for Uruguay this tool could be a means to reaffirm itself as a “buffer state<sup>659</sup>” to advance the interests of the bloc.

### 4.5.3 Outcomes

So far, two main outcomes are designated from the EU-MERCOSUR inter-regional trajectory: pragmatism and strategic flexibility.

#### i. Pragmatism

As discussed in Chapter 3, according to Tavits (2007) in pragmatic issues, economy and practicality (and not values) are measured as “getting things done”. This view emphasizes on the outcomes and not on the means by which outcomes are achieved (Tavits 2007, p.154). That said, economic pragmatism designs a policy in which a state, regardless of its size, seeks to maximize economic benefits from trade or investment with a great power (Kuik, 2008, p.167). In fact, following Loda (2019), there is a clear asymmetry between small states and greater counterparts (p. 83) in which economic exchange takes place. Nonetheless, this author suggests that small states can face this unequal relationship through the use of a political rhetoric to address their counterparts, adapting this political discourse to the assumed preferences of their external audience (Loda, 2017 as cited in Loda, 2019, p.74). I therefore observe a difference between pragmatism in discourse (political- subjective) and in action (material) in both Ecuador and Uruguay.

Some evidence to support pragmatism, stemming from smallness, can be found in the following remarks. The first one is from a negotiator and Trade Officer who depicts Uruguay’s pragmatism in three foreseeable fields: in politics, in its relation with MERCOSUR and in negotiations with the EU:

One quality of a small state is pragmatism, and also of a middle-income country that aspires to develop. Pragmatism should be a banner, especially in political discussion. The day-to-

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<sup>659</sup> The definition of buffer state has been largely discussed among scholars (Buzan, & Waever, 2003; Mathisen, 1971; Menon, & Snyder, 2017 as cited in Pedi, 2020). Pedi summarizes the three defining criteria for this type of actors: i) located between two rival powers; ii) relative power having relative power in comparison to the two other states it buffers and iii) having a neutral foreign policy, one that allies. See Pedi (2020, p.2).

day is another issue...People [in Uruguay] are more about ideas...Uruguay is a very politicized country, that is to say, [Uruguayans] we talk a lot about politics, good politics. That is to say, the defense of ideas, and two main themes are politics and football. As I work close to power I was able to see it. This does not mean that we continue to be pragmatic.

Along the same lines, about political pragmatism, the same interlocutor claimed that:

I am always speaking as an economist, but politically speaking, the left in Uruguay is quite pragmatic...In our development strategy there is a general consensus that Uruguay has to go out and look for markets. Going back to the question of pragmatism, you are a small state between two giants. If you are not pragmatic, you die. Even the most ideological left [in Uruguay] is pragmatic. Well, the Frente Amplio (FA) has sectors of the more pragmatic left and others of a more ideological left. Those sectors are more likely to be against the FTA. [For example], we do not seize the opportunity to negotiate an FTA with the US and we left the Services Agreement (TISA) negotiations...<sup>660</sup>

Finally, about Uruguay's relation with MERCOSUR, a negotiator and trade officer declared:

What is true is that Uruguay is the prodigal son of MERCOSUR. Whenever something happens they come to talk to us...Uruguay's interest is to make things work, pragmatism...going back to the same issue, being a small state between two giants...and in general small states tend to be more pragmatic...You have no room for great adventures...For example, during negotiations, the dairy sector contributed to the construction of national interest, they were very pragmatic. At the end of the day we asked only for few exceptions, which if they weren't granted to us, it could have resulted in chaos. [In general terms], at MERCOSUR, Uruguay always tries to [support] trade agreements

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<sup>660</sup> Interview conducted with SA-UR-005, Negotiator and Trade Officer, Public Sector, February 26, 2020, Montevideo.

and there is a general consensus, at least at the technical level, that Uruguay has to go out to conquer more markets”<sup>661</sup>.

Moreover, a decision-maker interlocutor addressed the question of pragmatism through a very enlightening perspective:

2016 was a key moment for the agreement as we wanted to make it work, and this was Uruguay’s historical position, perhaps because of its size. In order to be *principista*<sup>662</sup> you have to be in a position of power. [For instance], Trump can be *principista*, the rest we have to be pragmatic. As I have always said, in any chapter [being negotiated], the most important thing is the content...So do not get stuck in *principismo*, rather be pragmatic”<sup>663</sup>.

Finally, a former private sector representative and scholar also claimed for pragmatism. To his eyes, Uruguay was pragmatic during negotiations and it shall maintain its pragmatism during the ratification phase, which is translated in ‘getting things done’. This suggests that small states’ pragmatism is over any political ideology.

Politically, Uruguay is recognized as having a more interesting weight at the international level and with whom one can entertain a political dialogue. That said, President Lacalle is going to play a role, because he is a young and pragmatic person with less ideological burden and together with his Chancellor, both have quite similar positions...He is probably

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<sup>661</sup> Interview conducted with SA-UR-005, Negotiator and Trade Officer, Public Sector, February 26, 2020, Montevideo.

<sup>662</sup> *Principismo* refers to the to the Uruguayan party dynamics in the last third of the 19th century, which analyses the formation of new parties promoted by the so-called "principista generation" that began its public performance in the 1870s. The "principista generation" illustrates the period during which there was a mutual acceptance of parties which undertook a co-participation in power (1872-1875). Moreover, it is considered a period during which a new generation of young people emerged from the urban and well-educated class. They rejected the project that denied the existing parties and instead proposed to purge them of their personalistic and belligerent characters in order to turn them into means of expression and ideas and programs based on peaceful contentions. This can be summarized as the struggle between the so-called doctoral and *caudillista* sectors which motivated the first experience of fractionalization of the Uruguayan political parties. In fact, Juan Antonio Oddone concluded that the principistas “sowed the seeds of institutional democracy which later generations reaped”. See Oddone, J.A. (1956), “El principismo del Setenta. Una experiencia liberal en Uruguay”. Facultad de Humanidades y Ciencias. Instituto de Investigaciones Históricas. Ensayos, Estudios y Monografías. Universidad de la República. Montevideo. pp. 195.

<sup>663</sup> Interview conducted with NA-UR-004, Decision-maker, Public Sector, February 26, 2020, Montevideo.

going to talk to Presidents Bolsonaro and Fernandez and take the middle road. So hopefully he achieves a different kind of Mercosur, a more flexible one, more open to the world, willing to negotiate<sup>664</sup>

## **ii. Strategic flexibility**

The second outcome to be discussed is strategic flexibility. This approach contends that small societies get involved in activities that provide in return increased levels of economic, political and social development (Baldacchino & Bertram, 2009). Thus far, small states' vulnerability can in turn become a strength. For example, in terms of competitiveness as market openness obliges these states to develop complementary trade policies. Uruguay's beef sector is the most prominent example. In fact, some interlocutors, from the exporter's association and a scholar, provided some notions that build upon strategic flexibility.

The exporters' association representative stated:

Uruguay exports quality. The beef sector has sophistication processes, offering better-paid jobs to people... We export beef and in that sense we are primary exporters, but Uruguayan beef has went through a process of qualification and sophistication to comply with traceability... There is a lot of work in genetics, pasture growth... in terms of employment, at least the exporting companies provide formal employment, which is the minimum, as they are submitted to quality controls by other agencies... And it must be said that the minimum in Uruguay is much more than the minimum in other countries... Throughout the chain it has spillover effects, in software, productive chains, suppliers, a lot of things that tend to improve the situation of the worker. I can't give you numbers, but to the extent that you export as a company and you have certifications and that goes towards an improvement process, including the job quality... The fact is that Uruguay has worked more in certain niches, more on quality than on quantity.<sup>665</sup>

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<sup>664</sup> Interview conducted with OI-UR-012, Scholar and Industry Association representative, Private sector, March 5, 2020, Montevideo.

<sup>665</sup> Interview conducted with AA-UR-001, Exporters' Association Representative, Private Sector, February 20, 2020, Montevideo.

On the question of pragmatism, a scholar observed:

...What has been working in Uruguay' beef sector is certification, traceability, feeding in suitable ecological conditions. That is what markets are looking for and it was achieved in the FTA with the EU. That is, lifting some restrictions, as well as the Hilton quota. [But] those issues are small, they are important for those who spoke to you about them, because they make a lot of money from it...but in national terms they are insignificant. It has a sectoral value but not in the aggregate, definitely not. They will not revolutionize the international insertion of livestock in Uruguay. They are going to get a little more money in some of their businesses or they are going to improve prices. That's it. And then the fact that it functions through quotas, puts them a ceiling"<sup>666</sup>

These quotes exhibit that strategic flexibility was linked to a smallness condition, rather than being an exclusive outcome of the FTA conclusion. In other words, *sophistication and quality* resulted from the increased international competitiveness and the requirements of the Uruguayan market to fulfill the highest trade standards, without being solely related to the trade agreement with the EU.

Finally, even if the beef sector allegedly creates strategic flexibility, the apparent benefits in return do not reach the aggregate national level. This limits the scope of socio-economic representations to integrate the so-called ideology of social partnership that characterizes Uruguay. Yet if one thinks in terms of this small state's fixed preferences, the beef sector certainly yields the path for an increased real influence, through bargaining power, in inter-regional trajectories.

To conclude, this chapter reveals how creative agency and ideology of social partnership generated bargaining power for Uruguay all along the inter-regional trajectory with the EU. At the same time, the use of rhetoric pragmatism placed this small state in an advantageous position to move forward to a bilateral strategy to attain its utmost motivation: trade openness.

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<sup>666</sup> Interview conducted with LT-UR-008, Scholar, Academia, March 3, 2020, Montevideo.

## **CHAPTER 5 : SMALL STATES' INTER-REGIONAL TRAJECTORIES. COMPARING URUGUAY AND ECUADOR'S EXPERIENCES. WHAT LESSONS CAN BE DRAWN FROM THE ANDEAN REGION TO MERCOSUR? CONTRIBUTIONS FOR THE STUDY OF INTER-REGIONALISM AND SMALLNESS**

This concluding chapter is devoted to a comparison between the two case studies discussed in Chapters 3 and 4. It aims to analyze the two EU trade agreements in terms of their influential factors, that is motivations (fixed preferences) and bargaining power (real influence). In the first part, I assess the political economy of the two small states in order to understand their involvement in institutionalized inter-regional dynamics. This provides a wider landscape of what lies behind their subscription to *hegemon-based agreements* in the dynamics of inter-regionalism. Additionally, I review the role of their socio-economic representations and interest groups, and how they crafted their different national preferences.

In part two, I undertake a comparison between the two inter-regional trajectories. Firstly, through the assessment of the agreed texts (the CAN-EU MTA and the EU-MERCOSUR FTA) in order to elucidate the levels of Special and Differential Treatment (SDT) in each of the two case studies. Secondly, I disentangle the economic and political effects as well as the outcomes that permeate each case. Thirdly, I provide a deeper reading on the influential factors the two small states experienced in each of their inter-regional trajectories.

Finally, this chapter intends to draw a roadmap between inter-regionalism and smallness, pointing out their contributions to the research agenda. This debate is salient given that there are dimensions of smallness that have not been considered in the literature and particularly within an inter-regional relation. At the same time, it provides greater prospects about small states' motivations to participate in *hegemon-based* agreements and to influence their ultimate outcome, following different inter-regional paths. Some concluding remarks are unfolded at the end of this chapter.



## 5.1 Small states in inter-regional relations

This sub-section assesses small states' institutionalized trajectories in inter-regionalism. In doing so, it re-examines the basis of some theoretical currents. Firstly, International Political Economy (IPE) prerogatives discussed in Chapter 1. Secondly, some of the main tenets of constructivism which are embodied by two actors: socio-economic representations and political interest groups, which I assess for my two case studies in terms of their influence within inter-regionalism. Lastly, it analyses the extent to which these groups get engaged in national preference definition.

### 5.1.1 Hegemon based agreements

By exploring the notion of *hegemon-based agreements* I seek to provide sense to small-states' institutionalized inter-regional dynamics. On this matter, one should first consider the wider significance of the regulatory features in the geopolitics of trade, and how the content and format of an FTA's texts can be grounded as vectors of hegemonic power. In fact, the EU agreement's texts, whose legal source is the Article XXIV of the GATT, are templates used in any negotiation, all having the same format and formulated by leading proponents of free trade (EU, US)<sup>667</sup>. Accordingly, two typical features of this format is setting a wide scope of disciplines related to trade and attempting to *substantially* liberalize trade<sup>668</sup>.

Secondly, at the European level, as Young and Peterson suggest, "the new trade politics of the EU signified undertaking a deep trade agenda" (2006, p.796). In fact, the use of this kind of strategy served the EU as a means to project its own integration model, in order to reflect its power as an international actor (Sanahuja, 2007). This could potentially explain the European interest in including small states (for instance Ecuador who abandoned negotiations and then finally subscribed to the deal already signed by Colombia and Peru) in their inter-regional (or multiparty) agreements whose scope has already been set broad<sup>669</sup>. The new trade politics is also a way to

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<sup>667</sup> This statement comes from my personal professional experience. In fact, as a trade analyst at the Secretariat for Planning and Development (SENPLADES) in Ecuador, I explored the texts of a typical FTA and found that they have a pre-established structure and wording. Yet the United States' format differs from the European one, as the latter integrates questions of cooperation, regional, and integration among others. A caveat: some disciplines may be added in some cases as previous political accords were already in place.

<sup>668</sup> For a larger discussion about what a substantial liberalization of trade implies see Chapter 2.

<sup>669</sup> Including IPR, government procurement, and other disciplines related to trade.

encourage small states to remain part of multilateral trade negotiations. Said it differently, the common use of a text template and the number of countries accepting such rules on an inter-regional basis can be a way to facilitate the ultimate incorporation of trade disciplines into the multilateral agenda (Davis, 2009, p.27).

That said, EU trade agreements could be deemed as path dependency<sup>670</sup> to *hegemon-based agreements*. As informed by Alvarez and Zelicovich (2020), some of the factors that may explain the predisposition of states to entertain trade negotiations and subscribe to agreements are indeed the existence of hegemonic leaderships but also the presence of shared values within institutions and the continuity or alteration of the status-quo (p.110).

In fact, the dominant presence of a hegemon<sup>671</sup> can provide stability and security, and enable continuity for the status-quo<sup>672</sup> (Yarbrough, 1992). One can therefore argue that these *hegemon-based agreements* are a way to exert clout in order to affirm the rules of the international system of trade, through leadership and the sustained support of other states. In fact, according to Grieger (2019), through its inter-regional trade deals the EU aims to strengthen cooperation and global governance in multilateral arrangements like the WTO (p.6). Once again, these two institutional venues (inter-regionalism and multilateralism) seem to serve as political instruments to advance both hegemonic and cooperative aims, such as the fight against unilateralism and protectionism in international trade.

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<sup>670</sup> In a broader conception, this means having a positive feedback process; in this case, the FTA negotiations. These matter because they can, on a reactionary basis, take another direction. For example, in the case of the EU from an inter-regional to a bilateral trade strategy, or from negotiation on a bilateral to a multilateral basis. Conversely, a narrower view of path dependence refers to past steps going in a particular direction and producing further movement in the same direction (Pierson, 2000). As Peters et al. (2005) claim, this is the critical side of historical institutionalism which neglects policy and institutional change.

<sup>671</sup> According to Yarbrough (1992) a hegemon is a dominant state, one that performs as a leader in the world economy. Thus, Lee and Smith (2010) acknowledge the number of small and developing states are the majority in the international system. Consequently, hegemons count on their support, and this is when inter-regionalism becomes salient.

<sup>672</sup> See the hegemonic stability theory, associated with Gilpin (1987), Keohane (1984), and Kindleberger (1973).

### 5.1.2 Socio-economic representations and political interest groups

This sub-section is focused on the role of two types of actors: socio-economic representations and political interest groups, as each promoted positions that reflected their preferences in their inter-regional trajectories with the CAN and MERCOSUR. Hence, I seek to undertake a deeper reading of these actors as vectors of influence.

#### i. Political interest groups

Anchored in constructivist claims, inter-regionalism only becomes relevant inasmuch as it involves cultural identity formation (Campbell & Hall, 2009). The role of political interest groups is central to the limits of a common identity; hence, the internal dynamics, in this case of small states, as well as the preferences of sectoral groups are determinants of the success in inter-regional negotiations (Aggarwal & Fogarty, 2005). In particular, the EU and the CAN had to overcome pressure exerted by some groups regarding the convenience and validity of the trade deal. In fact, Ecuador's domestic political polarization was grounded in this pro/against free trade divide<sup>673</sup> which reflected the strengths and weaknesses of each of these groups, as discussed in the following remark:

During negotiations [with the EU], Ecuadorian interest groups' dynamics were complex since [the former President] Correa government cut ties with the business sectors which had historically influenced all negotiation levels based on their economic power. When this was broken, they [business actors] stayed a bit on the sidelines. Instead, other social protest groups came into play, but they had a terrible weakness. They were dispersed with too idealistic discourses that were neither concrete nor pragmatic. They were led by [the former Minister of Foreign Affairs] Patiño himself<sup>674</sup>.

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<sup>673</sup> As it has been discussed all over this study, this political divide was present within the government authorities. In fact, some voices regretted that within the Ministry of Foreign Affairs and Trade (MRECI) "there is no firm position...as there are two different stances: one from the Vice-Ministry of Trade, totally open to signing an FTA; and the other by the Vice-Ministry of Foreign Affairs, who are totally against." (Author's own translation). This lack of agreement was highlighted by Alberto Acosta, who was a scholar at the time at FLACSO Ecuador. See El Universo (2012, February 4), "Analistas discrepan sobre conveniencia de TLC". Retrieved from <https://goo.gl/FQGqtc> Accessed December 1 2021

<sup>674</sup> Interview conducted with OO-EC-014, Negotiator and Scholar, Public sector and academia, May 2, 2019, Quito.

Whereas in Uruguay, irrespective of the economic sectors that could be impacted negatively by the deal (wine and cheese among the dairy products were of particular concern), there was a widespread sentiment in favor of the agreement<sup>675</sup>. In other words, in Uruguay there were no such political cleavages. There was, rather, an ideology of social partnership, within the political class, but also among various business chambers and the private sector who played as converging actors in favor of the agreement (Ghiotto & Echaide, 2020, p.44).

The two separate quotes below illustrate this dynamic:

Undoubtedly, [in Uruguay] we all know each other and that helps for communication because we all have the same interests. We are all in the same boat. So since we are so few, the aligned interests make it easier for the labor and the business level. I think it helps, and [also] the strong institutions that Uruguay has as well as democracy. We are one of the fullest democracies in the world...that contributes, regardless of the government in office. It is a characteristic that Uruguay has that is part of its respect at the diplomatic level<sup>676</sup>.

Within the political class, positions [regarding the EU FTA] varied according to the party's [FA] social base. The ones closely associated with the interests of the agricultural economy were inclined on the agreement's direction...part of the government that was in favor of the deal, particularly this last FA mandate, clearly showed a turnaround. It was really this last FA mandate that left office a week ago, the one that made the most efforts in signing the deal. Not so much in regards to regulations or the contents of the agreement, but above all in a macro [economic] perspective that this agreement was favorable for Uruguay's international insertion<sup>677</sup>

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<sup>675</sup> It should be mentioned that, a large portion of data collected about Uruguay, during fieldwork, as well as the consulted press releases and official reports, all maintained similar narratives with limited contradiction between stakeholders. This might be reflective of the apparent lack of opposition the agreement elicited.

<sup>676</sup> Interview conducted through skype with NO-UR-016, Medium-level officer and political stakeholder, Public sector, May 18, 2020, Paris- Montevideo.

<sup>677</sup> Interview conducted with LE-UR-009, Scholar, Academia, March 3, 2020, Montevideo.

## ii. Socio-economic representations

The role of socio-economic representations was quite salient during negotiations of both the FTA and the MTA. Echoing Aggarwal and Fogarty (2005), the nature of these groups' preferences was determined by sectoral interests, the construction of inter-regional identity ties, and their willingness to represent an idea of market competitiveness. Accordingly, it is that these socio-economic representations in both cases undertook an extensive political mobilization<sup>678</sup>, as their best development needs were grounded on these type of agreements. For instance, in the two case studies, one of the fixed preferences was maintaining market access to the EU.

On this matter, Ecuador's inter-regional talks were determined by the overarching force of the agro-export-oriented sectors who embodied strong socio-economic representations. In fact, they were well disposed towards the MTA, which responds to their competitiveness in international markets<sup>679</sup>. While in Uruguay these groups did shape inter-regional negotiations, they did so to a lesser extent. This can be attributed to MERCOSUR's sub-regional interference. In other words, small states' capabilities to resist large states' influence diminish as regional economic integration reaches higher levels (Kurecic, 2017). In fact, the interests of Uruguayan socio economic representations vanished at MERCOSUR level where the four members were meant to build a common position. That said, this is an *explanatory factor* that enlightens the differences between the two case studies. That is, Uruguay's preferences are restricted due to its membership to MERCOSUR and its relatively strong institutions; whereas in the CAN, members' interests have undermined their regulatory acquis, leaving place to fragmentation.

Secondly, grounded in favor of the construction of inter-regional cultural and identity ties, it was evident that Ecuadorian stakeholders perceive Europe as a trade partner that could enable prospects towards a stronger shared culture, as discussed in the following quote:

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<sup>678</sup> Paredes Carranco et al. (2020) observed that the Ministry of Foreign Trade held information campaigns all around Ecuador, focusing on the substantial benefits of the MTA to the business and productive sectors; in parallel, the EU allocated ten million euros as part of their cooperation program to entail information outreach about the MTA (p.224). It is evident that these campaigns touched on the reputation of the so-called socio-economic representations.

<sup>679</sup> As Pabon Venegas (2018) contends, the impact of not subscribing to the deal with the EU was used as a central argument by economic sectors that have historically accumulated wealth, such as the banana, fisheries, and flower sectors. Conversely, an issue that was not part of the discourse during negotiations, was the economic and ecological impacts the MTA would have on historically impoverished sectors (p.97).

A bloc that has impacted the most in our culture is the EU. It is where our labor and commercial code comes from. Our culture is influenced by European culture. The bases of our democracy and legal system are European. The MTA enables strengthening that alliance, and that alliance means credibility. This is not the case with the US...With Europe, the most important thing are those cultural ties, those affinities. For us, Europe is a fair market that respects the value of our products, they appreciate amaranth, quinoa...they are more reliable...<sup>680</sup>

While in Uruguay, perceptions about shared values and cultural kinship with the EU is far reaching. It also seemed to have enabled utmost agreements, as these two interlocutors uphold:

Although the negotiation was very hard, it indeed occurred between common cultures, with a common cultural background. Thus, discussions seemed to be between peers, using valid arguments...For example, on the question of employment, we are on the same page. Yet it is true that some issues are only declarative, as environmental protection and the recognition of minorities. For Uruguay, the last one is very important and Europe was aligned with us, even Brazil accepted it<sup>681</sup>.

We have shared values with Europe and a much deeper history in terms of ties, relatives, production issues...Those play a role for Europe as they are also aware there is a great affinity with Latin America and that they have lost ground and time with respect to China. And China has been very clever because they have managed to cooperate differently. There is still a mistrust towards China, on the part of society, because they are different. There is a kind of racism or something...here in [Uruguay] and even more in South America. China knows that Argentina and Brazil are anti-Chinese. Of course I do not share that, I have a lot of admiration for the Chinese people...But Europe is aware there is a cultural plus,

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<sup>680</sup> Interview conducted with OS-EC-008, High-level Decision-maker and Private Sector representative, Public and private sector interlocutor, April 22, 2019, Guayaquil.

<sup>681</sup> Interview conducted with NA-UR-004, Decision-maker, Public Sector, February 26, 2020, Montevideo.

cooperation, affinity, ideas, respect for human rights, democracy. These are issues that can be discussed with Europe and not with China...<sup>682</sup>

In brief, there are some voices that maintain that trade agreements are not mobilized by societal demands, but promoted by governmental authorities according to the preferences of the elites (Alvarez & Zelicovich, 2020, p.110). One can presume this claim has broad significance for Ecuador and Uruguay as their trade policy fixed preferences responded to sectoral interests with the ultimate support of authorities and not to an aggregate demand articulated on the national level. For instance, socio-economic representations may advance interests resulting in territorial and social cleavages rather than in an aggregate common good. That means those groups crafted bargaining positions to meet their best development needs at the sectoral level (Heron, 2011, p.331), which confirms that socio-economic representations and political interest groups in my two case studies were policy-maximizers in each of the inter-regional trajectories.

### **5.1.3 Small states' preference formation**

This sub-section is designated to the assessment of small states' capacity to construct their national preferences within a framework of inter-regional negotiations. In that regard, Mendez and Turzi (2020) sustain that agency produces social or institutional facts. These scholars borrow elements of constructivism to discuss their interactions; namely, identity is formed by a range of ideas that conditions agency (p. 28). In the same token, identity matters as it facilitates collective action against opposition (Wendt, 1999). Hence, national identity is a tool for creating a discourse with the strength of mobilizing and demobilizing socio-political groups (Mendez & Turzi, 2020, p.32).

In this sense, in Ecuador the groups that shaped national preference were the so-called socio-economic representations who acted as creative agents crafting the collective ideas concerning the MTA with the EU. That is, in the midst of a political environment that was contrary to free-trade, these strong representations played a significant role and were able to turn negotiations into an institutional fact.

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<sup>682</sup> Interview conducted with OI-UR-012, Industry Association representative and Scholar, Private Sector, March 5, 2020, Montevideo.

In this regard, the following interviewee sustained that:

...these sectors are the ones that mobilized the negotiation. Proecuador<sup>683</sup> focused solely on traditional products...:bananas, shrimp, tuna, and now flowers. These are the agro-export industries that make part of those [socio-economic representations]. Definitely the MTA with the EU will benefit only a few. For the rest it is an opportunity. Those “few” weigh a lot in Ecuador's export matrix. [Thus], I do believe that it is correct for a country to try to consolidate the situation of its main exporters<sup>684</sup>.

Whereas in Uruguay, as Caetano and Pose (2020) suggest, given Uruguay's small market, any development strategy is critically linked to a regional project. Thereby, even the most dubious stances about free trade have a somewhat more balanced position towards trade agreements. It is apparent that the beef sector stands as a socio-economic representation and interest group, with a great influential role and mobilization capacities (Fieldwork carnet, March 2, 2020). The following remark provides a deeper reading of the societal domestic dynamics occurring in this small-state:

...public debate on these issues [international trade] is very scarce...Surveys out there indicate that a large percentage of Uruguayans are pro free-trade, so they are in favor of a FTA with China or with the US. [Asides], Uruguay is a very expensive country...and people are aware of that, so in terms of perception, if you are such a small country, you would want to open up to the world, it is almost a natural thing...”<sup>685</sup>

However, Uruguay's preference formation is constrained at the sub-regional level (MERCOSUR). Firstly, as the EU has a tougher position with the bloc due to the two biggest members' presence. Secondly, because of the overlapping interests of Argentina and Brazil with Uruguay's, which

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<sup>683</sup> Is the Ecuadorian agency in charge of executing the policies and regulations for the promotion of exports and investments of the country to promote the supply of products and markets of Ecuador for its strategic insertion in international trade. See <https://www.proecuador.gob.ec/>

<sup>684</sup> Interview conducted with RZ-EC-016, Industry Association representative, Private (textile) sector, May 13, 2019, Quito.

<sup>685</sup> Interview conducted with OI-UR-012, Industry Association representative and Scholar, Private Sector, March 5, 2020, Montevideo.



explains why the FTA was considered a fiasco to the beef sector<sup>686</sup>. Finally, it seems that an identity formation has been lagged behind in MERCOSUR given the fragmented interests that propel each member's actions in different directions, a reality that is carving out the current institutional and political crisis that has followed the 30th anniversary of the organization<sup>687</sup>.

In brief, this discussion emphasizes the role of these socio-economic representations in building collective ideas based on different socio-economic or political arrangements and beliefs at the domestic level, which are useful to understand the sources of their support for an inter-regional project. Albeit the driving force of both cases' clout mainly lies in one condition of smallness: trade openness. Yet, a problem that may appear is the impact at the aggregate level, as socio-economic representations may advance interests resulting in territorial and social cleavages rather than common national preferences.

Small states have gravitated between the influence their most relevant interest groups exert and the dissonances of their inter-regional partners regarding the so-called *hegemon-based agreements*. While small states perceive these agreements as opportunities to continue to consolidate shared cultural and identity ties, the EU leans on them to exert its normative and market power, with different levels of flexibility regarding their model of inter-regionalism.

## 5.2 Comparing small states' inter-regional trajectories

This sub-section addresses the differences and similarities that resulted from the empirical analysis of both small state's inter-regional trajectories. This allows light to be shed upon the CAN's inter-regional experience in order to acknowledge potential lessons for MERCOSUR. In fact, by reviewing each of the agreed texts, putting particular attention to Special and Differential

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<sup>686</sup> See Chapter 4 which explains four frustrations the Uruguayan beef sector encountered following the agreement on tariff liberalization schedules of the agricultural sector.

<sup>687</sup> In fact, at the time of writing, the 59th Summit of MERCOSUR Heads of State was held, during which Uruguay denied to subscribe to a declaration aimed to "commit to continue the modernization of MERCOSUR by strengthening free trade and regulatory convergence and harmonization within the bloc", due to the alleged progress of Uruguay's bilateral trade talks with China. See La Diaria (2021, December 17), "*Uruguay se distanció de los socios del Mercosur en cumbre de presidentes que expuso distintas prioridades*" Retrieved from <https://ladiaria.com.uy/politica/articulo/2021/12/uruguay-se-distancio-de-los-socios-del-mercosur-en-cumbre-de-presidentes-que-expuso-distintas-prioridades/> accessed December 21 2021

Treatment (SDT) measures, one can infer the level of bargaining power one case has had as compared to the other.

### 5.2.1 Differences between the CAN and MERCOSUR<sup>688</sup> agreement texts

#### i. Regional integration

EU-MERCOSUR FTA's Article X: *Regional Integration* only refers to a recognition of the differences in their respective regional integration processes and emphasizes on facilitating the movement of goods and services between the two regions. Whereas, EU-CAN MTA *Regional Integration* clause recognizes the importance of preserving each of the regional integration processes (See Article 10 MTA)<sup>689</sup>. The two agreements completely differ and have different orientations towards their integration processes. While the EU-MERCOSUR focuses on deepening the liberalization of goods and services, the EU-CAN underlines the preservation of integration processes as a whole. One can therefore presuppose this difference responds to dissimilar perceptions about intra-regional fragmentations that triggered different outcomes. However, it is still to be determined whether the EU-MERCOSUR FTA, once ratified, will make modifications to the *Regional Integration* clause, given the setbacks MERCOSUR has experienced since 2020 and the reluctance of some of its members to continue negotiating on a bloc-to-bloc basis.

#### ii. Safeguard clauses

Unlike Ecuador's Protocol of Accession to the MTA, an infant industry clause was not included in the case of MERCOSUR. For instance, Ecuador introduced some modifications that were not in the original MTA text: a footnote reference for possible injury caused to infant industry<sup>690</sup> which was adopted only for Ecuador. The inclusion of a country-specific clause evidences Ecuador's

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<sup>688</sup> A caveat to consider is that the EU-MERCOSUR agreement text cannot be read with the same lens as the EU-CAN MTA. Firstly because the former has not been signed yet. Therefore, the available texts are not the official ones. As stated beforehand, it is likely that some modifications to the last versions of the text occur during the legal scrubbing, which as Ghiotto (2020) explains, is the technical and legal review process (p.19), and which will be final upon signature. Secondly, the EU-CAN MTA underwent a stage of amendments for Ecuador to comply with the Protocol of Accession to the agreement, which was not the case of the EU-MERCOSUR deal.

<sup>689</sup> In comparative terms, the Cariforum- EU FTA is framed in similar terms than CAN. See Article 4 Economic Partnership Agreement Retrieved from [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22008A1030\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22008A1030(01)&from=EN) accessed October 8 2021

<sup>690</sup> See Article 48, Multilateral Safeguard Measures, paragraph 1.

level of bargaining power, which was exercised as a means to reinforce the country's chances of preserving some domestic policy space to address its developmental needs.

The EU-MERCOSUR FTA recognized a bilateral safeguard measure, applicable for two years, with the possibility of extending it for another equal period and taken up to the first 12 years after the entry into force<sup>691</sup>. Accordingly, the EU-CAN MTA recognizes the application of bilateral safeguard measures during the transitional period<sup>692</sup>, meaning 10 years from the date of its entry into force. In the case of MERCOSUR, if the safeguard measure is applied by the EU, Paraguay will be exempted from its application. Ultimately, Uruguay did not receive any preferential treatment regarding the application of safeguard measures.

### **iii. Special and Differential Treatment (SDT)**

The EU-CAN MTA included an elusive reference to SDT in its Preamble. Similarly, Chapter 5: Sanitary and Phytosanitary Measures (SPS), Articles 85 and 100, refer to the implementation of these measures such as longer periods of tariff protection and a transitional period of 10 years to apply Non-tariff measures, which are granted to all the Andean signatories of the MTA. Conversely, no Preamble has been published to date in the EU-MERCOSUR FTA. Therefore, one cannot affirm that there would be a reference to differences of development between the two regions. Yet there is more likeliness that no such reference will be included, as the EU considers MERCOSUR to be an agricultural power<sup>693</sup>. However, Chapter 5: SPS, Article 19 grants SDT measures in the same terms as for the Andeans, but in this case solely to Paraguay. The following table summarizes these findings:

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<sup>691</sup> From the fact that this text has not yet been ratified by the parties, it is subject to further modifications.

<sup>692</sup> See Article 48, p. 16 of the MTA Agreement.

<sup>693</sup> See Frydman, Felipe (2018), "Unión Europea-Mercosur: un acuerdo a medias", INFOBAE (2018, February 8), Retrieved from <https://www.infobae.com/opinion/2018/02/08/union-europea-mercosur-un-acuerdo-a-medias/> accessed September 30 2021

<b>Table 8. Differences in the EU – CAN and MERCOSUR agreement’s texts</b>			
<b>Topic/ Chapter</b>	<b>EU- CAN MTA</b>	<b>EU- Ecuador Protocol</b>	<b>EU- MERCOSUR</b>
<b><i>Regional integration clause</i></b>	Recognizes the importance of preserving each of the regional integration processes (See Article 10 MTA)		Recognizes the differences in their respective regional integration processes and puts emphasis on facilitating the movement of goods and services.
<b><i>Safeguard measures</i></b>	A signatory may only apply bilateral safeguard measures during the transitional period (10 years from the date of entry into force of the Agreement.)	Ecuador introduced some modifications that were not in the original text: a footnote reference for possible injury caused to infant industry (see Article 48, Multilateral Safeguard Measures, paragraph 1)	Infant industry clause was not included in the FTA.  Recognizes a bilateral safeguard, applicable for two years (Paraguay is exempted from its application).
<b><i>Tariff lines liberalization</i></b>	Reciprocal trade liberalization	EU liberalized 95% of its tariff lines, whereas Ecuador liberalized around 60%	Based on reciprocal trade. The EU insisted in not granting SDT along Chapters 1 – 24, alleging MERCOSUR is an agricultural power.

<p><b><i>Special and Differential Treatment-SDT</i></b></p>	<p>Preamble includes a reference to “differences in economic and social development between parties”.</p> <p>Chapter 5: Articles 85 &amp; 100 refer to SDT on the implementation of SPS</p>		<p>No reference to differences of development (no Preamble published to date).</p> <p>Chapter on SPS: Article 19 establishes some provisions that grant a special treatment to Paraguay only (technical assistance or a transitional period of 6 months to apply SPS measures).</p> <p>Longer periods for tariff protection and 10 years of transitional period to apply Non-tariff measures. Both granted only to Paraguay.</p>
<p><b>Source:</b> Author’s own elaboration based on the FTA and MTA published texts.  <b>Note:</b> Analysis of the EU-MERCOSUR FTA is based on the <i>Trade Part of the Agreement</i> published following the announcement on 28 June 2019. This text will most probably be subject to modification according to the process of legal scrubbing.</p>			

By observing Table 8, one can presume that Ecuador was granted greater preferential measures compared to Uruguay. This could be attributed to the pure inter-regionalism rupture which made Ecuador to negotiate individually. Secondly, it could also be attributed to the fact that MERCOSUR is a more asymmetrical bloc compared to the CAN, where differences in development are more apparent and where Paraguay is more economically disadvantaged and faces greater vulnerability than its partners. Ultimately, this difference responds to the constraints at the sub-regional level.

### 5.2.2 Assessing effects and outcomes in inter-regional negotiations

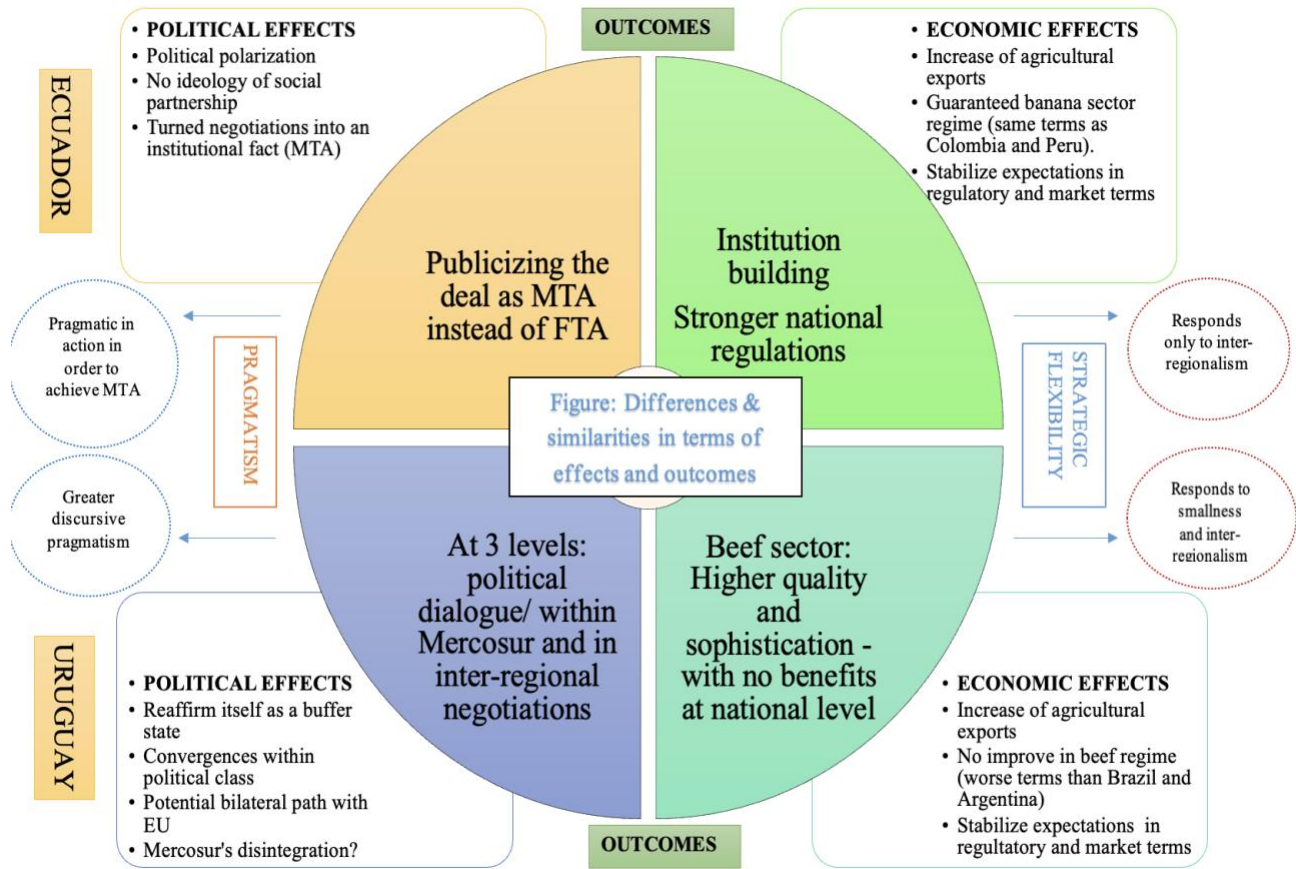
The following figure suggests that the political effects in Ecuador and Uruguay differed. While in Ecuador these effects were adverse, the MTA resulted in an institutional fact. In Uruguay, even if the political effects were positive, as they had a convergence and ideology of social partnership, it didn't turn into an institutional fact. On the contrary, these political effects might trigger MERCOSUR's disintegration. The economic effects have more similarities as both small states will experience an increase in their agricultural exports, and will stabilize expectations in terms of their regulations and market openness. That means, having agreed on a regulatory framework that will provide stability to their socio-economic representations.

Secondly, the figure acknowledges the outcomes related to pragmatism and to strategic flexibility. In fact, Ecuador was more pragmatic in action, achieving a tangible institutional fact, and publicizing the agreement as an MTA instead of an FTA. While Uruguay used a greater discursive pragmatism<sup>694</sup> at three levels: domestically, sub-regionally, and inter-regionally. Finally, regarding strategic flexibility, outcomes vary from one case to another. While in Ecuador it was consolidated with institution building specifically to conclude the agreement, in Uruguay, "sophistication and quality", as reported during fieldwork, appeared more as indicators of smallness than direct outcomes of the FTA with the EU.

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<sup>694</sup> The basis of this inference, following Loda (2019), is the clear asymmetry between small states and their bigger counterparts, as in the case of MERCOSUR. Thus far, small states face this unequal relationship through the use of a political rhetoric to address their counterparts.

**Figure 4. Differences and similarities in terms of effects and outcomes**



Source: Author's own elaboration

### 5.2.3 Explaining influential factors in inter-regional trajectories

The empirical analysis conducted during the two fieldwork experiences, was guided by three components: (external) factors, motivations (fixed preferences) and bargaining power (real influence). This research is grounded on a set of presuppositions both about inter-regionalism and smallness among three actors: Ecuador, Uruguay and the EU. Table 9 explains the empirical evidence of both small states' influential factors.

**Table 9. Explaining influential factors**

	ECUADOR		URUGUAY
<b>A. Small States' influential factors</b>			
<i>Motivations</i> <sup>695</sup>	<i>High</i>	Market access / Expand Ecuador's trade agenda	Market access
	<i>Medium</i>	Have a stable legal framework for investments. Avoid trade deviation with main competitors	Increase bargaining power in MERCOSUR
	<i>Low</i>	Have an instrument for (economic) development	Constitute a bridge or "buffer state".
<i>Bargaining Power</i>		Vulnerability (smallness condition) was countervailed with an enhanced bargaining power.	High: being a bridge to advance MERCOSUR's interest. Low: achieving market access. Yet there was recognition of its human staff and political continuum.
<b>B. Explanatory factors</b>		CAN's fragmentation / Multiparty basis and mixed inter-regionalism	Sub-regional (MERCOSUR level) Pure inter-regionalism
Smallness dimensions that explain influential factors		Great-issue-specific-power and influence of socio-economic representations. Mobilized resources and capacities to craft the fixed national preferences *Did alter outcome*	Great-issue-specific-power and influence of socio-economic representations. Mobilized resources and capacities but their clout was undermined at Mercosur level *Did not alter outcome*
		Creative Agency –** <i>Necessary condition to alter outcome</i> <sup>696</sup> **	Creative Agency – * <i>Not a sufficient condition to alter outcome</i> **

<sup>695</sup> The 3 levels of motivations were estimated by the degree of outcome alteration (conclusion of the FTA) and classified in low, medium, or high motivations according to the number of times motivations was evoked by my interviewees. Secondly, their nature was classified as: subjective (based on further understandings of the self) or material (based in economic, market or regulatory ends).

<sup>696</sup> Based on Mahoney, Kimball, & Koivu (2008).



	Vulnerability – used strategically to increase its bargaining power. <i>**Necessary condition to alter outcome**</i>	Ideology of social partnership – affected bargaining power through a common position. <i>*Not sufficient condition to alter outcome** yet with positive effects</i>
<b>C. Contextual factors</b>		
	Geopolitical race in Latin America. The EU’s flexibility to fragment inter-regionalism.	Geopolitical race in Latin America. Diplomatic tensions have politicized the agreement ratification.
	Multiparty Agreement (in force since January 2017).	Free Trade Agreement (ratification pending by both parties)
<b>D. Outcome</b>		
	Bilateralization (multiparty) negotiations. Pure to mixed inter-regionalism.	Towards fragmentation of inter-regionalism and disintegration of MERCOSUR?

Source: Author’s own elaboration.

Regarding motivations, Ecuador’s case endorses IPE’s conventional narrative. That is, they were anchored in a political calculus rather than in national (long-term) preference, which in this case was having an instrument for economic development based on endogenous growth (see discussion in Chapter 3). In the case of Uruguay, it recognized their subjective motivation of maintaining itself as a bridge or buffer state. However, the state’s recent agenda alteration (from negotiating in a bloc to advocating for the bilateral path) may disprove it and affect their political continuum. In other words, even if both small states were committed to institutionalized inter-regional negotiations, Uruguay believed in its intersubjective role, as opposed to Ecuador who relied on its smallness vulnerability which consequently afforded the country with higher bargaining power.

Conversely, Uruguay’s bargaining power was perceived as double-sided. On one hand, it was considered high, mainly for having achieved its subjective preferences (its role within MERCOSUR). On the other hand, it was also deemed low as it was not able to attain its material preference (market access). However, it is recognized for the level of professionalism of its human staff and its political continuum. In both cases, the explanatory factor that provided sense to this

dynamic was the fragmentation of inter-regionalism, yet with a reverse impact in each case's final outcome, as Table 9 shows.

Finally, Table 9 explains some of the smallness dimensions that illustrate small states' *influential factors*. In the case of Ecuador, creative agency was a necessary condition to alter the outcome as diplomatic skills were used to craft narratives in favor of the agreement. Yet in Uruguay diplomatic recognition and skills were not sufficient conditions to have real influence on the final outcome.

In Ecuador's case its *vulnerability* prompted the political configurations, making it conducive to access the agreement. Additionally, Ecuadorian socio-economic representations were key players in the country's political economy as they turned negotiations into an institutional fact. Whereas in Uruguay, it was through an *ideology of social partnership* that the country conveyed an enhanced common position in negotiations (policy and political continuum). A shared system of identity and beliefs about the role of market and trade openness was embraced by both the political and industrial class, as well as within the relatively cohesive Uruguayan society. Yet this did not trigger an inter-regional convergence of values with the EU. Neither were sufficient conditions to alter the final outcome of the EU-MERCOSUR inter-regional trajectory. In summary, as the table demonstrates, the dynamics of all these influential factors resulted in different outcomes for each case study.

### **5.3 The roadmap to inter-regionalism: small states' contributions. What lessons can be drawn from the CAN to MERCOSUR?**

This research ultimately intends to provide a theoretical contribution to the study of inter-regionalism and smallness within an institutionalized framework. I therefore acknowledge the following findings and map out a theoretical discussion for each of them, in order to shed light upon the lessons from the CAN's experience to MERCOSUR's case.

#### **5.3.1 Findings on the field of inter-regionalism:**

⇒ The IPE literature exhibits that both the EU's MTA and FTA were political bargains resulting from highly asymmetrical inter-regional contexts, as suggested by Heron (2011), without

implicitly considering the particular contexts at both the domestic and sub-regional levels. In the case of Ecuador, its fixed preferences were turned into strategic calculations used by the executive branch to conclude the deal. While in Uruguay, perceptions about a loss of their policy space due to the agreement (negative effects) were offset at the sub-regional level, which tentatively explains the lack of political polarization regarding inter-regional negotiations with the EU.

- ⇒ The empirical evidence suggests that Uruguay was able to exert bargaining power within the inter-regional negotiation due to its creative agency, institutional and policy continuity, and capacity to emerge as a bridge or buffer state among MERCOSUR members.
- ⇒ The empirical undertaking in Ecuador acknowledges that socio-economic representations' enhanced diplomatic strategies, and its inherent vulnerability of a small state were elements that enabled it to wield bargaining power within an institutionalized inter-regional relation.
- ⇒ Uruguay engaged in institutionalized negotiations not only because it pursued material ends, but also because it believes in its intersubjective role, both inter-regionally and at MERCOSUR's level; while Ecuador was mostly motivated by material means driven by sectoral interests. This endorses IPE's conventional narrative that short-term objectives prevail over sacrifices for policy space in the long term. Concurrently, this finding suggests that small-states' motivations are rather anchored in political calculus than in long-term preferences.
- ⇒ The EU deployed two axes within its involvement in inter-regionalism with South America: normative and market power. At best, the larger size of the EU market allows it to exercise power in two distinct ways: *affecting material incentives and perceptions over possible outcomes* (Damro, 2012, p.687). In terms of normative power, the EU's standards are perceived as regulatory and market stabilizers, and therefore motivate smaller partners to converge towards its preferences.
- ⇒ The possibility of creating shared identities between two actors through inter-regionalism has been broadly assessed (Rüland, J., Hänggi, H. and Roloff (2006) as cited in Alvarez &

Zelicovich, 2019, p.111). In fact, South American stakeholders perceive the EU as a partner with the same values. This goes in line with the literature that credited a normative preference to the EU towards inter-regionalism and regional organizations (Börzel & Risse, 2012). That is, to promote its regional integration model through which they disseminate norms and values, and not only material power (Läidi, 2013). This assertion is based on empirical evidence, as many interlocutors consider the EU as a reference for some values and they assume that subscribing to EU FTAs is a way of validating their adherence to them.

⇒ Along the same lines, one tenet of inter-regionalism claims that this institutional form only becomes relevant inasmuch as it involves cultural identity formation. Thereby, cultural ties between the two South American (sub)regional blocs and the EU can be summarized as follows: both societies have similarities and cultural affinity; during inter-regional negotiations both cases perceived the EU as a fair market that respects and values South American goods; both blocs share values like cooperation, affinity, ideas, respect for human rights, and democracy. In both cases, those cultural ties with Europe were key engines for subscribing to the trade deals. Yet this was much more nuanced in Uruguay as a broader convergence of ideas, interests, and values (Oelsner, 2013 as cited in Alvarez & Zelicovich, 2019) was not perceived in the 20 years of negotiations, most probably because of the fact that common cultural ties are inherently shared between the two blocs unlike the Ecuadorian case.

### 5.3.2 Theoretical contributions for the study of inter-regionalism

- The literature on *lateralisms* has attempted to assess variations without addressing potential complementary issues among inter-regionalism and the sub- regional level. For instance, inquiring to what extent inter-regional trade agreements (regional clauses)<sup>697</sup> can impact sub-regional projects without undermining them. Both the CAN and MERCOSUR are illustrative in this regard. Thus, South America could benefit from an analytical research agenda to delve into the effects and impacts of inter-regionalism in sub- regional schemes.

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<sup>697</sup> The two agreements completely differ and have different sensibilities in their intentions towards integration processes. While EU- MERCOSUR focuses on deepening the liberalization of goods and services, EU-CAN underlines the preservation of integration processes as a whole.

- This study sheds light upon the explanatory power inter-regionalism has on socio-economic representations and political actors' agency capacity. While their voice was potentialized in Ecuador's case (once negotiations turned multi-party), in Uruguay these voices were relatively less powerful and were undermined at MERCOSUR. In other words, the sub-regional level impacts the capacity of domestic actors and can therefore alter an outcome. So far, in the case of MERCOSUR, they failed to turn negotiations into an institutional fact.
- Inter-regionalism has neglected the study of small-states' positions and has minimized their agency capacity to exert bargaining power. A renewed research agenda based on the inter-subjective behaviors of small states could pave the way for a greater understanding of small states. According to Smith et al. (2005) this could be due to the lack of a clear smallness definition which has given rise to more questions, such as the impact of smallness in inter-regional negotiations. By acknowledging how both variables (inter-regionalism/smallness) concurrently inter-play, there is a window of opportunity of empirical and theoretical value.
- Identity formation (subjective fixed preferences) was shown to have more advantageous grounds at the inter-regional level than at the sub-regional. In other words, inter-regionalism seems to foster the convergence of values more than what can occur at the sub-regional level. Thus, inter-regional trajectories are productive grounds for small states to breed the formation of values and shared identities, which is to be acknowledged in the inter-regionalism research agenda.
- *Hegemon-based agreements*, using pre-defined templates based on Article XXIV of the GATT, are a way to limit small states' capacities to negotiate and to introduce further provisions according to their needs. Thus, the multilateral system of trade needs to adapt to new forms of governance and participation. I argue that a contribution in this regard requires a comparative assessment, as is the case for this study, in a way that could open up texts to negotiation and not only tariff liberalization lists. Concurrently, this could be an incentive for (sub) regional organizations to update their legal frameworks.

- Why do inter-regional negotiations gravitate from pure to mixed to bi-regionalism and what are its implications? This study has drawn attention to variation in inter-regionalism, positing that pure inter-regionalism limits small states' bargaining power. The level of SDT granted to the CAN MTA is illustrative in this regard: having greater SDT can be credited to a pure inter-regionalism rupture. Yet a greater or lower SDT also depends on the relative perception towards the counterpart in market terms. For instance, the EU considered MERCOSUR an agricultural power while the CAN was not a threat. In summary, the inter-regionalism research agenda should more broadly assess its variations.
- The comparative assessment undertaken in this research elucidates the construction of preferences and its appropriation by stakeholders. How small states construct their policy preferences is indeed subject to one of the conditions of smallness: trade openness. Otherwise, socio-economic representations would be configured differently and would truly respond to an aggregate societal demand, avoiding the FTA / MTA to turn into partisan or strategic political tools.
- Even though the conventional wisdom stands for small states' bond to inter-regionalism, my empirical exploration brings a counternarrative: small states could be better off when they move forward to a multi-party negotiation or when threatening bloc-to-bloc negotiations. Therefore, the predictable small state's motivations to choose an inter-regional path should be reconsidered in terms of creative agency and pragmatism, and not in terms of influential power according to traditional IR prerogatives.
- Providing a concrete definition to a *multiparty agreement* can facilitate the path to future attempts to implement this modality. Such an approach can be used to deprive FTAs of their ideological burden as tools of neoliberalism (see discussion in Chapter 3) and as *hegemon-based agreements* or vectors of trade dominance. That said, a MTA can be considered a pragmatic instrument capable of affecting behavior (acceptance of national preferences) and boosting the developmental needs of smaller members, who become a source of *norm-entrepreneurship* rooted in their agency capacities. Ultimately, a MTA can turn into a tool that

can trigger social or institutional facts; that is, turning inter-regional trajectories into concrete facts.

- Finally, studying inter-regionalism from the counterpart view, and not from a euro-centered approach, contributes to a better understanding of the limits of asymmetrical relations and the clout small states can exert. This is grounded in two-fold considerations: normative and market power. Both approaches provided explanatory power to the EU-South American inter-regional trajectories, while enlightening the fact that counterparts can also be vulnerable (flexible) as they go through more rigorous procedures that reflect the rigidity of supranationalism.

### **5.3.3 Lessons from CAN to MERCOSUR**

- ⇒ One of the lessons for MERCOSUR is to uncover inter-regionalism as a bargaining platform to upgrade its interests. In fact, the CAN's experience portrays an alleged increase of bargaining power derived from a change of strategy; that is, abandoning region-to-region negotiations (going from pure to mixed inter-regionalism). Therefore, MERCOSUR's smaller members are tempted to abandon the inter-regional path to more easily advance their interests while legitimizing their relative power.
- ⇒ According to IPE's stance, in an asymmetrical inter-regional relation, bargaining power should be a way to yield to the smaller partner in order for it to preserve its policy space to implement its own developmental policy. A political bargain can reduce the loss of policy space through a pragmatic stance, where political actors seek to take advantage of the opportunities that come their way and maximize the economic benefits. In Ecuador, the MTA was framed as a pragmatic solution, which otherwise could have turned into social chaos for the country. This was possible due to two conditions: smallness and socio-economic representations' clout. So far, there have been no compelling efforts to draw causal mechanisms between pragmatism and smallness in inter-regional trajectories, opening a window of opportunity for future research in the case of MERCOSUR.
- ⇒ A fragmentation of MERCOSUR's membership along the same lines as the CAN's MTA can increase transaction costs in the short-term (as negotiations are done separately), but can

alleviate them in the long run (as signatories remain under the same institutional framework). Similarly, it can boost the bargaining power of smaller members. Although, parties would be willing to cooperate only if the gains outweigh the costs of a region-to-region negotiation and provided that the same conditions are granted to the members that join later.

### 5.3.4 Findings on the field of smallness

- ⇒ Small states' strategic flexibility underpins the creation of human capacities. In other words, those enhanced skills were garnered from the experience of negotiating and can be deemed as a positive outcome stemming from inter-regional trajectories.
  
- ⇒ Following my case studies, smallness can encounter both political polarization and ideology of social partnership. This lies in the quality of institutions, which ultimately influence socioeconomic performance and where leaders have a noticeable role. In Uruguay, a pragmatic leader (Tabaré Vasquez) together with political party configurations and ideological links made negotiations for the FTA easier. In Ecuador, its leader (Rafael Correa) with a strong character, went through a lot of ideological inconsistencies, and provoked institutional discontinuities (institutions in Ecuador were "tailored-made" for inter-regional negotiations) and cleavages in the political class, inhibiting state action based on national interest. Yet this discussion is conditioned to trade openness (a smallness category), which is the origin of political mobilization and small states' preferences.
  
- ⇒ Quality of democracy is indeed another prospect for the smallness debate. While Uruguay is recognized for being a strong democracy (a subject raised several times by interviewees during fieldwork), Ecuador has less of a reputation at this regard (this topic was not raised in interviews). In addition, cronyism is an issue. In Uruguay, "we all know each other" implies that favors can be easier to garner in an environment where everyone knows each other, and in Ecuador, *palancas*<sup>698</sup> are very common. At best, did quality of democracy intervene in the construction of fixed preferences and in inter-regional trajectories? Unfortunately, proving

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<sup>698</sup> To appoint friends to head institutions so as to advance particular interests.



this hypothesis goes beyond the scope of this study. Yet it leaves room for future research avenues.

⇒ This study stresses a causal positive mechanism between smallness conditions and an increased bargaining power in both case studies:

- On one side, Uruguay's enhanced diplomatic recognition (which opposes a predetermined vulnerability) laid the foundations for an ideology of social partnership (shared values and equitable human relationships) and enabled a national identity based on credibility but limited political leverage. Yet these were insufficient conditions to alter its fixed preferences and turn negotiations into an institutional fact.
- On the other, Ecuador's predetermined vulnerability did not limit its bargaining power. On the contrary, it enabled the political configurations, making it conducive to subscribe to an agreement. Moreover, Ecuadorian socio-economic representations were key players in the country's political economy as they were creative agents that shaped its fixed preferences and ultimately wielded bargaining power to conclude the agreement.

⇒ One outcome my research acknowledges is that Ecuador was more pragmatic in its actions, achieving a tangible institutional fact no matter the cost at the (sub) regional level (CAN); while Uruguay used greater discursive pragmatism. The latter is grounded in the way small states face an unequal relationship among members of a bloc (MERCOSUR), which results in the use of political rhetoric rather than in pragmatic action.

⇒ This study stresses each case studies' different outcomes regarding strategic flexibility: while in Ecuador it was consolidated with institution building, specifically to conclude the agreement; in Uruguay, "sophistication and quality", as reported during fieldwork, appeared as indicators of smallness rather than direct outcomes of the FTA with the EU.

⇒ Finally, the smallness debate takes a different course after the COVID-19 pandemic, particularly in relation to two smallness categories. On one side, vulnerability, which has been broadly assessed by smallness scholarship, and on the other, scale, which has a more limited scholar assessment. Following the pandemic, vulnerability has become a foreseeable category for any state, no matter its size. Big, middle, and small states have all stood equally in front of a universal threat, turning its vulnerability into a political battlefield and dependent on a series of factors that are still to be uncovered. Thereby, emphasis should be given to the implications of vulnerability at any governance level (domestic, sub-regional, inter-regional). I acknowledge there are prospects for future research on these lines.

### **5.3.5 Theoretical contributions for the study of smallness**

- This study stresses the explanatory potential human capital had (back-office technicians as well as high-decision makers) when appraising bargaining power, as opposed to a small state's weakness (considered in the mainstream IR literature). In my two case studies, I bring to light that staff capacities were driving forces that enabled good results. In other words, bargaining power is credited to the talent of those who negotiated rather than to the specific weight of the state, which they do recognize is relative. This calls for a renewed agenda on small states' human capacities in the framework of inter-regionalism: technical and organizational competences can outweigh disparities of asymmetrical inter-regional negotiations.
- Agency: this research raises the question of the exercise of small states' agency within institutionalized inter-regional trajectories. Both case studies played out agency in different ways and at different moments: while Uruguay mobilized the debate about regulatory flexibilization and a shift to bilateralism on an ex post basis, Ecuador had succeeded beforehand in switching actors' preferences towards the acceptance of the deal. Nurtured through these two cases, I scrutinize creative agency in a broader smallness debate, turning it into an operational category by combining constructivist and IPE perspectives in the effort to elucidate the motivations and bargaining power generated by small states in inter-regional trajectories.

- Due to smallness' conceptual wedges, this study has dug deeper into some of its conditions and dimensions in order to ultimately validate a renewed approach. Yet further interdisciplinary dialogue is necessary to build more bridges between the two concerned areas of study. So far, some scholars think of small size as a relational term or a question of scale (Caetano, 2019; Mouritzen & Wivel, 2005, p.4 as cited in Thorhallsson, 2018). In other words, appraising smallness includes the observation of relational stereotypes and ideological stances that connect to issues of power (Hannerz & Gingrich, 2017). A state can be weak within one relation while being powerful in another; typically weakness takes a bigger dimension in asymmetrical power relations (Thorhallsson, 2018; Vital, 2006-1971). According to Neumann and Gstöhl (2006), the smallness-greatness debate gets significance at the systemic level as it is where these categories become meaningful (p. 8). Yet from a different perspective, the study of smallness or greatness from the systemic approach limits the inter-subjective agency of small states and its strength in shaping inter-regionalism. A small state can be deemed as *great-issue specific power* where socio-economic representations organize politically and economically, and configure state preferences. Those representations become offensive within inter-regional negotiations, even if these are asymmetrical. In other words, the state system taken as a whole should not be the mere focus of smallness research.
- Some lines could be drawn between resilience and pragmatism: both are strategies of governmental authorities to adjusting to change and countervailing negative externalities. They are also endogenous responses to stimulus coming from different areas of social and political life. While pragmatism is to be applied in an ex-ante scenario, resilience is the strategy used to overcome a problem in an ex-post manner. Concurrently, they are complementary and can be framed as responses from smaller partners to cope with the difficulties of inter-regionalism, by disembedding the sources of their vulnerability. For this purpose, I advocate for creative agency as well as the recognition of the inter-subjective character of smallness, which grants them with enhanced capacities to design their own policies.

## Conclusion

Succinctly, this research has attempted to shed light upon what the EU-South America asymmetrical relation implies in terms of the motivations of small states to pursue an inter-regional negotiation and to what extent these actors have bargaining power to influence inter-regionalism and its outcomes. Its findings are also telling in regards to the external factors that prevented those inter-regional trajectories to be fluid and continuous and which potentially affected the outcome of the final agreements.

That said, through a comparison of two cases of inter-regionalism with the EU, this research has intended to provide a contribution to the development of a theoretically and empirically grounded comparative analysis of the smallness debate within inter-regional trajectories. In this regard, one of the main contributions of this study has been to assemble empirical data which confirms the set of suppositions formulated in the introduction about the agency capacities of small states. On those grounds, I first start by discussing the empirically-informed explanations to my research questions.

First and foremost, small states engage in institutionalized trajectories moved primarily by material means. Regardless of this fact, subjective means are also part of their spectrum of motivations or “fixed preferences”, such as a state's intention of becoming a bridge to cater to common sub-regional interests.

Secondly, the two small states' bargaining power was translated into real influence to the extent that socio-economic representations in Ecuador's case, and political interest groups in Uruguay, exercised clout and prompted their demands. Certainly, driven by one smallness condition: market access. Nonetheless, these groups' clout did not trigger a concrete institutional fact in both cases. On the contrary, it resulted in a misleading outcome, which current rollback can limit the prospects of a final deal in MERCOSUR's case.

Amid the variance in the different governance forms or *lateralisms*, the European choice has attempted to build upon an inter-regional strategy, which has gravitated between value promotion and market power. However, both rigorous internal procedures and external factors have disrupted

its ability to appear as an actor that promotes “regionalism through inter-regionalism”, following Hänggi’s proposal. On the contrary, the EU has been flexible in embracing fragmented modalities of inter-regionalism, demonstrating a limited determinism in its external relations strategy.

Considering all these angles and although smallness counternarratives seem hard to endorse, this study has demonstrated that even within asymmetrical inter-regional relations, Lilliputians have managed *to tie up Gulliver*. This has happened at least temporarily, while they have mobilized necessary debates regarding different preconceived dyads: power/weakness, vulnerability/resilience, and smallness/greatness. Concurrently, moving forward towards other dimensions such as agency, flexibility, social partnership, pragmatism, and autonomy, can assist smallness scholars in paving the way to a reinvigorated understanding of these actors.

From Chapter 1, we can come to the following conclusions regarding the state of the art on smallness. The bulk of literature on development studies has focused on two overarching categories: vulnerability and resilience, which have dominated the work of international agencies. Indeed, these agencies have focused their efforts in providing a conceptual framework to categorize smallness, based on, among others, purely quantitative notions like thresholds for population or size. Nonetheless, development studies have provided some tools to assess the *vulnerability-resilience* paradigm, relying on the suggestion that vulnerability is exogenously imposed, whereas resilience is endogenously created as a response. Similarly, the scholarship has delved into how international agencies have been key engines of resilience, devising policies to face that condition based on the integration of small states into the global economy. That said, from a forward-thinking standpoint, reassessing resilience means using it as an autonomous policy goal with flexible ways of approaching developmental choices that small states should pursue in their own right.

As stated beforehand, in the midst of the 21st century, vulnerability seems to have been lagged behind as a category exclusively depicting smallness and as a matter of exposure to international political and economic uncertainty. This is due to, among others, a major event that somehow changed the course of the international system of trade: the COVID-19 pandemic. In fact, all actors of the international system stood equally in front of this crisis, which turned their vulnerability into

a political battlefield at all levels of governance and regardless of their size. Yet the post-pandemic smallness research prospects are still to be uncovered.

Mainstream IR scholarship has been overwhelmed by the realist tradition and the question of power, which has been proven limited for a better understanding of small states' trajectories. Accordingly, it has hardly explored the potential agency capacities of small states in institutionalized inter-regional trajectories. Aiming to tackle this flaw, this research has privileged renewed narratives of smallness based on their inter-subjective role: how its internal staff capacities can boost bargaining power, and to what extent cultural ties and ideational roles have influenced inter-regional negotiations, among others. This is where the context takes wider significance to underpin conceptual validity. That is, smallness gets its sense in an inter-regional framework as opposed to isolated or systemic contexts. Inasmuch as this study attempts to emphasize the inter-subjective constructs and agential capacities small states have, the static prerogatives of traditional smallness studies should be complemented with perspectives nurtured by an interdisciplinary dialogue.

IPE research has ambitiously studied the role of small states in international regimes and institutions. It has succeeded in advocating for a greater understanding of small state agency, meaning they can become influential actors in their own right, among others, by building resilience themselves. On those grounds, IPE can deploy a set of tools to understand the political economy of small states, which comes from the recognition of a particular structure of their vulnerabilities, together with their potential agency capacity. That said, the main challenge for IPE is looking deeper into these kind of questions and conferring small states with more flexibility and creativity to exert their own destinies. Along those lines, through IPE's approach it is possible to bring new avenues of research and contribute to a new theoretical journey for smallness studies.

Finally, constructivist studies, even if in a more nascent stage, have centered their narrative on culture and national identity ties as important elements to understand the political economy of small states. It has also dealt with a better understanding of small states' socially-based interactions. In other words, it has assessed small states as social constructs. In particular, this research has tried to elucidate the preferences, values, and identities small states have used in inter-

regional trajectories. In fact, the role of shared identities and intersubjective beliefs in the formulation of trade policy preferences can contribute to reaching material interests; that is, having an impact on the socio-economic level. On those grounds, inter-regionalism can be a vector of value and material convergence. Although there is no strong evidence demonstrating such a convergence of values in the two inter-regional trajectories that have been studied, one can argue that perceived shared values between the two regions (the EU with the CAN and MERCOSUR) were driving forces towards the conclusion of the agreement and the consolidation of their inter-regional relationship.

Nurtured through the foundations of constructivism, this research was telling in terms of the perceived emotions and values interlocutors resented about inter-regional trajectories with the EU. Empirical data suggests that the value that prevailed was trust. From this angle, I asked some interviewees if trust could have impacted that small state bargaining power and ultimately if trust can be attributed to smallness. Even if there was no certainty about those presuppositions, trust was a value evoked quite frequently during fieldwork. Particularly, in Uruguay's case it comes from the fact that there are 3 million inhabitants and “everyone knows each other”. Therefore, this evidence favors the connection between size and the generation of particular values. Yet it was not a sufficient condition to increase bargaining power or to alter the outcome.

In contrast, emotions expressed about the negotiation process were varied. Interlocutors mentioned having felt: personal fulfillment, satisfaction, dissatisfaction, anger, grief, and deception, among others. In fact, there is some literature that discusses constructivism and emotions, which argues that constructivism can theorize affects and its role in social and political life<sup>699</sup>, yet the question has been ignored in IR research agenda. In other words, emotions were an informative piece for this research and they served as a thermometer to measure stakeholders' mood towards the agreement's outcome. Ultimately, linking emotions to smallness as a way to understand the sources of their inter-subjective roles, which is material for future research.

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<sup>699</sup> See Ross A. (2006), *Coming from the Cold: Constructivism and Emotions*, European Journal of International Relations, SAGE Publications and ECPR-European Consortium for Political Research, Vol. 12(2): 197–222.

Within Chapter 2, I inquired into the dynamics of the EU's external relations and their choice of *lateralism*. In fact, inter-regionalism is the EU's preferred form of interaction, as it allows them to interact in similar terms and with similar objectives. Similarly, an inter-regional commercial strategy is a way to export the European model of integration. Ecuador's case demonstrates that for the EU there was certainly an institutional incentive to integrate Ecuador in the MTA with Peru and Colombia; while in Uruguay's case, it was a way to make MERCOSUR's agreement prosper, both with the aim of aligning the EU with world regions. On the small states' side, they have gravitated between the influence their most relevant interest groups exert and the dissonances of their inter-regional partners regarding the so-called *hegemon-based agreements*. While they perceive these agreements as opportunities to continue to consolidate shared cultural and identity ties, the EU leans between its normative and market power, with different levels of flexibility regarding their model of inter-regionalism. Finally, considering the asymmetries of power in the EU–South American relations, inter-regionalism has been the best strategy by choice and market power, and to a lesser extent by normative means. Yet this should be examined in light of the particular interests and motivations small states have.

The type of inter-regionalism between the EU and South American partners has suffered discontinuities causing sub-regional fragmentations. In the case of the CAN, I posit it can be considered as *mixed-inter-regionalism*. On one side, a Political Dialogue and Cooperation Agreement between the two regions (the EU and the CAN) is enforced up to the present. On the other, Ecuador, in its individual and sovereign capacity, subscribed to the Protocol of Accession to the EU-Colombia/Peru Trade Agreement, which enabled a bi-regional type of relation but within a wider inter-regional agreement. I posit that the type of inter-regionalism is therefore blurred, standing as one of a mixed or complementary nature. Yet negotiations are dynamic processes, meaning they evolve and can gravitate from one to another type of regionalism and from one counterpart to another, creating discontinuities but turning small states' preferences into real sources of influence. That said, possible fragmentations in the case of MERCOSUR are to be observed in the years to come.

Chapter 3 designs the singular path towards the EU-Andean MTA and assesses the fine prints of the agreed text, in order to shed light on the SDT measures granted to Ecuador, as well as to



distinguish the differences with the text agreed beforehand with the Andean partners, Peru and Colombia. It also explores some external factors that could have potentially shaped the course of this inter-regional negotiation. The evaluation of these questions demonstrates that Ecuador was granted some amendments that were more adapted to its developmental needs, particularly in what pertains to the application of *Special Safeguard* measures to protect infant industries or balance of payments problems. This suggests the slight but nonetheless relevant differences Ecuador got as opposed to Colombia and Peru. Nevertheless, in this chapter I discuss the different narratives evoked regarding this issue and the different understandings that result from it, which blurs the debate about the design and real implementation of the multilateral rules within small states' governments. In other words, this should not be deemed as a direct flaw of traditional free trade agreements' texts, nor as a lack of recognition of SDT by proponents of free trade, but to the different interpretations parties have on the ways in which these provisions should be applied.

Concurrently, this chapter acknowledges some of the *external factors* that interfered in the EU-CAN inter-regional trajectory, namely: political trade dependence to unilateral preference regimes or regulatory adaptation deemed as WTO plus or even as European normative power. I argue that having created a trade dependence on the GSP has had as an effect the reinforcement of socio-economic representations with different capabilities to exert influence in particular policy domains and potentially using them as bargaining power. Regarding regulatory issues, an international agreement requires some secondary regulation and commitments that reduce discretionary measures and proceedings. That said, in the case of the MTA it is indeed possible that some legal adjustments have been required, either technical or procedural, and that some positive effects have arisen from them, like prompting institutions and stronger regulations.

Finally, this chapter points out the *influential factors* which were informed by two considerations: motivations and bargaining power. For the purposes of this study, motivations were framed as the state's fixed preferences towards inter-regionalism, whereas bargaining power is appraised as the real influence a small state exerted to alter or not the agreement's final outcome. According to the literature and informed by the empirical data, a state's motivation is about the costs and benefits of an asymmetrical agreement or relation, which in the case of Ecuador was framed as the degree of trade liberalization against the political constraints to exert an autonomous development agenda

with the aim of transforming its production matrix. Thereby, material motivations seem to be common to small states and determined by their political economy. They can exhibit political class calculations that drive them to alter their political agendas, in order to place current trade preferences on a stable setting. My empirical data suggest that Ecuador's motivations were primarily material and driven by its export-oriented economic sectors or its socio-economic representations who have a particular interest in market openness and are the ones determining Ecuador's political class' preferences. In other words, Ecuador was driven mainly by material motivations, which endorses IPE's conventional narrative that short-term objectives prevail over sacrifices for policy space in the long term.

Additionally, I was able to confirm that Ecuador had agency capacity at the time it was confronted with its own vulnerability. On one side, the fact that Ecuador left the negotiating table is telling in terms of bargaining power, as it acknowledges its international political viability, which relied on its capacity to decide for itself even if putting itself at risk. On the other, Ecuador used its vulnerability vis à vis its European trade partners as a source of leverage. In fact, this vulnerability did not limit its bargaining power. On the contrary, it shaped the political configurations, making it conducive to subscribing to the agreement. Ultimately, Ecuador was able to exert bargaining power within the institutionalized inter-regional relation thanks to socio-economic representations, enhanced diplomatic strategies, and its inherent vulnerability. Ecuadorian socio-economic representations were key players in the country's political economy as they turned negotiations into an institutional fact and were creative agents shaping its fixed preferences.

In terms of the outcomes this inter-regional trajectory brought to the table, the discussion on pragmatism and smallness seems salient. In fact, Ecuador's accession to the MTA can be defined as a pragmatic undertaking which put at risk the international political viability of a small state, as discussed by Vital (1969-2006). Ecuadorian governmental authorities faced an imminent adverse scenario: namely, the downfall of oil prices. There was a recognition that the European market was so critical to those industries, that it could not be compensated with oil resources, especially because of the downfall of this commodity. Moreover, due to the presidential elections in 2013, the continuity of the ruling party was at stake. That said, Ecuador did not push for a foreign policy according to its political project, but preferred a pragmatism-first stance. Inferences of a linkage

between pragmatism and smallness, in this case, are rooted in the fact that these conditions stem from Ecuador's vulnerabilities as a small state.

Chapter 4 uncovers the complex and long-lasting negotiation process towards an FTA between the EU and MERCOSUR, which in the same grounds as the CAN went through different interruptions, mainly due to divergences over the beef sector, giving place to at least three phases of negotiations throughout its 20 year duration. Along the same lines as the previous chapter, it explores Uruguay's motivations during inter-regional negotiations with the EU and the extent to which this state exercised bargaining power and turn it into real influence, potentially through the use of its ideology of social partnership.

Firstly, an assessment of the concluded text between MERCOSUR and the EU sheds light upon the SDT Uruguay was granted. By exploring the agreement's conflictive policy areas, I was able to size up some achievements for the Uruguayan interest. The exclusion of some dairy products (mozzarella cheese) from a list of the EU's GIs (geographical indications) protection was considered the main victory for Uruguay in terms of bargaining power. Instead, the frustrations of the beef sector, deemed both a socio-economic representation and a political interest group in Uruguay, reveal that its leverage was quite limited. Also, because the bulk of SDT measures was conceded to Paraguay; this was one core difference from the fact Ecuador negotiated separately. All of which are tentatively related to the constraints at MERCOSUR's level.

In fact, some of the external factors that interfered in the EU-MERCOSUR inter-regional trajectory are quite eloquent: MERCOSUR's internal divide could have downsized their bargaining power capacities when facing the EU, but it might have helped to build a common position. Yet this common position could have been detrimental to Uruguay's interests as the case of the beef sector demonstrated. Trade dependency from GSP was also identified, yet not in the same terms as Ecuador. This was due to the fact that the concerned economic sectors were subject to other variables, such as the competition with Argentinian and Brazilian industries and the fact they went to smoother transitions to other sectors, without having created that political trade dependency.

On the same grounds as Chapter 3, I assess how influential factors, focused on motivations and bargaining power, could have encouraged configurations and made the environment favorable for inter-regional negotiations to prosper and to conclude with a deal, which in this case is still to be ratified. Certainly, I point out that Uruguay's main motivation can be summarized in one term: market access. In fact, as evidence demonstrated, there is a widespread understanding that the country must remain open to the world due to the smallness of its internal market. Yet Uruguay also relies on its subjective motivation: to play as a bridge or *buffer state* to advance MERCOSUR's interests. Following the constructivist turn, it is not so much its measurable smallness that determines conduct, but a further subjective understanding of its capacities within an unequal system dominated by hegemonic powers.

Conversely, Uruguay's limited bargaining power in inter-regional negotiations responds to the constraints the sub-regional level imposes. On one hand, its leverage in terms of market access was quite reduced due to disruptions by Brazilian and Argentinian interests; whereas its bargaining power to attain its subjective motivation was seemingly higher due to its capacity to emerge as a bridge within MERCOSUR members. On the other, the core of its leverage lied in its creative agency capacities through a recognition of its diplomatic skills and human capacities. But most importantly, Uruguay's influence was driven by its ideology of social partnership. That said, among stakeholders there was a shared vision about negotiations with the EU, which was based on shared ideological beliefs about the role of the market and the importance of trade openness in the organization of the economy. Thus far, its shared values and equitable human relationships resulted in a solid national identity based on credibility and political leverage. Yet they were not sufficient conditions to alter the fixed preferences and turn negotiations into an institutional fact.

Finally, in what concerns the outcome, I should again point out the relation between pragmatism and smallness. In the case of Uruguay, some signs of pragmatism in the political field, as stated during fieldwork, lie in the fact that this country perceives itself as a facilitator of international law, wherein the legal will always stands before the political. This means that in the context of an inter-regional relation, Uruguay will not attempt to "leave the table" of negotiations. Moreover, it seeks to play in the pendulum logic, being a bridge between Brazil and Argentina. In other words, Uruguay's subjective characteristics and its geographic location allow me to uphold that

pragmatism and smallness could be two entangled categories. Accordingly, I underline the fact that drawing deeper research lines about the interlinkages between smallness and pragmatism is an important endeavor to be undertaken. In fact, there are windows of opportunity to extend the empirical evidence with the aim of theorizing these two dimensions and integrating them into the smallness research agenda.

Even if this study doesn't go deeper in assessing small states' self-perception, both case studies suggest their geo-strategical dimension is perceived as a source of clout. Uruguay's bridge position between the two MERCOSUR giants and Ecuador's location in the Pacific basin are both strategic politically and economically speaking, and quite telling in terms of inter-regionalism, as this institutional form could be upgraded as a strategic tool for small states while they reaffirm a position that best suits their needs. In other words, inter-regionalism can also be considered as a process of geopolitical learning that helps small states redefine their own smallness perceptions.

The second dimension that brings avenues of inquiry to smallness is autonomy. Anchored in constructivist notions, autonomy grants small states the possibility of free decision-making based on their recognition as empowered actors. In the Latin American experience there have been attempts to increase states' autonomy through regional integration. In fact, autonomy was at the center of the regional integration agenda and appeared as a collective container to keep the domestic policy space required to break with political trade dependence. Thus, the importance of thinking of MERCOSUR, and to a lesser extent of the CAN, as spheres of containment and autonomy. In spite of this, collected empirical evidence demonstrated that small states are better off in terms of bargaining power in a context of fragmented inter-regionalism. This disregards every theory claiming for these governance forms as ways to reduce asymmetries in the international system, which makes apparent that the construction of the different *lateralisms* is hegemon-based. Yet small states still have opportunities to exercise agency through their talented human resources but also through strategic flexibility strategies.

Last but not least, the common thread of Chapters 3 and 4 is the role of the socio-economic representations in building collective ideas based on different economic or political arrangements and beliefs at the domestic level. These are useful to understand the sources of their support to an

inter-regional project. Albeit the driving force of both cases' clout mainly lies in one condition of smallness: trade openness. However, a problem that may resort from this fact is the impact at the aggregate level, as socio-economic representations may advance interests resulting in territorial and social cleavages rather than in common national preferences.

Therefore, it is possible to conclude that differences in outcomes are explained through the following. In Ecuador's case, its vulnerability prompted the political configurations, making it conducive to access the agreement between Colombia, Peru, and the EU, thorough a strategy of fragmented inter-regionalism that I have named a "mixed" type. In Uruguay, it was mainly through an ideology of social partnership that it conveyed a common position in inter-regional negotiations, backed by a shared system of identity and beliefs about the role of trade in the economy. Yet hindrances at the sub-regional level prevented Uruguay's strength from being a sufficient condition to alter the final outcome in the EU-MERCOSUR inter-regional trajectory, which is still to be followed. The dynamics of these influential factors resulted in different outcomes for each case study.

Considering all these angles, this research's contribution to the study of smallness is framed in the following terms:

I propose that (within inter-regionalism) small states, certainly motivated by material and subjective preferences, are pinpointed as influential actors due to the following dimensions: Firstly, a material dimension that is anchored in their technical and organizational competences, which assigns them with bargaining power to outweigh the disparities of asymmetrical inter-regional relations. Similarly, small states' creative agency portrays them as driving forces capable of advancing their fixed preferences and potentially turning them into institutional facts.

Secondly, the inter-subjective dimension of smallness, presents small states as actors that mobilize narratives and actions based on pragmatism, which releases of their sources of vulnerability and turns them into sources of leverage.

These two dimensions contribute to build the identity of small states and to sustain their smallness' self-perception. Within inter-regionalism small states are expected to be social constructs with leverage over their own rights and with inter-subjective capacities to exert clout over different institutional forms. Certainly, this study's collected empirical evidence has demonstrated that small states are better off in terms of bargaining power in a context of fragmented inter-regionalism.

Finally, strategic flexibility is an innate dimension of smallness that can have positive institutional, regulatory, and socio-economic effects and be potentialized by inter-regional relations. Likewise, socio-economic representations promote their issue-specific power and mobilize themselves and their resources in ways that can be determinant for a state's motivations and bargaining power. They tend to emerge within inter-regional trajectories.

Lastly, one horizon for future research is conducting a comparison between a Latin American and a European small state. Since this research's two case studies were selected by their outcomes and by the analytical narrative of the two inter-regional trajectories, their generalization to other geographical contexts should be done with wariness. For instance, digging in-depth into the geo-strategical dimension as a smallness' source of clout were comparing two different regions could be a significant task.

A second avenue of research is small states' values and emotions and inter-regionalism. In other words, to inquire if particular values can be attributed to smallness. This comes from the fact that there is some evidence that favours the connection between size and the generation of particular values. Yet, it is not clear whether this is a necessary or sufficient condition to increase a small state's bargaining power, to alter a final policy outcome or to create an institutional fact. However, the connections between affections and smallness could shed light upon the sources of small states' inter-subjective roles.

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# Appendix

## Appendix 1 - List of interviews

No	Code	Tag	Sector	Location	Date
1	NS-EC-001	High-level negotiator and Scholar	Public sector and academia	Quito - Ecuador	April 16 2019
2	ON-EC-002	Decision-maker and trade association representative	Private (automobile) sector	Quito - Ecuador	April 16 2019
3	NI-EC-003	Trade association representative	Private (food) sector	Quito - Ecuador	April 17 2019
4	RE-EC-004	Medium-level Trade Officer	Public sector	Quito - Ecuador	April 17 2019
5	NZ-EC-005	Negotiator and Scholar	Public sector (Agriculture)	Quito - Ecuador	April 18 2019
6	LA-EC-006	Exporters Representative and High-level lobbyist	Private sector	Quito - Ecuador	April 18 2019
7	NSI-EC-007	High-level Decision-maker and political stakeholder	Public sector	Guayaquil-Ecuador	April 22 2019
8	OS-EC-008	High-level Decision-maker and Private Sector representative	Public and private sector interlocutor	Guayaquil-Ecuador	April 22 2019
9	RZ-EC-009	Chief Negotiator and High-level decision maker	Public sector	Guayaquil-Ecuador	April 24 2019
10	EOO-EC-010	Trade Association representative	Private (fisheries) sector	Guayaquil-Ecuador	April 25 2019
11	AO-EC-011	Industry Association representative	Private (fisheries) sector	Guayaquil-Ecuador	April 26 2019
12	DA-EC-012	Decision-maker and Industry Association	Public and Private (Automobile) sector	Quito - Ecuador	April 30 2019

No	Code	Tag	Sector	Location	Date
13	OO-EC-013	Popular and Solidarity Economy representative	Private sector	Quito - Ecuador	May 1st 2019
14	OO-EC-014	Negotiator and Scholar	Public sector and academia	Quito - Ecuador	May 2nd 2019
15	OZ-EC-015	Negotiator and Trade Officer	Public sector	Quito - Ecuador	May 7th 2019
16	RZ-EC-016	Industry Association representative	Private (textile) sector	Quito - Ecuador	May 13 2019
17	SZ-EC-017	Decision-maker and political stakeholder	Public sector	Paris-France	August 8th 2019
18	OZ-EC-018	Chief Negotiator and High-level decision maker	Public sector	Paris-France	September 13 2019
19	AES-EC-019	Popular and Solidarity Economy representative	Private sector	Quito - Ecuador	April 24 2019. Refused to be interviewed
20	RI-EC-020	High-level Decision-maker	Public sector and academia	Quito - Ecuador	May 6 and 22 2019. Refused to be interviewed
21	AA-UR-001	Exporters' Association Representative	Private sector	Montevideo - Uruguay	February 20 2020
22	RL-UR-002	Industry Association representative	Private sector	Montevideo - Uruguay	February 21 2020
23	OO-UR-003	Scholar	Academia	Montevideo - Uruguay	February 21 2020
24	NA-UR-004	Decision- maker	Public sector	Montevideo - Uruguay	February 26 2020
25	SA-UR-005	Negotiator and Trade Officer	Public sector	Montevideo - Uruguay	February 26 2020

No	Code	Tag	Sector	Location	Date
26	AI-UR-006	Chief Negotiator and High-level decision maker	Public sector	Montevideo - Uruguay	February 27 2020
27	LI-UR-007	Exporters Representative and High-level lobbyist	Private (beef) sector	Montevideo - Uruguay	March 02 2020
28	LT-UR-008	Scholar	Academia	Montevideo - Uruguay	March 03 2020
29	LE-UR-009	Scholar	Academia	Montevideo - Uruguay	March 03 2020
30	ALI-UR-010	Industry Association representative	Private (rice) sector	Montevideo - Uruguay	March 04 2020
31	OA-UR-011	Trade Union representative and Advisor	Public sector	Montevideo - Uruguay	March 04 2020
32	OI-UR-012	Industry Association representative and Scholar	Private sector	Montevideo - Uruguay	March 05 2020
33	OM-UR-013	Industry Representative	Public and private (beef) sector interlocutor	Montevideo - Uruguay	March 06 2020
34	SR-UR-014	Negotiator and Industry Producers Representative	Public (dairy) sector	Montevideo - Uruguay	March 09 2020
35	LZO-UR-015	Negotiator and Industry Producers Representative	Public (wine) sector	Paris - Canelones	April 15 2020
36	NO-UR-016	Medium-level officer and political stakeholder	Public sector	Paris-Montevideo	May 18 2020
37	OI-UR-017	Decision- maker and political stakeholder	Public sector	Paris-Montevideo	June 03 2020
38	AA-UR-018	Negotiator	Public sector	Montevideo - Uruguay	March 02 2020. Refused to be interviewed

## Appendix 2.A

### Uruguay's territorial surface in comparison with European states

Superficie de Uruguay comparada con la de algunos países europeos



H.D., *Ensayo de Historia Patria*, Montevideo, Barreiro y Ramos, 7ª ed., 1941.

Source: Caetano, 2020, p. 14

## Appendix 2.B

Uruguay's geographical location: a bridge, a buffer state between two "giants"





### Appendix 3

#### Small states' categories

<b>INTERNATIONAL POLITICAL ECONOMY (IPE)</b>	<b>INTERNATIONAL RELATIONS (IR)</b>	<b>DEVELOPMENT STUDIES</b>	<b>CONSTRUCTIVISM</b>
<ul style="list-style-type: none"> <li>- Vulnerability</li> <li>- Economic</li> <li>- Political</li> </ul>	<ul style="list-style-type: none"> <li>- Statehood</li> <li>- Capabilities</li> <li>- Institutions</li> <li>- Membership</li> <li>- Power maximization</li> <li>- Relational power</li> <li>- Behavior</li> </ul>	<ul style="list-style-type: none"> <li>- Trade Openness</li> <li>- Economic integration</li> </ul>	<ul style="list-style-type: none"> <li>- Interests</li> <li>- Preferences</li> </ul>
<ul style="list-style-type: none"> <li>- Economic success</li> </ul>		<ul style="list-style-type: none"> <li>- GDP</li> <li>- Size</li> </ul>	<ul style="list-style-type: none"> <li>- Norms</li> <li>- Values</li> </ul>
<ul style="list-style-type: none"> <li>- Resilience</li> <li>- Creative agency</li> </ul>		<ul style="list-style-type: none"> <li>- Population</li> <li>- Vulnerability</li> </ul>	<ul style="list-style-type: none"> <li>- Identities</li> <li>- Relations</li> </ul>
<ul style="list-style-type: none"> <li>- Strategic flexibility</li> </ul>		<ul style="list-style-type: none"> <li>- Resilience</li> </ul>	<ul style="list-style-type: none"> <li>- Ideology of social partnership</li> </ul>
	<ul style="list-style-type: none"> <li>- Material inequalities</li> <li>- Support rules</li> <li>- Support institutions</li> <li>- Political vulnerabilities</li> <li>- Foreign policy</li> <li>- Status quo (maintenance or alteration)</li> <li>- Influence</li> </ul>	<ul style="list-style-type: none"> <li>- HDI</li> <li>- Market size</li> </ul>	
	<ul style="list-style-type: none"> <li>- Viability</li> <li>- Participation in international economy</li> <li>- Democratic corporatism</li> <li>- Diplomatic leverage</li> <li>- Great issue specific-power</li> </ul>	<ul style="list-style-type: none"> <li>- Microstate</li> <li>- Ministate</li> </ul>	

\* Author's own elaboration based on the literature review. This list is not exhaustive and the selection is arbitrary for research purposes.

## Appendix 4

### Special and Differential Treatment provisions by type and agreement

Agreement	Provisions aimed at increasing the trade opportunities of developing country Members	Provisions that require WTO Members to safeguard the interests of developing country Members	Flexibility of commitments, of action, and use of policy instruments	Transitional time-periods	Technical assistance	Provisions relating to Least developed country Members	Total by Agreement <sup>E</sup>
General Agreement on Tariffs and Trade 1994	8	13	4				25/25
Understanding on Balance of Payments of GATT 1994			1		1		2/2
Agreement on Agriculture	1		9	1		3	14/13
Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures		2		2	2		6/6
Agreement on Technical Barriers to Trade	3	10	2	1	9	3	28/25
Agreement on Trade-Related Investment Measures (TRIMs)			1	2		1	4/3
Agreement on Implementation of Article VI of GATT 1994		1					1/1
Agreement on Implementation of Article VII of GATT 1994		1	2	4	1		8/8
Agreement on Import Licensing Procedures		3		1			4/4
Agreement on Subsidies and Countervailing Measures (SCM)		2	10	7			19/16
Agreement on Safeguards		1	1				2/2
General Agreement on Trade in Services (GATS)	3	4	4		2	2	15/13
Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)				2	1	3	6/6
Understanding on Rules and Procedures Governing the Settlement of Disputes.		7	1		1	2	11/11
Agreement on Government Procurement (GPA)		3	6		1	2	12/10
Agreement on Trade Facilitation (TFA)			3	7	7	9	26/10
<b>TOTAL</b>	<b>15</b>	<b>47</b>	<b>44</b>	<b>27</b>	<b>25</b>	<b>25</b>	<b>183/155</b>

Source: WTO Note by the Secretariat [WT/COMTD/W/219](https://www.wto.org/comtd/w/219)

## Appendix 5

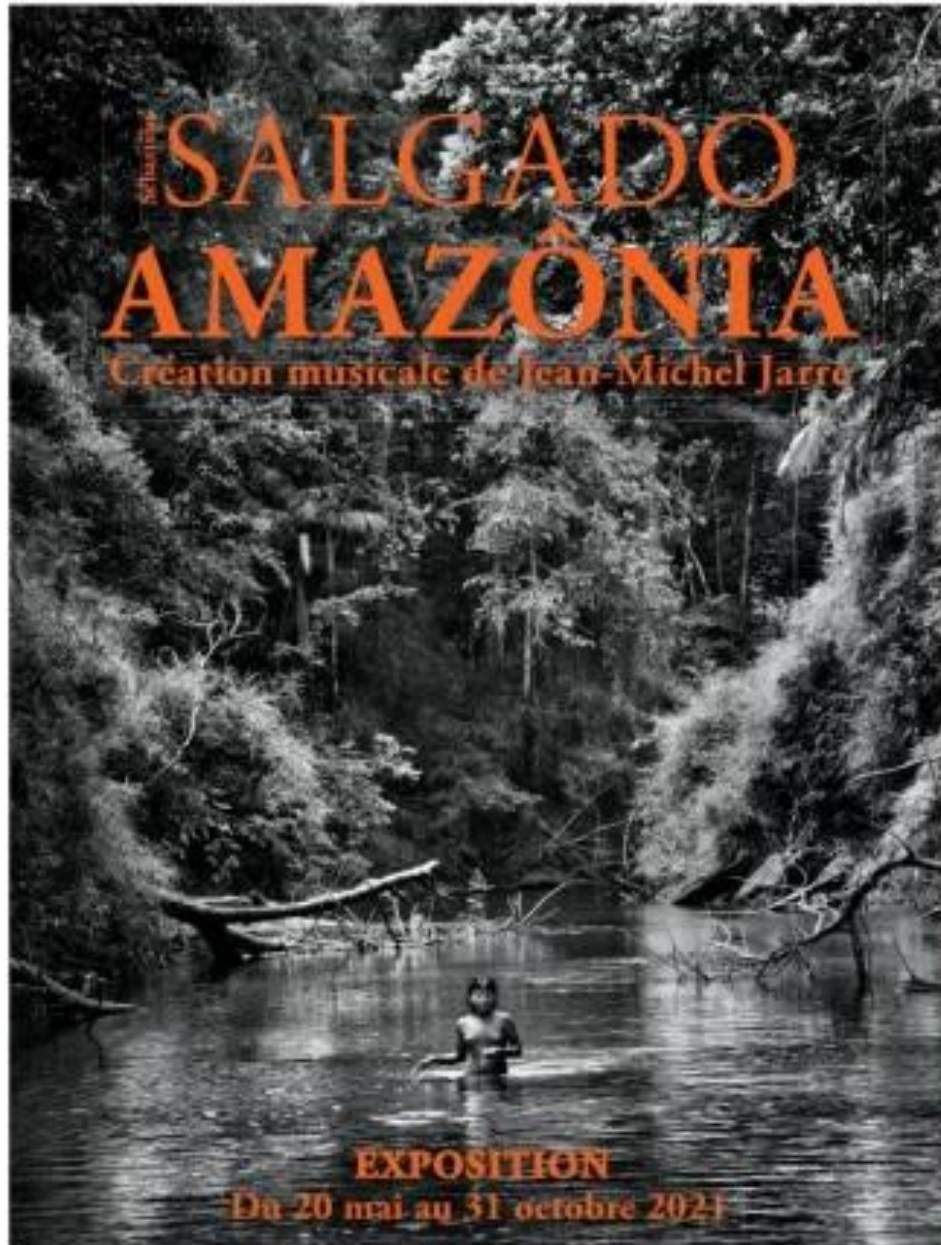
### Chronology of the EU- Ecuadorian negotiations for the accession of Ecuador to the EU- Colombia and Peru MTA

Date / Year	Event	Outcome/ Effect
2012/ 2013	Negotiations between Ecuador and the EU were resumed after meeting between Angela Merkel and Rafael Correa	Ecuador was able to introduce changes in the agreement's text  It was replaced by the term "Agreement". One possible assumption to explain this was the desire to avoid the use of FTA which had a negative connotation amongst the Ecuadorian detractors.
July 2014	Negotiations between Ecuador and the EU were closed	Closing negotiations was an urgent matter for Ecuador due to the GSP's coming expiration
December 2014	Legal Review and Countersignatures	14 issues remained pending. They necessitated President's Correa validation.  A letter addressed to President Correa alleged 17 claims to decline the signature of the agreement
February 2016	Approval of Ecuador's accession to the MTA	Ecuador would necessitate an extension of the GSP until the ratification of the agreement's text

December 31 2016	GSP preferences extension	
December 2016	Translation of texts and discussions at Foreign Trade Committee (COMEX)	Approval of the text was an urgent matter. Retractors to the agreement remained sidelined.
November 11 2016	EU Council authorization and official signature.	Ecuador had already done the lobbying as the delegation who travelled around EU to make sure EU member will approve the agreement.
Starting on November 2016	Process of revision at the Ecuadorian Constitutional Court	With the judgment of the Constitutional Court, the Plenary of the National Assembly of Ecuador approved the Accession Protocol and the MTA on December 19, 2016.
12 to 15 December 2016	Ratification by the EU Parliament	On December 24, 2016, Decision (EU) 2016/2369 of the EU Council was published in the EU Official Journal. It concerned the provisional application of the Protocol of Accession of Ecuador to the MTA between Colombia, Peru and the EU
January 2017	Entry into force	With the signature of the MTA, Ecuador succeeded to maintain the same tariff preferences as with the GSP
<b>Source:</b> Author's own elaboration based on EU Delegation in Ecuador (2016), Pabon Venegas (2018) and fieldwork carnet.		

## Appendix 6

Amazônia, May- October, 2021



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CITÉ DE LA MUSIQUE  
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DE PARIS

## **Relations interrégionales entre l'Union européenne et l'Amérique du Sud**

Une analyse comparative des facteurs, des motivations et du pouvoir de négociation de deux petits États dans le cadre des accords commerciaux UE-MERCOSUR et UE-CAN

### **Résumé**

Qu'est-ce qui motive les petits États à s'engager dans des trajectoires interrégionales institutionnalisées ? C'est l'une des questions centrales de cette recherche. Pour y répondre, elle interroge la capacité des petits États à prendre toute leur place dans les négociations et trajectoires interrégionales. Cette étude explore pour cela les facteurs (influentes et externes), les motivations et les sources de pouvoir de négociation qui ont conduit deux petits États tels que l'Équateur - dans le cadre de l'accord commercial multipartite (MTA) entre la Communauté andine (CAN) et l'Union Européenne (UE), et l'Uruguay - dans le cadre de l'accord de libre-échange (ALE) entre le MERCOSUR et l'Union Européenne (UE), à signer des accords commerciaux avec un acteur en position hégémonique. En s'appuyant sur les approches traditionnelles de l'interrégionalisme et en s'intéressant aux actions entreprises par des acteurs sous-régionaux pour négocier des accords commerciaux et institutionnaliser leurs relations, cette étude contribue à la recherche sur les États de petite taille (« smallness » en anglais) et ouvre le débat sur les relations entre les régions. En effet, l'analyse des résultats empiriques obtenus soutient l'existence d'un rapport de causalité positif entre l'interrégionalisme et les États de petite taille qui renouvelle la compréhension de ces deux domaines d'étude en les mettant en relation. Si cette étude suggère que les petits États s'engagent dans des trajectoires interrégionales en visant d'abord des bénéfices en terme de ressources matérielles (ouverture des marchés), elle souligne aussi l'importance que leurs rôles inter-subjectifs prend dans leur spectre de motivations. Enfin, elle constate que les petits États sont des acteurs capables d'influencer sensiblement le résultat final des faits institutionnels en suivant différentes voies interrégionales.

**Mots clés** : petite taille des États, interrégionalisme, pouvoir de négociation, capacité d'action en propre, Communauté andine, MERCOSUR, Union européenne, latéralismes ou formes de gouvernance, OMC.

## **European Union and South America's inter-regional relations.**

A comparative analysis of the factors, motivations and bargaining power of two small states within the EU-Mercosur and EU-Andean Trade Agreements

### **Abstract**

This research analyses the inter-regional trajectories of two small states in order to shed light upon one central question: What motivates small states to engage in institutionalized inter-regional trajectories? It therefore explores the factors (influencing and external), motivations and sources of bargaining power which have prompted small states such as Ecuador – within the Multiparty Trade Agreement (MTA) between the Andean Community (CAN) and the EU; as well as Uruguay within the Free Trade Agreement (FTA) between MERCOSUR and Europe – to sign hegemon-based agreements. Accordingly, this research contributes to the study of smallness and opens up the debate on the relations between regions by scrutinizing the traditional approaches of inter-regionalism and acknowledging actions carried out by sub-regional players to conclude agreements and institutionalize relations. In fact, this study's empirical evidence supports the existence of a positive causal mechanism between inter-regionalism and smallness. Consequently, it delivers a broader comprehension of the interconnections between these two areas of research and provides an analytical contribution to its research agenda. That said, it recognizes that small states engage in institutionalized inter-regional trajectories moved by material and subjective means, in other words, certainly by market access but also by their inter-subjective roles. Finally, it endorses that small states can influence the ultimate outcome of institutional facts following different inter-regional paths.

**Keywords :** Smallness, inter-regionalism, bargaining power, creative agency, pragmatism, CAN, MERCOSUR, EU, lateralisms, WTO.

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