

Mercosur: Purpose & Perspectives



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Mercosur – Instrument to Build Regional Governance

As it celebrates 20 years of existence, Mercosur remains a driving force for cooperation and convergence between Argentina, Brazil, Paraguay and Uruguay. The bloc succeeded in strengthening an integrated identity of a group of nations, with positive impacts on trade and investments, social arrangements and convergent participation in international forums. In the political sphere, Mercosur constitutes an important reference for stability and democratic consolidation in the region.

The trade volume among its members has grown tenfold in the last 20 years, from USD 4.5 billion in 1991 to USD 45 billion last year, induced by growing regional infrastructure projects and production integration. The flow of trade between Brazil and Argentina, for example, increased 370% in the last eight years, jumping from USD 7 billion in 2002 to USD 32.9 billion in 2010. Brazil's bilateral trade with Paraguay and Uruguay expanded by 229% and 245%, respectively, in the same period. The use of local currencies in regional trade contributed to facilitate trade flows and to integrate productive scales.

As a group, Mercosur has been doing well in the last decade (*see Chart*). Since 2003, exports and imports show an upward trend, with the exception of 2009, when the bloc was impacted by the effects of the international financial crisis. Moreover, since 2000 Mercosur has been presenting a trade surplus.

In the social area, Mercosur is implementing policies aiming at widening interactions between its citizens as well as to encourage civil society to get increasingly involved in the integration project. A Citizenship Statute is currently being drawn up, with a view to consolidating universal civil rights inside the bloc. The document includes topics such as work and employment convergence, social security, education, free movement of individuals, telecommunication taxes, and consumer right protection, among others.

Historical Approach – from Iguazu Declaration (1985) to Asunción Treaty (1991) and Protocol of Ouro Preto (1994)

The creation of Mercosur occurred within the context of re-democratization in both Argentina and Brazil in the 1980s. The first step towards integration was made through the Declaration of Iguazu (1985), which stressed the importance of democratic values for development and enabled the convergence of positions in international forums. In 1988, Argentina and Brazil signed the Treaty of Integration, Cooperation and Development, establishing a 10-year timeline to create a common economic area between the two countries, supported by the suppression of tariff and non-tariff barriers and by the adoption of integrated policies. The integration

efforts between Brazil and Argentina soon attracted Paraguay and Uruguay, Founding Members of Mercosur and active participants in the multilateral agreement.

The timeline for the implementation of an economic zone was brought forward by the Act of Buenos Aires, in 1990. Instead of handling negotiations sector by sector, the countries opted for a linear reduction of tariff and non-tariff barriers to trade. At the time, both Argentina and Brazil were undergoing liberal economic reforms. In that year, Brazil adopted a macroeconomic stabilization plan (“Plano Real”) that would eventually provide the foundation for sustained economic growth and social inclusion policies.

The Treaty of Asunción, signed on March 26, 1991, emphasized the importance of Mercosur as an instrument for economic and social development. The preamble of the Treaty sets the goal of a common economic area based on the efficient allocation of resources, macroeconomic coordination, protection of the environment, development of infrastructure projects for physical integration, and coordination of macroeconomic policies.

Later, in 1994, the Ouro Preto Protocol conferred legal personality to the bloc and established the institutional framework of Mercosur. The Secretariat of Mercosur is located in Montevideo, Uruguay. The three main structures of the bloc are the Common Market Council (comprising ministerial-level authorities of each country), the Common Market Group (which encompasses 14 thematic working groups and 18 specialized committees) and the Trade Commission (with seven technical committees). The bloc also has a Parliament, formed by Congressional representatives of each country, and a Permanent Tribunal for dispute resolution.

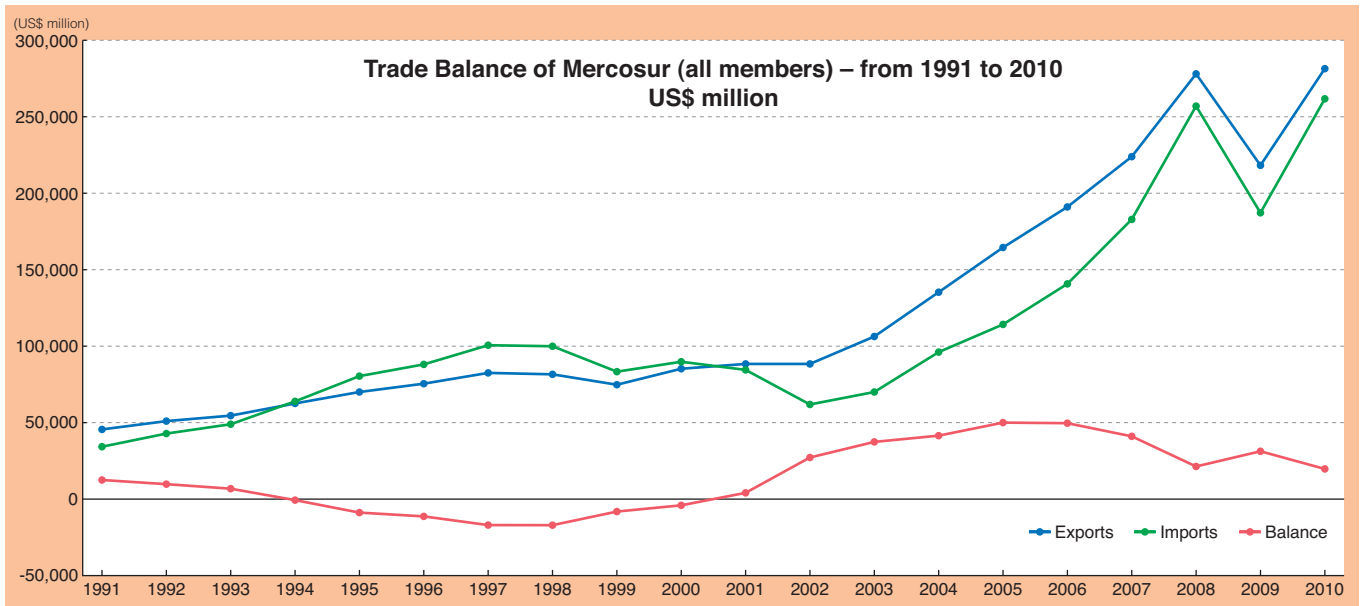
Goals of Mercosur

The basic objective of Mercosur is to form a common economic area among its members. The first article of the Treaty of Asunción states that a common market relies on some fundamental aspects: free movement of goods and services between the members; a common external tariff (“Tarifa Externa Comum” – TEC); a shared trade policy in regional and international organizations; and the coordination of macroeconomic policies and harmonization of technical standards.

The Treaty of Asunción also set forth a program of trade liberalization, to be achieved under a zero-tariff regime in intra-zone trade for the totality of the tariff universe and the implementation of a common TEC for extra-zone trade. Paraguay and Uruguay would initially commit to a special program of trade liberalization. Based on the principles of gradualism and flexibility, tariff reduction would be achieved on different tracks, according to the specificities of each country.

Mercosur is characterized by the principle of open regionalism. The creation of the bloc aims not only to promote intra-zone trade,

Mercosur as a Bloc: Evolution of Trade over 20 Years



Source: Ministry of Development, Industry & Trade of Brazil (MDIC)

but also to stimulate other countries to become engaged. Among the Associate Members of Mercosur are Bolivia (since 1996), Chile (since 1996), Peru (2002), Colombia and Ecuador (since 2004). The Treaty of Asuncion is open, under negotiation, to the adherence of other Member-Countries of ALADI (Latin American Integration Association). Under these conditions, on July 4, 2006, Venezuela signed the Protocol of Accession to Mercosur, a process to be completed after Congressional approval from the four Founding Members. The full adherence of Venezuela now depends on the analysis of the Paraguayan Congress.

One of the aims of Mercosur is to facilitate market access conditions for third countries. In this respect, free-market agreements have been signed between Mercosur and other South American countries: Peru (Economic Complementation Agreement – ACE 58, 2003), Colombia, Ecuador and Venezuela (ACE 59, 2004). Overseas, Mercosur has already signed free-trade agreements with India (2005), Israel (2007) and Egypt (2010). Negotiations with Jordan, Syria, Turkey and Palestine are underway.

Recent Developments

The year of 2010 marked an important moment in the strengthening of Mercosur. Member-Countries agreed on a schedule to eliminate the double application of import duties on goods that enter Mercosur from outside the bloc and are re-exported to third countries. The reform will be accomplished in three phases: the first, to be completed by January 1, 2012, will exclude some manufactured goods - such as automobiles and computers – from the double charging of duty. The tariff will be applied twice only on products that undergo industrial transformation from one country to another for re-export. The second and third phases of the reform are planned to be completed in 2014 and 2019, respectively.

During the Foz do Iguaçu Summit, December 16, 2010, Member-Countries decided to enhance liberalization in the service sector through the signing of an Anti-Monopoly Agreement. Also, new patent standards were established to facilitate the circulation, identification and supervision of vehicles between the Member-

Countries, to be completed in 2018. Moreover, a Program for the Consolidation of the Customs Union was launched, which simplifies rules on more than 21 thematic areas.

In 2010, the Fund for the Structural Convergence of Mercosur (FOCEM) approved 11 infra-structure pilot-projects. Initially established in 2007, FOCEM has already approved a total of 36 projects related to housing, transport, energy, biosecurity, sanitation, education, and incentives to small firms, among others. The 11 infrastructure projects total USD 1 billion, 85% to be financed by Mercosur funds and the other 15% by the Member-States. The biggest ongoing investment project (USD 400 million) is the construction of an electricity transmission power line between Itaipu (Brazil) and Villa Hayes (Paraguay).

Looking to Future

The presence of Foreign Minister Takeaki Matsumoto at the 41st Mercosur Summit Meeting in Asuncion on June 29 indicated the interest of Japan in enhancing relations with Mercosur partner countries. At the meeting, Japan and Mercosur agreed to initiate a dialogue for closer economic relations and to explore new possibilities, with a view to promoting symmetries in a wide range of fields, including trade and investment.

Mercosur marches towards the consolidation of a customs union. In contrast with the EU's system, which adopted supranational entities, Mercosur functions based on a "consensus-building" principle. Every decision takes into account the specificities of each member. More than a customs union designed to promote trade and investments, Mercosur aims to promote greater interaction between the civil societies of Member-Countries. Also, the bloc serves as a platform for the convergence of positions in a rapidly globalizing world. In its 20 years of existence, Mercosur has accomplished the main goal for which it was created: to be a key instrument to promote regional governance. **JS**

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